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THE EFFECT OF TRANSFER PRICING, INVENTORY INTENSITY, SALES GROWTH, AND THIN CAPITALIZATION ON TAX AVOIDANCE

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ABSTRACT:
This study aims to examine the effect of transfer pricing, inventory intensity, sales growth, and thin capitalization on tax avoidance. This study uses quantitative methods with secondary data in the form of annual reports of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period with a total of 25 company samples and 75 data observations. The analysis used includes descriptive statistical analysis, and panel data regression analysis with the help of Eviews 13 software. In determining the appropriate panel data regression model, this study conducted a series of model selection tests. The test results show that the Common Effect Model is the best model to use in regression analysis. The results of this study indicate that inventory intensity has a significant effect on tax avoidance, which proves that the greater the level of inventory invested by the company, the result is that the value of the cost of goods sold decreases, thereby causing high corporate profits and corporate tax burden of the company. Meanwhile, transfer pricing, sales growth, and thin capitalization have no effect on tax avoidance. The results of this study are expected to provide insight for company managers, investors and creditors, and the government in understanding the factors that influence the occurrence of tax avoidance practices in a company.

Keywords: tax avoidance, transfer pricing, inventory intensity, sales growth, thin capitalization.

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BACKGROUND

Tax is an obligation that must be fulfilled by individuals or business entities to the state, based on mandatory provisions of the law. Taxes do not provide direct benefits, but are used by the government to finance various state needs for the welfare of society. Since the tax sector has a

significant impact on the state budget, the government must be committed to optimizing state revenue through this sector. The steps taken to optimize tax revenue are not easy, of course, good cooperation is needed with taxpayers to comply with tax regulations.

These tax allocations are designed to fulfill various public needs, which in turn aim to improve the overall welfare of society. In addition, taxes are also used to support the implementation of national development covering various sectors, such as infrastructure, education, health, and social services. However, the performance of tax revenue in Indonesia from year to year is still far below expectations. In 2020, the Tax Justice Network revealed that Indonesia lost up to US$ 4.86 billion, or IDR 76.3 trillion, in tax revenue every year.(Cobham et al., 2020).

The phenomenon of tax avoidance that occurs in Indonesia can be seen from the low tax ratio. According to Erion et al., (2021) The tax ratio is the ratio between the tax revenue collected by a country and the Gross Domestic Product (GDP). Year 2019, Organisation for Economic Co-operation and Development (OECD, 2017) just relesed Revenue Statistic in Asia and Pasific Economies 2019 which puts Indonesia's tax ratio at the lowest position. One of the reasons for Indonesia's low tax ratio, according to the report, is due to tax avoidance. (Bisnis.com, 2019). One of the reasons for tax avoidance is the implementation of the self-assessment system, where taxpayers must independently calculate, report, and remit their taxes. This system allows taxpayers to manipulate data regarding their income, by calculating their Taxable Income (PKP) as low as possible, so that the tax burden borne will be lower.(Kalbuana et al., 2020).

The second tax avoidance phenomenon was carried out by PT Bentoel Internasional Investama Tbk, a subsidiary of BAT (British American Tobacco) in Indonesia in 2019. Reported by (Nasional.Kontan, 2019) The tax justice network reported tax evasion practices that reduce state revenue by around US$14 million every year. The report explained that BAT had diverted some of its revenue offshore in two ways. First, through intra-company loans between 2013 and 2015. Second, through repayments to the UK for royalties, fees and services.

Another tax avoidance case is PT Adaro Energy Tbk, which is one of the energy sector companies with transfer pricing mode. PT Adaro uses transfer pricing to reduce the amount of tax paid through engineering transfer prices between divisions. PT Adaro Energy Tbk sells coal

at a lower price to Coaltrade Service International Pte Ltd as a subsidiary based in Singapore. (Dewi & Suardika, 2021).

From some of the cases above, there are internal and external factors that influence management to do tax avoidance. In this study, researchers focus more on internal factors that can be measured from the company's financial statements to see their influence on tax avoidance, including transfer pricing, inventory intensity, sales growth, and thin capitalization.

Based on the background, researchers still find that in practice this tax avoidance case is still part of the company's business reality in Indonesia and it is suspected that the transfer pricing, inventory intensity, sales growth, and thin capitalization variables are variables that influence companies to take these actions. In addition, based on the results of previous studies, researchers still find inconsistent results so that the authors are interested in compiling research with the title “The Effect of Transfer Pricing, Inventory Intensity, Sales Growth, and Thin Capitalizatin on Tax Avoidance.”

THEORETICAL FRAMEWORK

Teori Agensi

According to Jansen & Meckling (1976) Agency relationships arise because of a contract that occurs between the owner (principal) and the manager (agent), with the condition that the owner will give some authority in decision making to the manager. Agency theory is a theory that explains the relationship between the party who gives authority (principal) and the party who receives authority (agent), to carry out various services or their interests by delegating some of the authority to make decisions to the agent. However, this theory has information asymmetry, where the agent has more information about the company than the principal. This can encourage agents to act against the interests of the principal, such as manipulating financial statements to increase profits for personal gain. Agents and principals are assumed to be motivated by their own interests, and often the interests between the two clash. To overcome this problem, an effective monitoring mechanism is needed so that the interests of both parties can be harmonized.

Self Assessment System

There are three types of tax collection systems used in Indonesia, namely the official assessment system, self-assessment system, and withholding assessment system. The first tax collection system used in Indonesia was the official assessment system which was implemented until 1967. Furthermore, the tax collection system was changed to a self-assessment system in 1983. The self-assessment system in Indonesia began to be implemented after UU No 6 Tahun 1983. The self-assessment system is a reform in the previous tax system that aims to encourage taxpayer awareness to independently report the tax owed (Hakki et al., 2023). The self-assessment system is a reform in the previous taxation system that aims to encourage taxpayer awareness to independently report the tax owed.

Tax Avoidance

Tax avoidance is a form of active resistance that is commonly practiced by taxpayers to reduce tax liabilities owed (Salwah & Herianti, 2019). According to Pohan (2013) Tax avoidance is an effort to reduce the tax burden carried out legally and safely by taxpayers, because it does not violate tax regulations. The methods and techniques used tend to take advantage of weaknesses (gray areas) in tax laws and regulations to reduce the amount of tax payable.

Transfer Pricing

According to Organization for Economic Cooperation and Development OECD (2017) defines transfer pricing as the price determined in transactions between group members in a multinational company where the transfer pricing determined can deviate from the fair market price as long as it is suitable for the group. In determining the transfer price of a transaction, two groups can be distinguished, namely intra-company and inter-company. Intra-company transfer pricing is pricing for transactions between divisions within one company. Meanwhile, inter-company transfer pricing is pricing for transactions between two companies that have a special relationship. The two companies can be located in the same country (domestic transfer pricing) or in different countries (international transfer pricing) (Andayani & Sulistyawati, 2020).

Inventory Intensity

Inventory intensity is a measurement that shows how much inventory is invested in the company. Companies with high inventory levels will face a significant burden or require large costs to manage these inventories.(Putri & Pratiwi, 2022)**.** Inventory maintenance expenses can be a deduction for income tax (Deductible Expenses) regulated in UU No.36 Tahun 2008 Pasal 6 and less inventory due to differences in methods regulated in pasal 10 ayat 6, so that large inventory can reduce the company's tax burden. So it can be concluded that inventory intensity has an influence on tax avoidance, which means that the higher the intensity of the company's inventory, the higher the tax avoidance carried out by the company (Sukrianingrum et al., 2022).

Sales Growth

Sales growth is the change in sales in annual financial statements that reflects the company's prospects and future profitability. Sales growth can be measured by comparing this year's sales with the previous year's sales. If the company's sales growth increases, then profitability also tends to increase, and the company's performance will be better. With increased profitability, this will drive year-on-year sales growth (Sholekah & Oktaviani, 2022)

Thin Capitalization

Thin Capitalization is a corporate capital structure plan that involves a higher proportion of interest-bearing debt compared to equity. Interest expense can serve as a deduction, resulting in lower net income, thus affecting the tax payable by the company (Lestari et al., 2024). Thin Capitalization as a tax avoidance framework by making debt a dominant source of funding compared to capital. Companies practice thin capitalization by taking advantage of differences in tax regulations. The difference is related to interest payments that can be categorized as tax deductions, while expenses on dividends paid to fund owners and not classified as tax deductible expenses (Afifah & Prastiwi, 2019).

METHOD

This study uses quantitative methods with secondary data in the form of annual reports of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023 with a total of 25 company samples and 75 data observations. The method

is carried out sampling by determining the points contained in the population. The analysis used includes descriptive statistical analysis, and panel data regression analysis with the help of Eviews 13 software. The sampling method is purposive sampling which sets criteria that are in accordance with the research objectives.The criteria for determining the sample, namely:

1. The total population of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX)
2. Non-cyclical consumer sector companies that carry out IPOs before in 2021.
3. Non-cyclical consumer sector companies that publish their annual financial reports through the official IDX website and the official website of each company.
4. Non-cyclical consumer sector companies that present their complete financial reports to measure each research variable.
5. Non-cyclical consumer sector companies that did not experience losses during the study period. This criterion is used because the basis for taxation is obtained from income. If the company experiences a loss, then it has no obligation to pay taxes.

In measuring tax avoidance, the author uses the CETR formula. because this method provides a clear picture of how effective the company is in managing its tax obligations. CETR is calculated by dividing the total tax paid by the company by the profit before tax, which allows direct analysis of the proportion of tax paid compared to the profit generated (Pratomo & Rana, 2021).

$$CETR = \frac{Tax\ payment}{Profit\ before\ tax}$$

In measuring transfer pricing, it can be seen in related party transactions. The following formula is used for the measurement of picing transfers based on research Napitupulu et al., (2020), and Widiyantoro & Sitorus (2019).

$$Transfer\ Pricing = \frac{Related\ party\ transactions\ receivable}{Total\ receivable}$$

According to Artinasari & Mildawati (2018), and Maulana et al., (2022) measurement of inventory intensity can be calculated by the following formula:

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$$Inventory\ intensity\ = \frac{Total\ inventory}{Total\ asset}$$

The indicator used by researchers to measure sales growth is to use a formula based on the research of Robin et al.,(2021), Indriani & Juniarti (2020), and Lestari et al., (2024)

$$Sales\ growth\ = \frac{sales\ (t) - sales(t-1)}{sales\ (t-1)}$$

The indicator used by researchers to measure thin capitalization is to use a formula based on the research of Salwah & Herianti (2019), Nadhifah & Arif (2020), and Hutomo et al., (2021).

$$MAD\ = \frac{Average\ debt}{Safe\ harbour\ debt\ amount\ (SHDA)}$$

Safe harbor debt amount (SHDA) = (Average total asset- nonIBL) x 80%

RESULT

Descriptive Statisics

Descriptive static test is an analysis conducted to assess the characteristics of a data by describing the average value (mean), median, maximum, minimum, and standard deviation of the dependent and independent variables. The results of descriptive statistics in this study are shown in the following table:

Table 1 Descriptive Statistics result

	TP	II	SG	TC	TA
Mean	0.2692	0.1859	0.1206	0.7518	0.2286
Median	0.0828	0.1738	0.1105	0.6999	0.2269
Maximum	0.9994	0.4129	0.5170	2.0010	0.3925
Minimum	0.0000	0.0285	-0.1227	0.1463	0.0411
Std. Dev.	0.3187	0.1021	0.1313	0.4665	0.0646
Skewness	0.8715	0.2482	0.7960	0.7880	-0.0938
Kurtosis	2.3348	2.0209	3.8952	2.8821	3.2492
Jarque-Bera	10.878	3.7656	10.426	7.8052	0.3043
Probability	0.0043	0.1521	0.0054	0.0201	0.8588
Sum	20.194	13.945	9.0488	56.385	17.150
Sum Sq. Dev.	7.5188	0.7727	1.2759	16.107	0.3094
Observations	75	75	75	75	75

Source: Output Eviews 13 (2025)

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Chow Test

Table 2 Chow Test Result

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.506879	(24,46)	0.1148
Cross-section Chi-square	43.506681	24	0.0087

Source: Output Eviews 13 (2025)

From table 2 above, it can be seen that the probability value of cross section F is 0.1148 which is greater than 0.05. Based on the chow test results, it can be concluded that the appropriate method to use in this study is the fixed effect model.

Hausman Test

Table 3 Hausman Test Result

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.675466	4	0.2247

Source: Output Eviews 13 (2025)

Based on the Hausman test estimation results in table 3, it can be seen that the significance value of the random cross-section probability is greater than 0.05. So it can be concluded that the model chosen is the random effect model.

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Langrange Multiplier Test

Table 4 Langrange Multiplier Test Resut

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

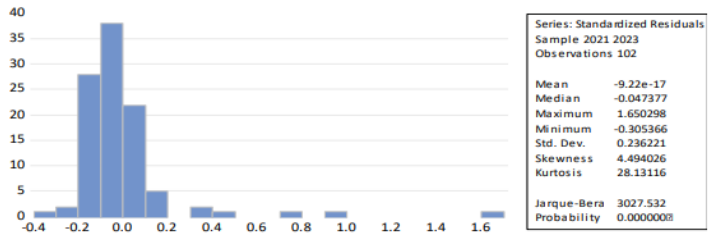
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.354430 (0.5516)	1.197974 (0.2737)	1.552405 (0.2128)

Source: Output Eviews 13 (2025)

Based on the langrange multiplier test estimation results in table 4, it can be seen that the Breusch-Pagan cross section distribution is 0.354430 with a probability value of 0.5516. This concludes that it is greater than 0.05. So that in this langrange multiplier test, the selected model is the common effect model.

Normality Test

Table 5 Normality Test Result

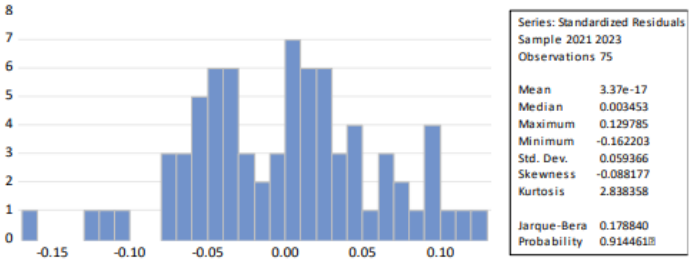


Source: Output Eviews 13 (2025)

From the normality test in Figure 5, a probability value of 0.0000 was generated. These results can be concluded that this data is not normally distributed because the probability value is smaller than the significance value of 0.05. Based on these results, it allows researchers to outlier the data.

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Table 6 Normality Test Result After Outlier Test



Source: Output Eviews 13 (2025)

From Figure 6, it is known that the data becomes 75 due to the outlier process. Based on the histogram graph and the Jarque-Bera statistical test (JB-Test) on the results, it can be seen that the normality test has a probability value of 0.914461, where the value is greater than 0.05 so it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 7 Multicollinearity Test Result

Variance Inflation Factors
Sample: 1 75
Included observations: 75

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.0005	10.450	NA
TP	0.0005	2.0810	1.2077
II	0.0059	5.3608	1.2308
SG	0.0029	1.8973	1.0224
TC	0.0002	4.0085	1.1037

Source: Output Eviews 13 (2025)

From the multicollinearity test results in table 7, it can be seen that the centered VIF value on the independent variable TP is 1.2077, II is 1.2308, SG is 1.0224, and TC is 1.1037. The VIF value of the variables is below 10, which means that there is no correlation or high relationship between the independent variables.

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Heteroscedasticity Test

Table 8 Heteroscedasticity Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.0356	0.0132	2.6976	**0.0087**
TP	0.0215	0.0141	1.5192	**0.1332**
II	0.0079	0.0446	0.1783	**0.8590**
SG	0.0016	0.0316	0.0517	**0.9589**
TC	0.0059	0.0092	0.6420	**0.5229**

Source: Output Eviews 13 (2025)

Based on table 8 of the heteroscedasticity test results using the Glesjer test, it can be seen that the probability value of the TP, II, SG, and TC variables is 0.1332, 0.8590, 0.9589, and 0.5229, respectively. It can be concluded that this data is free from heteroscedasticity problems.

Auto-correlation Test

Table 9 Auto-correlation Test Result

R-squared	0.1571	Mean dependent var	0.2286
Adjusted R-squared	0.1090	S.D. dependent var	0.0646
S.E. of regression	0.0610	Akaike info criterion	-2.6902
Sum squared resid	0.2607	Schwarz criterion	-2.5357
Log likelihood	105.88	Hannan-Quinn criter.	-2.6286
F-statistic	3.2636	Durbin-Watson stat	**1.7399**
Prob(F-statistic)	0.0163		

Source: Output Eviews 13 (2025)

Based on the Durbin Watson test results in table 4.7 above, it is known that the durbin-watson value resulting from the regression model is 1.7399 with a sample size of 75 data and a total of 4 variables (k = 4), where the dL value (lower limit) is 1.5151 and the dU value (upper limit) is 1.7390. Because the durbin-watson valueis between dU<dW<4-dU (1.7390<1.7399<2.261). So it can be concluded that in the regression model there is no autocorrelation

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Regression Analysis

Tabel 10 Regression Analysis Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.2204	0.0227	9.6765	0.0000
TP	-0.0296	0.0244	-1.2119	0.2296
II	0.1540	0.0770	1.9992	0.0495
SG	-0.1078	0.0546	-1.9736	0.0524
TC	0.0007	0.0159	0.0462	0.9633

Source: Output Eviews 13 (2025)

Based on the test results above, the resulting equation is as follows:

TA = 0,2204 - 0,0296TP + 0,1540II - 0,1078SS + 0,0007TC + e

F Test

Table 11 F Test Result

F-statistic	3.2636
Prob(F-statistic)	0.0163

Source: Output Eviews 13 (2025)

Based on the test results above, it is known that the Prob F-Statistic value is 0.0163 <0.05. These results indicate that the independent variables simultaneously affect tax avoidance.

T Test

Table 12 T Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.2204	0.0227	9.6765	0.0000
TP	-0.0296	0.0244	-1.2119	0.2296
II	0.1540	0.0770	1.9992	0.0495
SG	-0.1078	0.0546	-1.9736	0.0524
TC	0.0007	0.0159	0.0462	0.9633

Source: Output Eviews 13 (2025)

a. Based on the output in table 4.8, it is known that the t value on the transfer pricing variable is -1.211993, which means it is smaller than the t table, with a probability value of 0.2296, which means it is greater than 0.05. So that proves that the transfer pricing variable has no significant effect on the tax avoidance variable (H1 Is Unacceptable).

b. Based on the output in table 4.8, it is known that the t value on the variable inventory intensity is 1.999257 which means it is greater than the t table, with a probability value of 0.0495 which means it is smaller than 0.05. So it proves that the inventory intensity variable has a significant effect on the tax avoidance variable (H2 Accepted).

c. Based on the output in table 4.8, it is known that the t value on the sales growth variable is -1.973635, which means it is smaller than the t table, with a probability value of 0.0524, which means it is greater than 0.05. So proves that the sales growth variable has no significant effect on the tax avoidance variable (H3 Unacceptable).

d. Based on the output in table 4.8, it is known that the t value on the thin capitalization variable is 0.046238, which means it is smaller than the t table, with a probability value of 0.9633, which is greater than 0.05. So proves that the thin capitalization variable has no significant effect on the tax avoidance variable (H4 Unacceptable).

Coefficient Determination Test

Table 13 Coefficient Determination Test Result

R-squared	0.1571
Adjusted R-squared	0.1090

Source: Output Eviews 13 (2025)

Based on the determination coefficient test, it can be seen through the Adjusted RSquared in the table above. The Adjusted R-Squared value is 0.1090 or 10.90%, which means that the ability of the independent variable to explain the dependent variable is 10.90% while the remaining 89.10% is influenced by other factors not found in the model. This means that the transfer pricing, inventory intensity, sales growth, and thin capitalization variables of 10.90% can predict tax avoidance, while the remaining 89.10% is influenced by factors not examined

in this study.

DISCUSSION

The Effect of Transfer Pricing on Tax Avoidance

Based on the results of statistical testing with the T test, it shows that the transfer pricing variable has a significance level of 0.2296, which means it is greater than 0.05 (0.2296>0.05). This value indicates that transfer pricing does not affect tax avoidance in noncyclical consumer companies. Thus, the results of this study reject the first hypothesis (H1).

the existence of a transfer pricing scheme through receivables transactions cannot be proven due to effective tax enforcement through special tax avoidance provisions. Therefore, with the strict and firm control of the Minister of Finance's regulations, it is rather difficult for a company to carry out tax avoidance. The majority of the research samples are not multinational companies and rarely conduct transactions with related parties abroad. This is different from multinational companies which generally have corporate networks in various countries and use transfer pricing as a mechanism to carry out profit shifting to countries with lower tax rates. However, this study contradicts the research results of Wulandari et al., (2023), and Sayati et al., (2023) which stated that transfer pricing has an effect on tax avoidance.

The Effect of Inventory Intensity on Tax Avoidance

Based on the results of statistical testing with the T test, it shows that the inventory intensity variable has a significance level of 0.0495, which means it is smaller than 0.05 (0.0495 <0.05). This value indicates that inventory intensity has an effect on tax avoidance in consumer noncyclical companies. Thus, the results of this study accept the second hypothesis (H2).

The results of this study are in line with previous studies conducted by Dwiyanti & Jati (2019), Ramadhina (2023), and Anggriantari & Purwantini (2020) which stated that inventory intensity has an effect on tax avoidance. Inventory intensity shows the effectiveness and efficiency of a company in managing its investment in inventory. High levels of inventory in a company will create additional burdens for the company.

High inventory intensity can cause a decrease in company profits due to additional costs associated with inventory management. When company profits decrease, taxes paid will also

decrease. In addition, the company's effective tax rate (ETR) tends to decrease along with the decrease in profits. This decrease in ETR is an indication that tax avoidance is increasing. However, this study contradicts the research results of Putra et al., (2024), and Artinasari & Mildawati (2018) which stated that inventory intensity has no effect on tax avoidance.

The Effect of Sales Growth on Tax Avoidance

Based on the results of statistical testing with the T test, it shows that the sales growth variable has a significance level of 0.0524, which means it is greater than 0.05 (0.0524>0.05). This value indicates that sales growth has no effect on tax avoidance in non-cyclical consumer companies. Thus, the results of this study reject the third hypothesis (H3).

The results of this study are in line with previous studies conducted by (Sawitri et al., 2022), Sakinah & Habibah (2024), and Anasta (2021) which state that sales growth has no effect on tax avoidance. This reflects that the size of a company's sales growth does not affect the company's decision to avoid tax, because companies with increasing or decreasing sales growth have the same obligations in paying taxes. In addition, if sales growth increases, the company's operating capacity and profit usually also increase, resulting in a greater tax burden. However, this study contradicts the research results of Pravitasari & Khoiriawati (2022), and Juliana et al., (2020) which stated that sales growth has an effect on tax avoidance.

The Effect of Thin Capitalization on Tax Avoidance

Based on the results of statistical testing with the T test, it shows that the thin capitalization variable has a significance level of 0.9633, which means it is greater than 0.05 (0.9633>0.05). This value indicates that thin capitalization has no effect on tax avoidance in non-cyclical consumer companies. Thus, the results of this study reject the fourth hypothesis (H4).

The results of this study support previous studies conducted by Rahmah & Sovita (2023), Nadi (2024) which stated that thin capitalization has no effect on tax avoidance. The high or low level of thin capitalization does not directly affect a company's decision to avoid taxes, but is used for the company's operational needs. Thin capitalization is not the main driving factor for tax avoidance, because companies have the ability to manage their taxable income through various strategies, without having to go through loan interest charges. However, this study

contradicts the research results of Gusti & Yasa (2024), and Sakinah & Habibah (2024) which state that thin capitalization has an effect on tax avoidance.

CONCLUSION

Based on the results of hypothesis testing, this study can provide evidence and conclusions as follows:

a. Transfer pricing has no effect on tax avoidance
b. Inventory intensity has an effect on tax avoidance
c. Sales growth has no effect on tax avoidance
d. Thin capitalization has no effect on tax avoidance

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