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Corporate Tax Avoidance and Its Influencing Factors: The Roles of Transfer Pricing, Thin Capitalization, Profitability, Fixed Asset Intensity, and Foreign Ownership

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ABSTRACT
Taxes are a primary source of state revenue that plays a crucial role in financing national development. However, companies often implement various tax planning strategies to reduce their tax burden, one of which is tax avoidance. This study examines the effect of transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership on tax avoidance among consumer non-cyclicals companies listed on the Indonesia Stock Exchange during the 2021–2024 period. This study employs a quantitative research design using secondary data collected from the companies' annual financial reports. The sample was selected through purposive sampling, resulting in 29 companies with a total of 116 firm-year observations. Panel data regression analysis was employed using the Common Effect Model (CEM) as the most appropriate estimation model. The empirical results reveal that profitability has a positive and statistically significant effect on tax avoidance, indicating that more profitable firms tend to engage in higher levels of tax avoidance. In contrast, foreign ownership has a negative and statistically significant effect on tax avoidance, suggesting that greater foreign ownership is associated with lower tax avoidance practices. Meanwhile, transfer pricing, thin capitalization, and fixed asset intensity exhibit no statistically significant effect on tax avoidance. These findings indicate that profitability and ownership structure are important determinants of corporate tax avoidance, whereas financing decisions, related-party transactions, and asset composition do not significantly influence tax avoidance in the observed companies. This study contributes to the tax avoidance literature by providing empirical evidence from the Indonesian consumer non-cyclicals sector and offers insights for policymakers and corporate management in developing more effective tax governance and regulatory policies.

Keywords: Tax Avoidance, Transfer Pricing, Thin Capitalization, Profitability, Fixed Asset Intensity, Foreign Ownership.
JEL Code: H21, H26, H22

I. Introduction

Taxes under the 2021 Omnibus Law on Tax Regulations (HPP Law) are mandatory contributions to the state owed by individuals or entities, which are compulsory by law, without direct compensation, and used for state purposes for the greatest welfare of the people. As the primary source of state revenue, taxes play a

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crucial role in financing national development, including infrastructure, education, health, and various community welfare programs. Therefore, the government continuously strives to increase tax revenue by strengthening the tax system and enhancing taxpayer compliance. Nevertheless, corporate tax avoidance remains a major challenge because it can reduce potential tax revenue despite being conducted within the legal framework. On the other hand, companies view taxes as a burden that can reduce after-tax profits. This condition encourages companies to undertake various tax planning strategies to minimize their tax liabilities. One strategy that often receives attention is tax avoidance, which is the legal effort to reduce tax burden by exploiting loopholes in applicable tax regulations. Although not illegal, tax avoidance practices can reduce potential state revenue, thus becoming a concern for governments, regulators, and academics.

One sector that makes a significant contribution to the Indonesian economy is the non-cyclical consumer sector listed on the Indonesia Stock Exchange (IDX). This sector provides essential goods, such as food, beverages, and household products, with relatively stable demand regardless of economic conditions. These characteristics enable firms to generate relatively stable profits and implement long-term tax planning strategies, making this sector particularly relevant for examining tax avoidance practices. However, empirical evidence focusing specifically on tax avoidance in Indonesia's consumer non-cyclicals sector remains limited, indicating the need for further investigation. The practice of tax avoidance is influenced by various factors originating from the company's characteristics and policies implemented by the company. Some factors often associated with tax avoidance include transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership. Transfer pricing has the potential to be used to shift profits through transactions with related parties (OECD, 2022). Thin capitalization allows companies to obtain tax benefits through the recognition of interest expenses arising from debt financing (Nadhifah & Arif, 2020). Profitability reflects the company's ability to generate profits, which can encourage companies to pursue tax efficiency . In addition, fixed asset intensity and foreign ownership are also suspected to influence a company's tax policies through the utilization of fixed asset depreciation expenses (Arditra et al., 2025) and the oversight mechanisms employed by foreign investors (Kusbandiyah & Norwani, 2018). These firm characteristics are therefore expected to influence corporate tax avoidance through different financial and governance mechanisms.

Research on factors affecting tax avoidance has been widely conducted, but still shows diverse results. Zarkasih & Maryati, (2023) found that transfer pricing influences tax avoidance, while other studies show different results. Regarding the thin capitalization variable, Helmi & Yusrawati, (2025) found an influence on tax avoidance, while several other studies found no significant influence. Inconsistent research findings also occur with the variables of profitability, fixed asset intensity, and foreign ownership (Kusbandiyah & Norwani, 2018; Yahaya, 2025). These inconsistencies indicate a research gap and raise the question of whether firm characteristics consistently influence tax avoidance in Indonesia's consumer non-cyclicals sector. Based on these gaps, the research problem addressed in this study is whether firm characteristics influence tax avoidance among consumer non-cyclicals companies listed on the Indonesia Stock Exchange. Accordingly, this study seeks to answer the following research question: *Do transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership significantly affect tax avoidance in Indonesian consumer non-cyclicals companies during the 2021–2024 period?*

Accordingly, the objective of this study is to examine the effects of transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership on tax avoidance among consumer non-cyclicals companies listed on the Indonesia Stock Exchange during the period 2021–2024. This study contributes to the literature by providing empirical evidence from an underexplored sector in Indonesia and by clarifying the inconsistent findings reported in previous studies. Furthermore, the findings are expected to provide useful insights for regulators, investors, and corporate management in understanding the determinants of corporate tax avoidance and developing more effective tax governance policies.

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II. Literature Review and Hypothesis Development

2.1. Theoretical Foundation

This study is based on Agency Theory, Tax Planning Theory, and Legitimacy Theory to explain corporate tax avoidance from complementary perspectives. Agency Theory explains managerial incentives in tax-related decision making, Tax Planning Theory describes the strategies used by firms to legally minimize tax liabilities, while Legitimacy Theory explains how external stakeholders and social expectations influence corporate tax behavior. Together, these theories provide a comprehensive framework for understanding why firms adopt different tax avoidance strategies. Agency Theory, proposed by (Jensen & Meckling, 1976), explains the contractual relationship between shareholders as principals and management as agents. Differences in interests between the two parties can lead to agency conflicts, prompting management to make decisions that benefit themselves, including in managing the company's tax liabilities. In the tax context, management has an incentive to minimize tax burdens to increase after-tax profits and demonstrate better company performance. Accordingly, Agency Theory provides the theoretical basis for explaining how managerial decisions and ownership structure, particularly foreign ownership, may influence corporate tax avoidance.

In addition, this study also uses Tax Planning Theory, which explains that companies strive to minimize tax burdens through various strategies that remain within legal boundaries (Hanlon & Heitzman, 2010). Taxes are viewed as one of the costs that can reduce company profits, thus motivating management to pursue tax efficiency to maximize company value. Various strategies such as transfer pricing, thin capitalization, and utilizing fixed asset depreciation expenses can be used as part of corporate tax planning. Therefore, Tax Planning Theory underpins the proposed relationships between transfer pricing, thin capitalization, profitability, fixed asset intensity, and tax avoidance, as these factors may facilitate firms in reducing taxable income through legitimate tax planning strategies. Furthermore, Legitimacy Theory explains that companies seek to obtain and maintain legitimacy from society by adhering to applicable norms, values, and regulations (Suchman, 1995). In the tax context, companies that wish to protect their reputation and the trust of stakeholders tend to avoid tax practices that risk creating negative perceptions. This theory is relevant in explaining how foreign ownership can influence corporate tax policies through increased scrutiny and demands for good corporate governance. Consequently, firms with stronger external monitoring are expected to be more cautious in implementing aggressive tax avoidance practices in order to maintain their legitimacy. Overall, these three theories complement one another in explaining corporate tax avoidance. Agency Theory emphasizes managerial incentives, Tax Planning Theory focuses on legal tax minimization strategies, and Legitimacy Theory highlights the role of external monitoring and corporate reputation. Accordingly, they provide the theoretical foundation for developing the hypotheses examined in this study.

2.2. Tax Avoidance

Tax avoidance is an effort made by companies to reduce their tax burden by utilizing loopholes in tax regulations that remain within legal limits (Pratama & Muhammad, 2025). This practice is carried out through various tax planning strategies aimed at minimizing the amount of tax a company must pay without violating applicable tax provisions. Common tax avoidance strategies include transfer pricing, debt financing (thin capitalization), and the utilization of deductible expenses, all of which are generally undertaken within the framework of legal tax planning. Although legal, tax avoidance practices are often a concern for regulators because they can reduce potential state revenue from the tax sector. Therefore, understanding the determinants of tax avoidance has become an important issue in accounting and taxation research.

In this study, tax avoidance is measured using the Cash Effective Tax Rate (CETR), which is calculated as the ratio of cash taxes paid to pre-tax income (Dyreng et al., 2006). CETR reflects the actual cash tax burden borne by a company. Lower CETR values indicate that a company pays a smaller proportion of taxes relative

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to its pre-tax income, suggesting a higher level of tax avoidance (Hanlon & Heitzman, 2010). To ensure consistency in the interpretation of the dependent variable, this study multiplies the CETR value by −1, so that higher values consistently represent higher levels of tax avoidance (Arsita & Sari, 2026).

2.3. Hypothesis Development

This study develops its hypotheses by integrating Agency Theory, Tax Planning Theory, and Legitimacy Theory. Tax Planning Theory explains the legal mechanisms through which firms seek to minimize tax liabilities, Agency Theory explains managerial incentives underlying tax-related decisions, and Legitimacy Theory emphasizes the importance of maintaining legitimacy through compliance with social norms and tax regulations. Accordingly, the proposed hypotheses reflect the interaction between managerial incentives, tax planning strategies, and external governance in explaining corporate tax avoidance.

a. Transfer Pricing and Tax Avoidance

Transfer pricing is the determination of prices in transactions carried out between parties with special relationships. As one of the corporate tax planning strategies, transfer pricing enables companies to allocate income and expenses among affiliated entities in accordance with business objectives while remaining within applicable tax regulations. Through this mechanism, firms may optimize their tax burden by shifting profits to entities located in lower-tax jurisdictions (OECD, 2022). According to Tax Planning Theory, companies seek to minimize tax liabilities through legal tax planning strategies. Transfer pricing provides companies with an opportunity to achieve tax efficiency by allocating profits through related-party transactions without violating tax regulations. In addition, Agency Theory explains that managers have incentives to improve after-tax earnings and firm performance, which may encourage the use of transfer pricing as part of corporate tax planning to maximize shareholders' wealth.

Previous empirical studies have reported mixed findings regarding the relationship between transfer pricing and tax avoidance. Research by Zarkasih & Maryati, (2023), Adiguna & Ritonga, (2024), and Arditra et al., (2025) found that transfer pricing positively affects tax avoidance. However, other studies have reported insignificant relationships, Alfina et al. (2024) found that transfer pricing has no significant effect on tax avoidance. These inconsistent findings indicate that the relationship between transfer pricing and tax avoidance remains inconclusive and warrants further investigation. Based on the theoretical arguments and previous empirical evidence, companies with greater transfer pricing activities are expected to have more opportunities to reduce taxable income through legal tax planning strategies. Therefore, the following hypothesis is proposed:

H1: Transfer pricing has a positive effect on tax avoidance.

b. Thin Capitalization and Tax Avoidance

Thin capitalization is a condition where a company uses a larger proportion of debt compared to its own capital in its financing structure. The use of debt results in interest expenses that can reduce taxable income, thus potentially lowering the company's tax obligations (Nadhifah & Arif, 2020). According to Tax Planning Theory, companies seek to minimize tax liabilities through financing decisions that remain within legal boundaries. Debt financing allows firms to obtain tax benefits from deductible interest expenses, thereby improving tax efficiency. The OECD/G20 BEPS Action 4 recognizes that multinational enterprises may achieve favourable tax outcomes by adjusting the amount of debt within a corporate group, which may erode the tax base through excessive interest deductions (OECD, 2015).

Agency Theory further explains that managers may prefer higher debt financing because reducing tax expenses can improve after-tax earnings and firm performance, which is consistent with shareholders' objective of maximizing firm value. However, Legitimacy Theory suggests that companies must also maintain compliance with applicable tax regulations and avoid financing structures that may be perceived as

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excessively aggressive (OECD, 2015). In Indonesia, the implementation of thin capitalization rules limits the use of excessive debt financing, requiring firms to balance tax efficiency with regulatory compliance and stakeholder expectations.

Previous empirical studies have reported inconsistent findings regarding the relationship between thin capitalization and tax avoidance. The research by Helmi & Yusrawati (2025), Marlinda Retdhawati & Habibah (2022), and Kurniawati & Mukti (2023) found that thin capitalization positively affects tax avoidance, whereas other studies reported insignificant results due to differences in regulatory environments and enforcement. Arditra et al. (2025) found that thin capitalization has no significant effect on tax avoidance. Despite these inconsistencies, the theoretical arguments suggest that greater reliance on debt financing provides more opportunities for companies to reduce taxable income through deductible interest expenses. Therefore, the following hypothesis is proposed:

H2: Thin capitalization has a positive effect on tax avoidance.

c. Profitability and Tax Avoidance

Profitability reflects a company's ability to generate profits by utilizing its possessed resources (Brigham & Houston, 2019). The higher a company's profitability, the greater the potential tax burden it must pay. This condition can encourage companies to implement various tax planning strategies to minimize their tax obligations. Based on Tax Planning Theory, firms with higher profits are more likely to engage in tax planning because the potential tax savings become greater as taxable income increases. Agency Theory also explains that managers are motivated to maximize shareholders' wealth by improving after-tax earnings, encouraging them to adopt tax-efficient strategies that enhance firm performance. Research by Sania Alfina et al. (2024), Meiditania & Maryati (2025), serta Hendayana et al. (2024) found that profitability significantly influences tax avoidance. In contrast, Zarkasih & Maryati, (2023) and Ardiyanti & Puspitasari (2025)found that profitability has no significant effect on tax avoidance. Despite these inconsistent findings, higher profitability theoretically provides stronger incentives for firms to undertake legal tax planning activities to minimize tax burdens. Therefore, the proposed hypothesis is:

H3: Profitability has a positive effect on tax avoidance.

d. Fixed Asset Intensity and Tax Avoidance

Companies with higher fixed asset intensity generally recognize greater depreciation expenses over the useful lives of their assets. These depreciation expenses reduce accounting profit and, where permitted by tax regulations, may also reduce taxable incomen (IASB, 2020). According to Tax Planning Theory, companies seek to minimize tax liabilities through legal tax planning strategies, including the utilization of depreciation expenses arising from fixed asset ownership. A higher proportion of fixed assets provides companies with greater opportunities to reduce taxable income through allowable depreciation deductions. In addition, Agency Theory explains that managers are motivated to improve after-tax earnings and firm performance, encouraging them to manage corporate assets efficiently, including maximizing the tax benefits associated with fixed asset depreciation.

The study by Arditra et al. (2025) and Handayani et al. (2023)found that fixed asset intensity significantly affects tax avoidance. In contrast, Wulandari et al. (2024)found that fixed asset intensity has no significant effect on tax avoidance. This finding suggests that fixed asset ownership does not motivate companies to engage in aggressive tax avoidance practices. These inconsistencies suggest that the relationship between fixed asset intensity and tax avoidance remains inconclusive and requires further empirical investigation. Based on the theoretical arguments and previous empirical evidence, companies with higher fixed asset intensity are expected to have greater opportunities to reduce taxable income through depreciation expenses. Therefore, the following hypothesis is proposed:

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H4: Fixed asset intensity has a positive effect on tax avoidance.

e. Foreign Ownership and Tax Avoidance

Foreign ownership refers to the proportion of a company's shares held by foreign investors (Yahaya, 2025). Foreign investors may influence corporate decision-making through their international investment experience, exposure to global business practices, and participation in corporate governance. As major shareholders, foreign investors may also influence strategic corporate decisions, including those related to financial and tax planning. According to Agency Theory, managers are expected to act in the best interests of shareholders by maximizing firm value. Foreign investors, as shareholders, may encourage management to improve after-tax earnings through efficient tax planning strategies. Consequently, companies with higher foreign ownership may have greater incentives to implement legal tax planning practices that reduce tax liabilities. Legitimacy Theory complements this perspective by suggesting that although companies seek to improve tax efficiency, they must also maintain compliance with tax regulations and preserve their reputation among stakeholders. Therefore, tax planning activities are expected to remain within legal boundaries.

Previous empirical studies have reported mixed findings regarding the relationship between foreign ownership and tax avoidance. Kusbandiyah & Norwani (2018) and Muhajirin et al. (2021) found that foreign ownership has a positive effect on tax avoidance, indicating that companies with higher foreign ownership tend to engage more aggressively in tax avoidance practices. In contrast, Yahaya (2025) reported a negative relationship, suggesting that a higher proportion of foreign ownership is associated with greater corporate tax compliance and lower levels of tax avoidance and Alfina et al. (2024) found that foreign ownership has no has no significant effect. These inconsistent findings suggest that the relationship between foreign ownership and tax avoidance remains inconclusive and requires further investigation. Based on Agency Theory, foreign investors are expected to encourage management to improve firm value through more efficient tax planning, while Legitimacy Theory suggests that such strategies should remain consistent with applicable regulations. Accordingly, companies with higher foreign ownership are expected to engage more actively in legal tax planning activities that increase tax avoidance. Therefore, the following hypothesis is proposed:

H5: Foreign ownership has a positive effect on tax avoidance.

2.4. Conceptual Framework

Figure 1 presents the conceptual framework developed based on Agency Theory, Tax Planning Theory, Legitimacy Theory, and previous empirical studies. The framework illustrates the proposed direct relationships between transfer pricing (X1), thin capitalization (X2), profitability (X3), fixed asset intensity (X4), and foreign ownership (X5) as the independent variables and tax avoidance (Y) as the dependent variable. Each relationship shown in the framework corresponds to the research hypotheses (H1–H5), which propose that each independent variable has a positive effect on tax avoidance. The conceptual framework integrates the theoretical arguments and empirical evidence discussed in the literature review, providing the basis for examining the determinants of tax avoidance among consumer non-cyclicals companies listed on the Indonesia Stock Exchange.

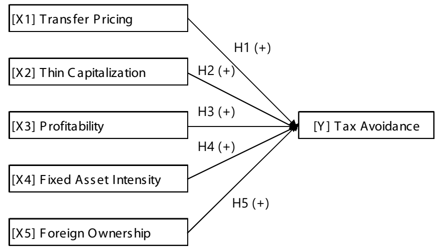

Figure 1. Conceptual Framework

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III. Research Method

3.1. Population and Sample

This research uses secondary data obtained from the annual financial reports and annual reports of companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) for the period 2021–2024. The research population consists of all companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange during the research period. The sampling technique used is the purposive sampling method with specific criteria adjusted to the research objectives. The sample selection process is presented in Table 1.

Table 1. Company Sample Selection Results

No	Sample Criteria	Number of Companies
1	Companies in the Consumer Non-Cyclicals Sector listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024	132
2	Companies that conducted an IPO (Initial Public Offering) during the research period	(46)
3	Companies that were suspended during the research period	(3)
4	Companies experiencing losses during the research period	(30)
5	Companies with incomplete Financial and Annual Reports	(3)
6	Companies with incomplete Research Variable Data	(21)
Total Companies Used as Samples		29
Total Research Samples (4 years)		116

Based on the sample selection process, 29 companies that met all research criteria were obtained. With an observation period of four years, namely 2021–2024, the total data used in this research amounted to 116 observations.

3.2. Operational Definition and Measurement of Variables

Table 2 presents the operational definitions and measurements of the variables used in the research.

Table 2. Variables Operational

Variables	Measurement	Scala
Tax Avoidance	$\text{CETR} = \frac{\text{Cash Tax Paid}}{\text{Earning Before Tax}}$ The lower the CETR value, the higher the company's tax avoidance level (Dyreng et al., 2006; Hanlon & Heitzman, 2010).	Ratio
Transfer Pricing	$\text{TP} = \frac{\text{Total Receivables from Related Parties}}{\text{Total Receivables}}$ This measurement indicates the magnitude of transactions with related parties, which can indicate transfer pricing practices. The higher the ratio of related party transactions, the greater the likelihood that the company engages in transfer pricing (Refgia et al., 2017).	Ratio
Thin Capitalization	$\text{DER} = \frac{\text{Total Liability}}{\text{Total Equity}}$ This measurement indicates the proportion of debt usage compared to equity. The higher the DER (Debt to Equity Ratio) value, the greater the proportion of company debt (Arditra et al., 2025).	Ratio
Profitability	$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$	Ratio

	Profitability indicates a company's ability to generate profit. The higher the ROA (Return On Asset) value, the more effectively the company utilizes its assets to achieve profits (Hendayana et al., 2024).	
Fixed Asset Intensity	$$\mathrm{FAI} = \frac{\text{Fixed Assets}}{\text{Total Assets}}$$ This measurement indicates the proportion of fixed assets to the company's total assets. The higher the proportion, the greater the potential for tax savings from depreciation expenses (Lukito & Oktaviani, 2022).	Ratio
Foreign Ownership	$$\mathrm{FO} = \frac{\text{Number of Shares Held by Foreign Entities}}{\text{Total Shares Outstanding}}$$ This measurement indicates the proportion of foreign investor ownership in the company. The higher the foreign ownership, the greater the influence of foreign parties on company policies and decision-making (Yahaya, 2025)	Ratio

3.3. Model and Data Analysis Techniques

Data analysis was conducted using panel data regression with the assistance of EViews 12 software. Panel data regression was chosen because it can combine cross-sectional and time-series data, thereby increasing the number of observations and producing more efficient estimates. The data analysis stages began with descriptive statistical analysis to describe the characteristics of the research data. Next, the panel data regression model was selected through the Chow Test, Hausman Test, and Lagrange Multiplier Test to determine the best model used in the research. After obtaining the best model, classical assumption tests were performed, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Hypothesis testing was conducted using the t-test to determine the effect of each independent variable on tax avoidance, the F-test to determine the simultaneous effect of all independent variables on tax avoidance, and the coefficient of determination (Adjusted R^2) to measure the model's ability to explain the dependent variable. The regression model used in this study is formulated as follows:

$$Y=\alpha+\beta1X1+\beta2X2+\beta3X3+\beta4X4+\beta5X5+\varepsilon$$

Y = Tax avoidance (diukur dengan CETR)
α = Constant
β_1–β_5 = Regression coefficients of each independent variable
X_1 = Transfer Pricing
X_2 = Thin Capitalization
X_3 = Profitability
X_4 = Fixed Asset Intensity
X_5 = Foreign Ownership
ε = Error term

IV. Results and Discussion

4.1. Descriptive Statistics

Descriptive statistics are used to provide an overview of the characteristics of the research data, including the minimum, maximum, mean, and standard deviation of each research variable (Ghozali, 2018). The results of the descriptive statistics are presented in Table 3.

Table 3. Descriptive Statistics Result

Variables	N	Minimum	Maksimum	Mean	Dev. Std.
Y (Tax Avoidance)	116	-3.223000	-0.035000	-0.312716	0.327409
X1 (Transfer Pricing)	116	0.000000	0.944000	0.233302	0.278068

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X2 (Thin Capitalization)	116	0.072000	6.466000	1.078509	1.122464
X3 (Profitability)	116	0.005000	0.343000	0.103836	0.072604
X4 (Fixed Asset Intensity)	116	0.014000	0.672000	0.326319	0.150996
X5 (Foreign Ownership)	116	0.000000	0.946000	0.393543	0.337116

Based on Table 2, the tax avoidance variable has a mean value of -0.312716 with a minimum value of -3.223000 and a maximum value of -0.035000. The transfer pricing variable has a mean value of 0.233302, while thin capitalization has a mean value of 1.078509. Profitability has a mean value of 0.103836, while fixed asset intensity and foreign ownership each have a mean value of 0.326319 and 0.393543, respectively. These results indicate variations in the characteristics among the companies in the research sample.

4.2. Panel Data Regression Model Selection

a. Chow Test

Table 4. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.520410	(28,82)	0.0748
Cross-section Chi-square	48.506615	28	0.0094

The Chow test is used to determine the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). Based on the test results, the probability value of the Cross-section F was obtained as 0.0748, which is greater than 0.05. Thus, the selected model is the Common Effect Model (CEM). Since the selected model is CEM, the Hausman test was not performed, and the testing continued using the Lagrange Multiplier (LM) test to determine the best model between CEM and REM.

b. Lagrange Multiplier Test

Table 5. Lagrange Multiplier Test Results

Test	Cross-section	Time	Both
Breusch-Pagan Statistic	1.341846	0.356066	1.697912
Prob.	0.2467	0.5507	0.1926

The Lagrange Multiplier (LM) test is used to determine the best model between the Common Effect Model (CEM) and the Random Effect Model (REM). Based on the test results, the probability value of Breusch-Pagan was obtained as 0.1926, which is greater than 0.05. Thus, the selected model is the Common Effect Model (CEM).

4.3. Classical Assumption Tests

a. Normality Test

Table 6. Normality Test Results

Statistic	Value	Statistic	Value
Sample	2021–2024	Jarque–Bera	14,822.74
Observations	116	Probability	0.000000
Mean	4.58E–17	Skewness	-6.470385
Median	0.054992	Kurtosis	56.84524
Maximum	0.300056	Standard Deviation	0.295854
Minimum	-2.644824		

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The normality test aims to determine whether the residual data in the regression model are normally distributed. The normality test in this study was conducted using the Jarque-Bera Test, where data are considered normally distributed if the probability value is > 0.05 (Ghozali, 2018). The test results showed a probability value of 0.0000 < 0.05, indicating that the residuals are not normally distributed. However, this study uses 116 observations, so the normality assumption is considered met based on the Central Limit Theorem (CLT), which states that the sampling distribution will tend to be normal for large sample sizes (Gujarati & Porter, 2015; Abd-Elhaleim et al., 2025; Al-Refiay et al., 2025).

b. Multicollinearity Test

Table 7. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
X1 (Transfer Pricing)	0.012936	2.148967	1.256792
X2 (Thin Capitalization)	0.000724	2.212049	1.145449
X3 (Profitability)	0.157039	3.185699	1.040711
X4 (Fixed Asset Intensity)	0.040202	6.576302	1.151331
X5 (Foreign Ownership)	0.010197	3.457948	1.455536

The multicollinearity test aims to detect correlations between independent variables in the regression model. Decision-making is based on the Centered Variance Inflation Factor (VIF) value, where a model is considered free from multicollinearity if the Centered VIF value is < 10 (Ghozali, 2018). The test results indicate that all independent variables have Centered VIF values less than 10, leading to the conclusion that the research model does not exhibit multicollinearity.

c. Heteroscedasticity Test

Table 8. Heteroscedasticity Test Results

Statistic Test	Value	Probability
F-statistic	1.477829	0.1077
Obs*R-squared	27.52616	0.1211
Scaled explained SS	690.6162	0.0000

The heteroscedasticity test aims to determine whether the variance of the residuals in the regression model is constant (Ghozali, 2018). Decision-making is based on the probability value of Obs*R-squared in the White Test, where a model is considered free from heteroscedasticity if the probability value is > 0.05. The test results show a probability value of 0.1211 > 0.05, leading to the conclusion that the research model does not exhibit heteroscedasticity.

4.3.4 Autocorrelation Test

Table 9. Autocorrelation Test Results

	N	Total X	dl	du	4 – du	Durbin-Watson
Uji Autokorelasi	116	5	1,6084	1,7878	2,2122	2,038954

The autocorrelation test aims to detect correlations between residuals in one period and subsequent periods within the regression model. Decision-making is done using the Durbin-Watson (DW) test, where a model is considered free from autocorrelation if the DW value falls between du and 4 – du (Ghozali, 2018). The test results show a *Durbin-Watson* value of 2.038954, which lies between du (1.7878) and 4 – du (2.2122), thus it can be concluded that the research model does not exhibit autocorrelation.

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4.4. Regression Result and Hypothesis Testing

a. Panel Data Regression Analysis

Table 10. Panel Data Regression Results

Variable	Coefisien	Std. Error	t-Statistic	Prob.
C (Constant)	-0.442608	0.086100	-5.140601	0.0000
X1 (Transfer Pricing)	0.145903	0.113716	1.283055	0.2022
X2 (Thin Capitalization)	-0.016457	0.026896	-0.611876	0.5419
X3 (Profitability)	1.524237	0.396420	3.845008	0.0002
X4 (Fixed Asset Intensity)	0.107225	0.200496	0.534796	0.5939
X5 (Foreign Ownership)	-0.202413	0.100951	-2.005054	0.0474

Panel data regression analysis is used to test the effect of independent variables on the dependent variable by combining time series and cross-section data (Ghozali, 2018). Based on the model selection results, the Common Effect Model (CEM) was chosen as the best model. The regression equation obtained is as follows:

$$Y = -0{,}442608 + 0{,}145903X_1 - 0{,}016457X_2 + 1{,}524237X_3 + 0{,}107225X_4 - 0{,}202413X_5 + e$$

Based on the regression results, a constant value of -0.442608 was obtained, indicating that the value of tax avoidance would be -0.442608 if all independent variables were constant. The transfer pricing variable has a positive coefficient of 0.145903, indicating that an increase in transfer pricing tends to increase tax avoidance. The thin capitalization variable has a negative coefficient of -0.016457, indicating that an increase in thin capitalization tends to decrease tax avoidance. Profitability has the largest positive coefficient, which is 1.524237, indicating that an increase in profitability tends to increase tax avoidance. Furthermore, fixed asset intensity has a positive coefficient of 0.107225, indicating that an increase in the proportion of fixed assets tends to increase tax avoidance. Meanwhile, foreign ownership has a negative coefficient of -0.202413, indicating that an increase in foreign ownership tends to decrease tax avoidance, assuming other variables remain constant.

b. Coefficient of Determination (Adjusted R^2)

Table 11. Coefficient of Determination Test Results (Adjusted R^2)

	R-squared	Adjusted R-squared
Coefficient of Determination	0.183468	0.146353

The coefficient of determination test (Adjusted R-squared) is used to measure the ability of independent variables to explain the dependent variable (Ghozali, 2018). The test results show an Adjusted R-squared value of 0.146353 or 14.64%. This indicates that the variables transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership are able to explain tax avoidance by 14.64%, while the remaining 85.36% is explained by other factors outside the research model.

c. Simultaneous Test (F-Test)

Table 12. Hasil Simultaneous Test (F-Test)

	F-statistic	Prob(F-statistic)
Simultaneous Test	4.943224	0.000404

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The F-test is used to determine the simultaneous effect of all independent variables on the dependent variable. Decision making is based on the Prob. (F-statistic) value, where variables are considered simultaneous if the probability value is < 0.05 (Ghozali, 2018). The test results show an F-statistic value of 4.943224 with a probability value of 0.000404 < 0.05, therefore it can be concluded that transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership simultaneously have a significant effect on tax avoidance.

d. Partial Test (t-Test)

Table 13. t-Test Results

Independen Variables	Coefisien	Prob.	t-Test	Hypothesis Results
X1 (Transfer Pricing)	0,145903	0,2022	No Effect	Rejected
X2 (Thin Capitalization)	-0,016457	0,5419	No Effect	Rejected
X3 (Profitability)	1,524,237	0,0002	Significant (+)	Accepted
X4 (Fixed Asset Intensity)	0,107225	0,5939	No Effect	Rejected
X5 (Foreign Ownership)	-0,202413	0,0474	Significant (-)	Rejected

Based on the t-test results, profitability is the only independent variable that has a positive and statistically significant effect on tax avoidance (p = 0,0002, p < 0.05), indicating that companies with higher profitability tend to engage more actively in tax avoidance practices. In contrast, foreign ownership has a significant negative effect on tax avoidance (p=0,0474, p < 0.05), suggesting that greater foreign ownership is associated with lower levels of tax avoidance. Meanwhile, transfer pricing, thin capitalization, and fixed asset intensity do not show statistically significant effects on tax avoidance (p > 0.05). Therefore, only H3 is supported, whereas H1, H2, H4, and H5 are not supported. These findings indicate that not all firm characteristics contribute equally to tax avoidance practices. The significant effects of profitability and foreign ownership suggest that corporate financial performance and ownership structure play a more important role in determining tax avoidance behavior than transfer pricing, thin capitalization, and fixed asset intensity. A detailed discussion of each finding is presented in the following section.

4.5. Discussion

a. Effect of Transfer Pricing on Tax Avoidance

The test results indicate that transfer pricing does not have a significant effect on tax avoidance with a probability of 0.2022 > 0.05 and a regression coefficient of 0.145903. Although the coefficient is positive, the relationship is not statistically significant, indicating that transfer pricing cannot be considered a determinant of tax avoidance among consumer non-cyclicals companies during the observation period. This finding suggests that related-party transactions are more likely undertaken for operational and business purposes rather than as a mechanism for reducing tax liabilities. Companies are also required to comply with the arm's length principle (OECD, 2022) and transfer pricing documentation requirements under Ministry of Finance Regulation No. 172/PMK.03/2023, thereby limiting the use of transfer pricing solely for tax avoidance purposes. This finding is consistent with Agency Theory and Tax Planning Theory, which suggest that although managers have incentives to improve after-tax performance through legal tax planning, the implementation of transfer pricing remains constrained by regulatory compliance and tax authority oversight. As a result, transfer pricing may not always be used as an effective tax avoidance mechanism. The results of this study are in line with Meiditania & Maryati (2025) and Alfina et al. (2024), who also found that transfer pricing does not significantly affect tax avoidance. However, it differs from Zarkasih & Maryati, (2023), Adiguna & Ritonga, (2024), and Arditra et al. (2025), who reported a significant positive relationship. These differences may be attributed to variations in industry characteristics, observation periods, regulatory environments, and the level of tax authority supervision across the research samples.

b. Effect of Thin Capitalization on Tax Avoidance

The research results show that thin capitalization does not have a significant effect on tax avoidance with a probability of 0.5419 > 0.05 and a regression coefficient of -0.016457. Although the regression coefficient is negative, the relationship is not statistically significant, indicating that thin capitalization is not a determinant of tax avoidance among consumer non-cyclicals companies during the observation period. This finding suggests that the use of debt is primarily driven by corporate financing and operational needs rather than by tax avoidance motives (Dewantara, 2025). These findings imply that debt financing decisions should not automatically be interpreted as evidence of tax avoidance, particularly in a regulatory environment where interest deductibility is subject to specific limitations. This finding is consistent with Agency Theory and Tax Planning Theory, indicating that although debt financing may provide tax benefits through interest deductions, companies do not necessarily use debt as a tax planning strategy to reduce tax liabilities. Instead, financing decisions are also influenced by business needs, financial risk considerations, and compliance with applicable regulations. Furthermore, Legitimacy Theory suggests that companies seek to maintain compliance with tax regulations and preserve their credibility with stakeholders. Consequently, companies are likely to avoid excessive debt financing that could be perceived as an aggressive tax avoidance strategy.

This finding may also reflect the implementation of debt-to-equity ratio limitations under Ministry of Finance Regulation No. 169/PMK.010/2015, which restricts the tax benefits that can be obtained from excessive debt financing. As a result, the opportunity to use thin capitalization as a tax avoidance strategy becomes more limited. This result is consistent with Arditra et al. (2025), Danilla & Septiani (2023), and Nirmalasari et al. (2021) who also found that thin capitalization does not significantly affect tax avoidance. However, it differs from the findings of Helmi & Yusrawati (2025), Marlinda Retdhawati & Habibah (2022), and Kurniawati & Mukti (2023), who reported a significant positive relationship. These differences may be explained by variations in industry characteristics, capital structure, observation periods, and regulatory environments across the research samples.

c. Effect of Profitability on Tax Avoidance

Profitability has a significant positive effect on tax avoidance with a probability of 0.0002 < 0.05 and a regression coefficient of 1.524237. This finding indicates that companies with higher profitability tend to engage more actively in tax planning to reduce their tax burden, thereby maintaining higher after-tax earnings. Therefore, the third hypothesis, which states that profitability has a significant positive effect on tax avoidance, is supported. This finding is consistent with Agency Theory and Tax Planning Theory. As companies generate higher profits, managers have greater incentives to improve after-tax performance in order to meet shareholders' expectations and maximize firm value. Consequently, profitable companies are more likely to implement legal tax planning strategies to reduce their tax liabilities while remaining compliant with applicable tax regulations.

This finding is consistent with Alfina et al. (2024), Hendayana et al. (2024), Sudibyo (2022), and Wulandari et al. (2024), who also found that profitability positively affects tax avoidance. However, Zarkasih & Maryati, (2023)s of Zarkasih & Maryati, (2023) and Adiguna & Ritonga, (2024), who found that profitability does not significantly affect tax avoidance. Zarkasih & Maryati, (2023) argued that the level of corporate profitability does not necessarily encourage tax avoidance because companies must also consider other costs, such as tax consulting fees, when making tax-related decisions. Similarly, Adiguna & Ritonga, (2024) suggested that changes in profitability cannot be used as a reliable indicator of changes in corporate tax avoidance behavior. These differences may be attributed to variations in industry characteristics, observation periods, and corporate tax planning practices across the research samples.

d. Effect of Fixed Asset Intensity on Tax Avoidance

The test results show that fixed asset intensity has no significant effect on tax avoidance with a probability of 0.5939 > 0.05 and a regression coefficient of 0.107225. The positive regression coefficient indicates that an increase in fixed asset intensity tends to increase tax avoidance, but the effect is not statistically significant, indicating that fixed asset intensity is not a determining factor of tax avoidance among consumer non-cyclicals companies during the observation period. This finding suggests that investment in fixed assets is primarily intended to support the company's operational activities rather than to reduce tax liabilities (Zalukhu & Aprilyanti, 2021). This finding is consistent with Agency Theory and Tax Planning Theory, indicating that although depreciation expenses may provide tax benefits, companies do not necessarily acquire fixed assets for tax planning purposes. Instead, investment decisions are primarily driven by operational requirements, business expansion, and long-term corporate performance. In addition, depreciation expenses are calculated in accordance with applicable accounting and tax regulations, thereby limiting the opportunity to use fixed assets as an effective tax avoidance strategy.

This finding is consistent with Ramadhan & Arieftiara (2025), Wulandari et al. (2024), and Lukito & Oktaviani (2022), who also found that fixed asset intensity does not significantly affect tax avoidance. However, it differs from the findings of Arditra et al. (2025), who reported a significant positive relationship between fixed asset intensity and tax avoidance. These differences may be attributed to variations in industry characteristics, asset structures, observation periods, and corporate tax planning practices across the research samples. These findings imply that fixed asset ownership should not automatically be interpreted as an indicator of corporate tax avoidance, as investment in fixed assets is more likely motivated by operational efficiency and business continuity than by tax-saving objectives.

e. Effect of Foreign Ownership on Tax Avoidance

Foreign ownership has a significant negative effect on tax avoidance with a probability of 0.0474 < 0.05 and a regression coefficient of -0.202413. This finding indicates that companies with higher foreign ownership tend to engage in lower levels of tax avoidance. Since the direction of the relationship is contrary to the proposed hypothesis, the fifth hypothesis is rejected. From the perspective of Agency Theory, foreign shareholders may strengthen monitoring over managerial decisions, thereby reducing managers' incentives to engage in aggressive tax avoidance practices (Iftekhar Hasan et al., 2022). In addition, Legitimacy Theory suggests that companies with greater foreign ownership are more likely to maintain transparency, comply with tax regulations, and preserve their reputation among stakeholders, resulting in lower levels of tax avoidance.

This finding is consistent with Yahaya (2025, Puspitha & Utami (2025), and Maisaroh & Setiawan (2021)who also found that foreign ownership negatively affects tax avoidance. However, it contradicts the findings of Kusbandiyah & Norwani (2018), who reported a positive relationship, suggesting that foreign investors may encourage tax planning to maximize after-tax profits. These differences may be explained by variations in ownership structures, corporate governance practices, institutional environments, and industry characteristics across the research samples. These findings indicate that foreign ownership may function as an effective corporate governance mechanism that encourages greater tax compliance rather than more aggressive tax planning. This result extends previous evidence by suggesting that, in the Indonesian consumer non-cyclicals sector, foreign investors are more likely to promote transparent corporate governance and regulatory compliance than tax avoidance practices.

V. Conclusion

This research aims to analyze the influence of transfer pricing, thin capitalization, profitability, fixed asset intensity, and foreign ownership on tax avoidance in companies within the consumer non-cyclicals sector listed on the Indonesia Stock Exchange for the period 2021–2024. The research findings indicate that profitability has a positive effect on tax avoidance, while foreign ownership has a negative effect on tax avoidance. Meanwhile, transfer pricing, thin capitalization, and fixed asset intensity do not significantly affect tax avoidance. The findings contribute to the corporate tax avoidance literature by providing empirical evidence from the Indonesian consumer non-cyclicals sector, which has received limited attention in previous studies. This study also extends prior research by demonstrating that profitability is a more influential determinant of tax avoidance than transfer pricing, thin capitalization, and fixed asset intensity, while foreign ownership tends to reduce tax avoidance through stronger corporate governance and regulatory compliance. From a practical perspective, the findings suggest that companies should implement tax planning strategies within the boundaries of applicable tax regulations while maintaining transparency and good corporate governance. For regulators, the results provide empirical evidence that can support the evaluation of corporate tax compliance policies and strengthen supervision of corporate tax practices, particularly in relation to profitable companies and firms with concentrated ownership structures. This study is limited to companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange during the 2021–2024 period and only examines five company characteristics as determinants of tax avoidance. Future studies are expected to expand the research scope by including other industrial sectors, extending the observation period, and incorporating additional variables related to corporate governance, institutional characteristics, or taxation policies to provide a more comprehensive understanding of corporate tax avoidance.

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