

How Institutional and Managerial Ownership, Transfer Pricing and Company Size Affect Tax Avoidance?

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Abstract

This research explores the influence of institutional ownership, managerial ownership, transfer pricing, and company size on tax avoidance in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The study adopts a quantitative research approach, using secondary data derived from financial and annual reports available on the IDX. Employing a purposive sampling technique, the study selected 31 companies, resulting in 155 data samples for analysis. Stata 18 was used as the primary analytical tool. The findings indicate that institutional ownership and transfer pricing significantly affect tax avoidance, suggesting that the presence of institutional investors and corporate strategies involving transfer pricing are critical in influencing tax-related behaviors. Conversely, managerial ownership and company size do not exhibit a significant impact on tax avoidance. These results underscore the role of institutional control and strategic financial practices in shaping tax planning activities. This study contributes to the broader discourse on corporate governance and tax planning in Indonesia, offering valuable insights for policymakers and stakeholders aiming to mitigate tax avoidance and enhance compliance in the consumer goods sector.

Keywords

Company Size, Institutional Ownership, Managerial Ownership, Tax Avoidance, Transfer Pricing

1. Introduction

Tax is the largest source of state revenue that can be used to finance various sectors of the state that are used to improve education, welfare, support state resilience and security, and to build infrastructure that is used to drive the country's economic growth. In Indonesian tax regulations, it is also regulated that achieving tax revenue targets is a very important thing to

ensure that tax functions are fulfilled. However, based on data from the Central Government Financial Report (*Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah/LKPP*), the government is still having difficulty achieving the revenue target from this tax sector. The increase in the nominal amount of tax revenue is not followed by an increase in the tax ratio which is still relatively very low (Arum, 2024). The tax ratio is the percentage of tax revenue to Gross Domestic Product (GDP) which is used to assess the performance of a country's tax revenue. Based on a report from the Organization for Economic Co-operation and Development (OECD) in Revenue Statistics in Asia and the Pacific 2023-Indonesia, Indonesia's tax ratio to GDP in 2021 was 10.9%. This figure is far below the average for Asia and the Pacific countries, which is 19.8% and very far below the average for OECD countries, which is 34.1%. Even in ASEAN countries, Indonesia's tax ratio is still far below Vietnam.

This low tax ratio can reflect that there is a practice of tax avoidance. According to Wijayani (2016), Tax Avoidance is an effort to reduce, or even eliminate tax debts that must be paid by companies without violating existing laws. This tax avoidance has become a problem that is publicly known in Indonesia, where the percentage of taxes collected is still far below the standard. This tax avoidance is basically not an illegal act, but over time this practice has received more attention from around the world because this practice can significantly reduce the income collected by a country which in fact the income can be used for development and the economic welfare of a country. The Tax Justice Network revealed that more than US\$ 656 billion in profits are diverted through tax avoidance practices by companies each year, resulting in a global tax loss of US\$ 117 billion due to tax avoidance practices. According to estimates from the Corporate Tax Haven Index in 2019, tax avoidance is responsible for 47% of the US\$ 245 billion in global losses due to corporate tax abuse each year. Based on data from the OECD, Indonesia is estimated to have suffered losses of up to US\$ 4.68 billion or equivalent to IDR 68.7 trillion (O'Hare, 2020)

Tax avoidance is a significant challenge in the Indonesian government's efforts to increase state revenue. As a country with a low tax ratio compared to other ASEAN countries, Indonesia faces many tax avoidance practices carried out by large companies, both local and multinational. One common way used by companies to reduce their tax burden is through transfer pricing (Adiguna & Ritonga, 2024). This practice involves price fixing between related entities in various jurisdictions to shift profits to countries with lower tax rates, as done by PT Bentoel Internasional Investama. In addition, another phenomenon that often occurs is tax avoidance through structural engineering such as share ownership by institutions and management. In Indonesia, institutional and managerial ownership structures are important in analyzing the level of tax avoidance. Companies with large institutional ownership are expected to be able to influence management not to take actions that are detrimental to the country in the form of tax avoidance.

Agency theory explains the contractual relationship between principals (shareholders or company owners) and agents (managers or company administrators) which often give rise to conflicts of interest (Latif et al., 2024). Principals want management to maximize company profits in an ethical and legal manner. However, management as agents often has superior information than owners and may be motivated to make decisions that benefit themselves, one of which is through tax avoidance. In this context, tax avoidance can be seen as one way for

management to achieve seemingly better profits. Transfer pricing, for example, is often used to move profits to jurisdictions with lower tax rates, thereby reducing the company's tax burden in Indonesia. This often occurs in multinational companies that have affiliates abroad. This action shows that agents (managers) seek to maximize their short-term profits in ways that may not always be in line with the broader interests of the principal, including the company's reputation and legal obligations.

Institutional ownership refers to the ownership of a company's shares by large institutions such as banks, insurance companies, or other institutional investors. In agency theory, institutional ownership is expected to strengthen supervision of company management, because these institutions usually have the power to influence managerial decisions. Managerial ownership also plays an important role in tax avoidance. Management that owns shares in a company tends to have incentives to increase the value of the company, including through methods that are not always in accordance with tax regulations. Several previous studies have examined the factors that influence tax avoidance. According to Kovermann & Velte (2019), several indicators of Corporate Governance such as board composition, ownership structure and audits have a very strong influence on tax avoidance. Then research from Jiang et al. (2021), stated that institutional ownership influences corporate tax avoidance decisions.

Then the factor that is also considered to have an influence on tax avoidance is transfer pricing. According to Plasschaert, as quoted by Gunadi (1998), the term transfer pricing is often associated with a systematic price manipulation engineering with the intention of reducing artificial profits, while avoiding taxes or duties of a country. Previous research from Herianti & Chairina (2019), stated that transfer pricing has a positive and significant effect on tax avoidance. Then research conducted by Taufiq & Tertiarto (2018), stated that transfer pricing has a significant effect on tax avoidance. Company size is also considered to have an effect on tax avoidance. Large companies tend to have more resources to exploit legal loopholes and carry out more aggressive tax planning. This is also supported by research conducted by Yahaya & Yusuf (2020), which states that company size has a positive and significant effect on tax avoidance. Then research conducted by Wang et al., (2020), found that large companies are known to do more tax avoidance.

In addition to research that shows the results of factors that influence tax avoidance, there are several studies that show that these factors do not have an influence on tax avoidance, thus creating a research gap. Among them is research conducted by Safitri & Oktris (2023), which shows that institutional ownership has no effect on tax avoidance. Then research conducted by Nurmawan (2022), shows that managerial ownership has a negative effect on tax avoidance practices. Then research conducted by Arliani & Yohanes (2023), shows that transfer pricing has no effect on tax avoidance. Research conducted by Oktavia et al. (2020) and Tarmidi et al. (2020), shows that company size has no effect on tax avoidance.

The consumer goods sector is a very interesting choice for a case study related to tax avoidance practices for several strong reasons (Sibarani & Tarmidi, 2024). First, this sector includes large companies that operate in both domestic and international markets. Many multinational companies in the consumer goods industry, such as food and beverages, health products, and electronics, have branches and affiliates in various countries. This provides an opportunity for them to utilize transfer pricing mechanisms, namely price arrangements

between affiliated companies in countries with lower tax rates, in order to reduce tax obligations in their home countries. Such practices often occur in the consumer goods sector, which is often associated with quite large profit margins and cross-border operations. Second, the consumer goods sector is one of the sectors that directly impact the welfare of society, both in terms of affordable prices and product quality. When companies in this sector engage in tax avoidance practices, the state experiences quite significant losses that could have been used to finance development, including vital sectors such as education, health, and infrastructure.

By looking at the consumer goods sector, we can better understand how tax avoidance practices in large companies can affect state revenues that are much needed for national development. Third, this sector plays a very important role in the Indonesian economy (Fatrisia et al., 2024; Putri et al., 2024). The consumer goods industry contributes greatly to the country's GDP and is an important source of revenue from both direct and indirect taxes. Tax avoidance practices that occur in this sector can create imbalances that are detrimental to the economy as a whole, including reducing the state's ability to provide optimal public services. Therefore, the consumer goods sector can be a clear illustration of how tax avoidance by large companies impacts state revenues and ultimately the welfare of the people. Finally, with the increasing awareness of the public and international institutions regarding the importance of tax justice, the consumer goods sector has become very relevant to analyse. In addition, this sector is also interesting to study because of the various policies that can be implemented, both in terms of stricter tax supervision and the implementation of a fairer tax system. Thus, choosing the consumer goods sector as a case study allows us to dig deeper into the dynamics of tax avoidance and how it impacts the country's economy. Thus, this study aims to address these gaps by analyzing the impact of institutional and managerial ownership, transfer pricing, and company size on tax avoidance practices in the consumer goods sector listed on the Indonesia Stock Exchange. The findings will contribute to understanding corporate governance and tax planning, offering insights for policymakers and stakeholders to mitigate tax avoidance and enhance compliance.

2. Literature Review

This agency theory defines an agency relationship as a form of contract in which one or more (principals) hire or employ another person (agent) to perform a number of services for their benefit and delegate authority to make decisions. The conflict of interest that occurs between the principal and the agent can occur because the agent does not always do what the principal expects because the agent has its own goals that often conflict with the goal of maximizing shareholder value (Jenson & Meckling, 1976). The relationship between agency theory and this research arises when there is a conflict of interest between the company owner or investor and the company's management in terms of tax avoidance practices. The management tries to reduce the amount of tax so as to obtain maximum profit by practicing tax avoidance, while the investor wants high profits without the risk arising from the practice of tax avoidance.

In the compliance theory proposed by Milgram (1963), explains a condition where someone obeys an order or rule that has been set. According to Budiharseno & Tiranda (2020), taxpayer compliance means a condition where taxpayers fulfill all tax obligations and also fulfill tax

rights. This compliance can be understood in the obligation of taxpayers to re-report SPT and compliance in estimating tax arrears that must be paid. If the level of compliance of the community as taxpayers in paying their taxes is high, then state revenues from the tax sector will also continue to increase. In the sense that taxpayers who have complied in paying their taxes will have a positive impact on the state and society. For example, state development programs will be implemented properly and the target revenue in the tax sector will be achieved.

Tax avoidance is an effort made by taxpayers legally and safely without conflicting with applicable tax provisions by utilizing the gray area contained in tax laws and regulations to reduce the amount of tax owed (Pohan, 2014). Tax avoidance does not directly violate tax provisions but takes advantage of loopholes contained in tax provisions. Tax avoidance is one of the legal efforts made by companies to avoid taxes. The technique used in this tax avoidance is to exploit weaknesses or loopholes contained in tax laws and regulations to reduce the tax burden paid. Taxes are coercive in nature so that taxpayers cannot refuse not to pay their taxes so that companies will carry out tax avoidance practices to obtain maximum profit to be able to meet the interests of management and investors (Anggraeni & Octaviani, 2021).

Institutional ownership is the ownership of company shares owned by insurance companies, banks, investment companies and other institutions or agencies (Orbawan & April, 2023). Institutional ownership is also believed that the company's shares are held directly by individual investors, but most are owned by financial institutions such as mutual funds, pension funds and insurance companies (Lewellen & Lewellen, 2022). Theoretically institutional investor ownership has two impacts on tax avoidance behavior, namely encouraging or suppressing tax avoidance behavior. On the one hand, institutional shareholders with a high percentage of institutional ownership are more motivated and able to intervene in the company's tax avoidance behavior and gain greater profits compared to minority shareholders (Jiang et al., 2021).

Managerial ownership is the ownership of company management shares as measured by the percentage of shares owned by management, namely directors and commissioners (Nugraha & Setiany, 2020). Minnick & Noga (2010), argue that managerial ownership, as one of the corporate governance mechanisms, can affect tax planning, with manager incentives acting as rewards, resulting in a decrease in the level of involvement with tax avoidance, and subsequently increasing profits for shareholders (Alkurdi & Mardini, 2020). The decisions and actions of companies whose shares are partially owned by managers will certainly be very different from companies whose shares are not owned by managers. In companies whose shares are owned by managers, managers who are also shareholders will naturally combine their interests as managers and as shareholders. However, if the manager is not a shareholder, the manager may only prioritize his own interests..

Transfer pricing is a company policy in determining the price of a transaction, whether in the form of goods or services or financial transactions carried out by the company (Wisanggeni et al., 2017). Transfer pricing is a price calculated for the transfer of goods/services or other intangible assets from one company to another company that has a special relationship in conditions based on the principle of fair market price with the intention of reducing artificial profits and trying to make the company experience losses to avoid taxes in a country (Pohan,

2014). Transfer pricing can also be interpreted as the main avoidance mechanism used by these companies in an effort to achieve the goal of maximizing global profits and minimizing taxes (Amidu et al., 2019).

Based on the territorial reach of the company's operations, transfer pricing is also grouped into two, namely domestic transfer pricing and multinational transfer pricing. Domestic transfer pricing is carried out between agencies of one company group or between divisions within one company in one sovereign territory of the country, while multinational transfer pricing concerns transactions between divisions in one legal entity or between legal units in one economic entity that covers various sovereign territories of the country (Pohan, 2014).

Company size is a scale for classifying the size of a company according to various methods including total assets, total sales, stock market value, etc. (Hery, 2017). Company size is a widely used predictor variable to explain variations in disclosure in a company's annual report and can affect the extent of information disclosure in their financial statements. Company size is also one of the characteristics of a company that determines the level of investor confidence. According to Hoi & Wu (2013), the advantages that large companies have over small companies in terms of economic and political power make them more vulnerable to aggressive tax avoidance (Yahaya & Yusuf, 2020). The larger the size of the company, the more complex the transactions carried out by the company will be and the profits obtained are expected to be greater. This will encourage companies to be able to take advantage of loopholes in tax regulations to carry out tax avoidance practices so that the taxes paid can be minimized and the profits generated by the company will be greater. By obtaining large and stable profits, companies will tend to engage in tax avoidance practices.

Institutional ownership with a high percentage of share ownership will be able to intervene in corporate tax avoidance practices and gain greater profits compared to minority shareholders (Dakhli, 2022). Several previous studies have also tested the positive effect of institutional ownership on tax avoidance (Alkurdi & Mardini, 2020; Jiang et al., 2021; Tarmidi et al., 2022).

H1: Institutional ownership affects tax avoidance.

Share ownership by management usually encourages greater transparency and accountability in the management of corporate finances. This increased transparency has the potential to reduce tax avoidance practices because management tends to focus more on long-term performance than temporary profits through tax avoidance strategies. Several previous studies conducted by (Boussaidi & Hamed-Sidhom, 2021; Deef et al., 2021) show that managerial ownership has a positive effect on tax avoidance.

H2: Managerial ownership affects tax avoidance

Transfer pricing is a medium used by multinational companies to determine the price of goods and services traded in related entities located in different tax jurisdictions. Several studies have also shown that transfer pricing has a positive effect on tax avoidance (Herianti & Chairina, 2019; Gunawan & Surjandari, 2022)

H3: Transfer pricing affects tax avoidance

Company size is a scale used to classify companies into large and small companies in several ways such as total assets and sales levels. Companies with large assets are more likely to engage in tax avoidance practices (Dang & Tran, 2021). Several previous studies have also shown that company size has a positive effect on tax avoidance (Yahaya & Yusuf, 2020).

H4: Company size has an effect on tax avoidance

3. Methods

The population in this study consisted of all consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The study employed purposive sampling as the sampling technique (Ghozali, 2016). With a sample of 31 companies over five years, a total of 155 data points were obtained. Data analysis was conducted using STATA software. The dependent variable in this study is tax avoidance, measured using the Effective Tax Rate (ETR), which is the ratio of tax burden to profit before income tax. A low ETR indicates tax avoidance. If independent variables show a negative coefficient on ETR, it suggests a positive relationship with tax avoidance, and vice versa. Institutional ownership refers to the shares owned by institutions such as banks, investment companies, and insurance firms. It is measured as the ratio of shares held by institutions to the total shares outstanding. Managerial ownership, on the other hand, refers to shares owned by the company's managers, who act as both managers and shareholders. Companies with managerial ownership differ in decision-making quality and operational activities compared to those without it. This is measured as the ratio of shares owned by managers to the total shares outstanding. Transfer pricing refers to transactions between related parties. It is measured as the ratio of related party receivables to total receivables. Lastly, company size represents the total assets of a company and is used to classify companies as large or small. It is calculated as the natural logarithm (Ln) of total assets. These variables collectively provide insights into corporate practices and their influence on tax avoidance.

4. Results

Descriptive statistical analysis is the process of processing raw data into more structured and easily understood information. This process aims to provide an overview or representation of the characteristics, patterns, or phenomena contained in the data. Descriptive statistics involve presenting data through various methods, such as tables, graphs, diagrams, or calculations of numbers that represent certain measurements, such as average, median, mode, and distribution measures such as range, variance, and standard deviation. By using this technique, data that was originally irregular or difficult to interpret can be presented simply and concisely, making it easier for further analysis.

Table 1. Statistic Descriptive

	Min	Max	Mean	Std. Dev
Tav	0.003792	0.94923	0.241941	0.1155599
InstOwn	0.181434	0.9978	0.8120748	0.2203104
ManOwn	0.0000032	0.4875158	0.0585022	0.1051647
TransPr	0.03825	0.87737	0.2412475	0.1114619
ComSize	27.33972	32.82638	29.59266	1.131

Based on the Table 1, the standard deviation value of the tax avoidance variable is 0.1155599, which is smaller than the mean value of 0.241941. The standard deviation value of

the institutional ownership variable is 0.2203104, which is smaller than the mean value of 0.8120748. The standard deviation value of the transfer pricing variable is 0.1114619, which is smaller than the mean value of 0.2412475. The standard deviation value of the company size is 1.131, which is smaller than the mean value of 29.59266. This shows that the data distribution tends to be homogeneous because the standard deviation value is smaller than the mean value. Meanwhile, the standard deviation value of the managerial ownership variable is 0.1051647, which is greater than the mean value of 0.0585022. This shows that the data distribution tends to be heterogeneous because the standard deviation value is greater than the mean value.

There are three models that will be options to use in the study, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model. The first test uses the Chow test to determine between the Common Effect Model or Fixed Effect Model. Then the Hausman Test to determine between the Fixed Effect Model or Random Effect Model. And the last LM Test to choose a model between the Common Effect Model or Random Effect Model. Of the three tests, the Common Effect Model is the best model to use in this study. This study uses a common effect model so that for the classical assumption test only uses multicollinearity test and heteroscedasticity test. Normality test is not mandatory to be carried out on the ordinary least square (OLS) model approach because it is not a requirement for BLUE (Best Linier Unbias Estimator). Meanwhile, the autocorrelation test is not mandatory on panel data, because the nature of the cross section is more representative of the nature of panel data, while the nature of the time series is not so dominant although it still exists (Ekananda, 2015).

Table 2. Common Effect Model

Source	SS	df	MS
Model	2.01456406	4	0.503641016
Residual	0.041966186	150	0.000279775
Total	2.05653025	150	0.013354093

Based on the Table 2, the value $(1/VIF) > 0.1$ and the VIF value $(2.04) < 10$, so there is no multicollinearity. Meanwhile, this study uses the Glesjer test to test heteroscedasticity and obtains a p-value $> \chi^2(4)$ of 0.94441 which is greater than the alpha value (0.05), so it is concluded that this regression model does not have symptoms of heteroscedasticity.

Table 3. Normality test

Number of obs	F	Prob > F	R-squared	Adj. R-squared	Root MSE
115	1800.17	0.000	0.0796	0.9790	0.01673

Based on Table 3, the R-Squared value is 0.9796. This can be interpreted that the ability of institutional ownership variables, managerial ownership, transfer pricing and company size is able to explain tax avoidance by 97.96%, while 2.04% is explained by other variables not examined in this study.

Table 4. Autocorrelation test

Tav	Coef.	Std. Err.	T	p>t	[95% conf. interval]	
InstOwn	0.025987	0.010717	2.42	0.017	0.0048113	0.0471628
ManOwn	0.0359465	0.0122261	1.61	0.108	0.0080392	0.0799321

TransPr	1.022442	0.0122904	83.19	0.000	0.9981572	1.046726
ComSize	-0.0020162	0.0012278	-1.64	0.103	0.0044422	0.0004098
_cons	0.0317373	0.0396823	0.80	0.425	0.0466712	0.1101459

Based on Table 4, the results of the $p > |t|$ value of the institutional ownership variable are 0.017 which is smaller than the alpha value (0.05) which indicates that institutional ownership has an effect on tax avoidance. For the $p > |t|$ value of the managerial ownership variable of 0.108 which is greater than the alpha value (0.05), meaning that managerial ownership does not have an effect on tax avoidance. For the $p > |t|$ value of the transfer pricing variable of 0.000 which is smaller than the alpha value (0.05), which indicates that transfer pricing has an effect on tax avoidance. Then, the $p > |t|$ value of the company size variable is 0.103 which is greater than the alpha value (0.05) which indicates that company size does not have an effect on tax avoidance.

5. Discussion

Based on the results of the first hypothesis test, it is known that institutional ownership has an effect on tax avoidance. So, although tax avoidance is a common practice for companies to reduce their tax liabilities, the presence of institutional ownership can reduce the incentive to engage in this practice. With tighter supervision and a tendency to comply with regulations, companies dominated by institutional shareholders are more likely to avoid tax avoidance practices that risk harming them in the future. Along with increased supervision and encouragement for compliance, tax avoidance practices carried out by management tend to be more controlled, which in turn can improve the overall performance and valuation of the company. This is in line with research conducted by Deef et al., (2021) and Tarmidi et al., (2022), which states that institutional ownership has an effect on tax avoidance.

The results of the second hypothesis test show that managerial ownership has no effect on tax avoidance. This is in line with research by Arliani & Yohanes (2023) and Trisninik (2021), that managerial ownership has no effect on tax avoidance. Overall, the relationship between managerial ownership and tax avoidance is greatly influenced by the balance between agency theory and compliance theory. On the one hand, large share ownership by managers can increase their incentives to avoid taxes for personal gain. On the other hand, by owning company shares, managers are also more motivated to maintain the company's reputation and continuity, which means they are more likely to comply with tax regulations. Managerial ownership can be a double-edged sword when it comes to tax avoidance. If properly controlled, managers who own company shares can act as drivers of tax compliance. However, if there is a conflict of interest, large share ownership can create an incentive to exploit legal loopholes for personal gain. Therefore, it is important for companies to ensure adequate supervision to reduce the risk of tax avoidance that has the potential to harm the company and its shareholders.

In testing the third hypothesis, the results showed that transfer pricing has an effect on tax avoidance. This is in line with the opinions of Taufiq & Tertiaro (2018) and Gunawan & Surjandari (2022), that transfer pricing has an impact on tax avoidance. Compliance theory focuses on the motivation of companies to comply with applicable tax regulations. Transfer pricing is a strategy often used by multinational companies to reduce the tax burden owed. In

the context of tax avoidance, transfer pricing refers to the practice of setting transaction prices between affiliated companies, which is often done with the aim of shifting profits from countries with high tax rates to countries with lower tax rates (tax havens). This practice can legally minimize the company's global tax burden, but still raises questions regarding tax ethics and transparency. Agency theory can help explain this phenomenon. In agency theory, a conflict of interest occurs between the company owner (principal) and management (agent). Managers, as agents, have an incentive to maximize the value of the company, which is often done through strategies such as transfer pricing. Through transfer pricing, management can reduce the company's tax burden, which ultimately increases net income and company value, and may provide greater compensation for management. From this perspective, transfer pricing becomes a profitable tool for managers to show good financial performance to shareholders..

On the other hand, compliance theory focuses on the motivation of companies to comply with applicable tax regulations. Tax compliance is influenced by how much incentive a company has to comply with existing laws and regulations. In terms of transfer pricing, companies that implement aggressive transfer pricing policies for tax avoidance purposes potentially face legal and reputational risks if the policy is deemed to violate tax regulations. Tax compliance is often driven by long-term incentives to maintain the sustainability and reputation of the company. Managers who have significant shareholdings in the company tend to be more compliant with tax regulations, because they realize that violating tax regulations can damage the value of their own company's shares. In this case, although transfer pricing policies can reduce taxes paid, managers must still be careful that the policy does not violate existing tax provisions, in order to maintain the company's image and sustainability in the long term..

In testing the fourth hypothesis, it is known that company size has no effect on tax avoidance. This is in line with Oktavia et al. (2020) and Tarmidi et al. (2020), that company size does not affect tax avoidance. Overall, large companies have more opportunities and resources to avoid taxes compared to small companies. From an agency theory perspective, the larger the company, the higher the likelihood of a conflict of interest between managers and owners, which leads to tax avoidance. Meanwhile, from a compliance theory perspective, large companies have a greater capacity to reduce legal risks related to tax avoidance, allowing them to take greater advantage of existing tax loopholes. However, tax avoidance in large companies is not always negative. Some large companies can actually take advantage of legitimate tax strategies to minimize taxes paid without breaking the law. On the other hand, if legal loopholes and tax supervision are inadequate, large companies can fall into unethical behavior in tax avoidance.

6. Conclusion

This study concludes that institutional ownership significantly influences tax avoidance. Companies with higher proportions of institutional ownership tend to discourage management from engaging in tax avoidance practices due to stronger oversight. In contrast, managerial ownership does not affect tax avoidance, likely because its proportion is generally too small to influence strategic decision-making. Transfer pricing is found to have a significant impact on tax avoidance. Companies engaging in transfer pricing practices that deviate from fair market

values can shift or reduce profits, thereby minimizing their tax obligations. This highlights the role of transfer pricing as a tool for aggressive tax planning. On the other hand, company size does not appear to influence tax avoidance practices. This indicates that the scale of a company's operations is not a determinant of its engagement in tax avoidance strategies. Findings emphasize that ownership structure, particularly institutional ownership, and transfer pricing practices are critical factors in understanding tax avoidance behavior. Meanwhile, managerial ownership and company size have a minimal impact. These results underscore the importance of strong corporate governance and regulatory frameworks in curbing tax avoidance and ensuring compliance with taxation policies.

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