THE INFLUENCE OF PROFITABILITY AND LEVERAGE ON TAX AVOIDANCE WITH TRANSFER PRICING AS A MODERATING VARIABLE (MINING SECTOR COMPANIES LISTED ON IDX 2019-2023)

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Abstract: The study aims to examine and analyze the influence of profitability and leverage on tax avoidance with transfer pricing as a moderating variable. The research uses a quantitative approach. The population in this study includes all mining sector companies listed on the Indonesia Stock Exchange (IDX) for the years 2019-2023. The sample was selected using purposive sampling method, and based on predetermined criteria, a sample of 20 companies was obtained. The data used is secondary data obtained from the financial statements of the sampled companies. Data was analyzed using the Partial Least Square (PLS) technique. The results of this study indicate that profitability has a significant positive effect on tax avoidance, leverage has a negative and insignificant effect on tax avoidance, transfer pricing is unable to moderate the effect of profitability on tax avoidance, whereas transfer pricing can strengthen the negative effect of leverage on tax avoidance.
Keywords: Profitability, Leverage, Tax avoidance, Transfer Pricing.

INTRODUCTION

Indonesia is a democratic country founded on the principles of governance by the people, for the people, and from the people, one example of which is the implementation of taxes. According to Law No. 28 of 2007, tax is a mandatory contribution to the state owed by individuals or entities, enforced by law without direct compensation, and used for state needs to maximize public welfare (Pemerintah Republik Indonesia, 2007). Taxes continue to play a crucial role in Indonesia, not only for funding public interests and welfare but also as the largest supporter of the national budget (APBN).
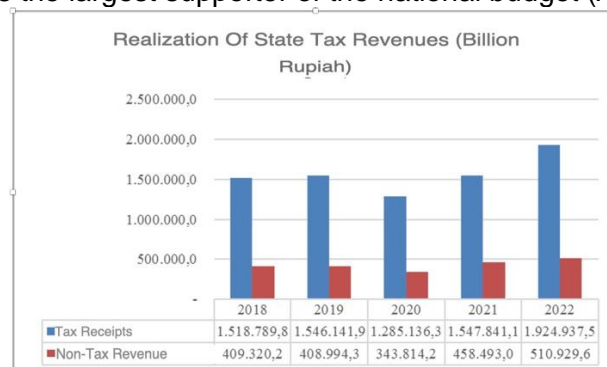

	2018	2019	2020	2021	2022
Tax Receipts	1.518.789,8	1.546.141,9	1.285.136,3	1.547.841,1	1.924.937,5
Non-Tax Revenue	409.320,2	408.994,3	343.814,2	458.493,0	510.929,6

Figure 1. Realization of State Tax Revenue for 2018-2022
Source: Central Bureau of Statistics Indonesia 2023 (www.bps.go.id)

Figure 1. indicates that state tax revenue has shown an upward trend since 2018, except in 2020 when it was impacted by the Covid-19 pandemic. In 2021 and 2022, the realization of state tax revenue exceeded the targets set in Presidential Regulation 98/2022. The tax revenue realization in 2022 reached IDR 1,924.9 trillion, or 107% of the IDR 1,784 trillion target of Presidential Regulation 98/2022, growing by 24.3% from the 2021 realization of IDR 1,547.8 trillion (Kementrian Keuangan, 2023). This achievement marked the first time in 12 years that Indonesia met its tax revenue target, the last being in 2008 (Said, 2021). From this information, it can be concluded that taxes contribute more significantly to state revenue than non-tax revenues. This demonstrates the high dependency of Indonesia's economy on tax revenue, making it the largest source of income for the country.

Considering that tax revenue is the largest source of income for Indonesia, steps and efforts are needed to optimize state revenue from taxes to accelerate national development. Law No. 16 of 2009 concerning General Provisions and Tax Procedures explains taxpayers as individuals or entities determined by tax regulations to fulfill tax obligations. According to this definition, corporate taxpayers include limited liability companies, limited partnerships, state or local-owned enterprises in any form, partnerships, other associations, firms, joint ventures, cooperatives, foundations or institutions, and permanent establishments (Pemerintah Republik Indonesia, 2009). The activities carried out by companies are components that shape the structure of the national economy. This is because companies utilize resources and process the available factors of production in society to conduct their activities. Therefore, the presence of companies is essential and needed by both the state and society.

Companies generally share the common goal and satisfaction of maximizing profits. However, this satisfaction is diminished due to the obligation to pay taxes to the government, which in turn reduces the company's profits. This creates a conflict of interest between the government and companies. The government aims for high tax revenue, as taxes are a crucial source of income for enhancing economic growth through infrastructure development, subsidies, state financing and spending, and other public services. Conversely, companies prefer lower taxes, viewing them as a burden that decreases their net profits (Bahari, 2023).

This conflict between the government and companies regarding taxes motivates companies, as taxpayers, to minimize their tax burdens through various legal and illegal means. Companies strive to maximize profits and minimize costs or burdens, including taxes, which naturally conflicts with the government's interests and goals.

Tax avoidance is an aggressive tax strategy used by companies to reduce their tax burdens (Apriliani, 2020). Tax avoidance involves legally avoiding taxes without violating tax regulations (Bahari, 2023). Large companies often engage in tax avoidance through complex and systematic planning. The self-assessment system in tax collection also provides opportunities for taxpayers, especially companies, to practice tax avoidance. By exploiting these opportunities, companies can optimize their tax burden reduction to maintain their profit levels.

According to the Indonesian Information Portal, tax avoidance was a significant issue at the G20 conference in India. Tax avoidance is seen as an obstacle to tax collection, resulting in reduced state revenue. The issue arises because tax avoidance is considered legal (e.g., minimizing tax burdens without violating tax laws) while tax evasion (tax fraud) is illegal (Hidranto, 2023). The focus on this issue stems from

concerns about fairness and ethics, as these practices, although legal, still raise questions of equity. During the forum, G20 leaders also discussed BEPS (Base Erosion and Profit Shifting). BEPS is a framework to protect each country's tax base and prevent tax avoidance (Hidranto, 2023). The discussion on BEPS arises from concerns about reduced tax revenues threatening tax authority and fairness in many countries through profit shifting. Profit shifting is commonly done by multinational companies, including those in Indonesia, often through transfer pricing.

Transfer pricing involves setting prices in transactions between related companies at fair market value (Hakim et al., 2022). These related parties include parent companies and their subsidiaries in countries with lower tax rates. In Indonesia, transfer pricing is considered legal as long as companies adhere to the regulations on transfer pricing practices outlined in Article 18 of Law No. 7 of 1983 on Income Tax. Additionally, transfer pricing practices are regulated by the Director General of Taxes Regulation No. PER-43/PJ/2010, amended by Regulation No. PER-32/PJ/2011, concerning the Application of Fairness and Common Business Practices in Transactions Between Taxpayers and Related Parties.

One notable case of tax avoidance involving transfer pricing is that of Indonesia's largest coal mining company, PT Adaro Energy Tbk. According to a report by Global Witness, PT Adaro allegedly engaged in transfer pricing by selling coal to its Singaporean subsidiary, Coaltrade Service International (CSI), at prices below market value. CSI then resold the coal to other countries at higher prices. This strategy allowed PT Adaro to shift profits from Indonesia to Singapore, which has lower tax rates, thus reducing its tax burden in Indonesia. This practice is estimated to have resulted in PT Adaro paying approximately US\$125 million (around IDR 1.75 trillion) less in taxes in Indonesia between 2009 and 2017.

One of the factors influencing tax avoidance is profitability (Putri & Suryarini, 2017). Profitability measures a company's performance by showing its ability to generate profit over a certain period (Yuniarwati et al., 2017). Research by Lestari & Solikhah (2019) found that profitability positively affects tax avoidance, suggesting that higher profitability increases the tendency of a company to engage in tax avoidance. This finding is consistent with studies by Mahdiana & Amin (2020), Hayani & Darmawati (2023), and Adelia & Asalam (2024), which also showed a positive and significant relationship between profitability and tax avoidance. However, studies by Haamzah & Bahri (2023) and Paramita et al. (2023) found a negative relationship, indicating that higher profitability reduces the likelihood of tax avoidance.

Leverage is another factor affecting tax avoidance (Putri & Suryarini, 2017). Leverage indicates the extent of a company's debt used to finance its assets. Research by Lestari & Solikhah (2019), Paramita et al. (2023), and Adelia & Asalam (2024) found that leverage positively affects tax avoidance. Conversely, studies by Aprianto & Dwimulyani (2019) and Hayani & Darmawati (2023) found a negative relationship between leverage and tax avoidance.

This study replicates research by Nurul Sakinah Hayani and Deni Darmawati (2023), which focused on food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. The current study differs in its focus on mining sector companies listed on the IDX from 2018 to 2022, as this sector has seen increased tax contributions in recent years, becoming one of the largest tax revenue contributors in Indonesia after manufacturing and trade sectors. Additionally, PT Adaro,

involved in a recent tax avoidance case, operates in the mining sector. This study also employs a different variable measurement indicator, using the Cash Effective Tax Ratio (CETR), which reflects the actual taxes paid by the company. Based on the phenomena occurring, the author's thoughts, and the research gap explained above, the author is interested in conducting a study titled "The Effect of Profitability and Leverage on Tax Avoidance with Transfer Pricing as Moderation (An Empirical Study on Mining Sector Companies Listed on the IDX for 2019-2023)".

METHODS

Research Method
This study employs a quantitative research method. According to Sugiyono (2020), quantitative research is based on positivist philosophy, used to examine specific populations or samples, and involves data collection using research instruments. The data analysis is quantitative or statistical, aiming to test established hypotheses. The use of quantitative methods in this study allows the researcher to record and manage data through statistical methods involving numerical values.

The type of data used in this study is secondary data. Secondary data is the type of data that is collected indirectly. The secondary data used in this study is the annual financial statements of mining sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. These data are collected from the official website of the Indonesia Stock Exchange (IDX), www.idx.co.id.

The data collection methods used in this study are literature review and documentation methods. The literature review is used because data is obtained from literature such as books, previous journals, and internet sites related to the research to obtain the necessary information. According to Kurniawan & Puspaningtyas (2016), the documentation method is a data collection technique using documentation owned by the data source. By using this technique, the author can collect data in the form of annual financial statements of companies. The collected data is then studied so that it can be selected to be used as samples that will be processed in this study.

Operationalization and Measurement of Variables
Operationalizing variables involves concretely and objectively measuring abstract variables, making them operational and easier for researchers to measure. This study uses independent, dependent, and moderating variables. The dependent variable (Y) is tax avoidance, defined as a company's legal efforts to minimize tax payments through tax planning, typically measured using Current Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), and Book-tax Difference (BTD). This study uses CETR to measure tax avoidance, indicating the actual taxes paid by the company.

Independent Variables (X)
Independent variables, or free variables, influence or cause changes in the dependent variable (Sugiyono, 2020). This study uses profitability (X1) and leverage (X2) as independent variables. Profitability reflects a company's ability to generate profits and

is measured by Return on Asset (ROA), which shows how efficiently a company uses its assets to generate profit. Leverage, measured by Debt to Asset Ratio (DAR), indicates the extent of a company's debt used to finance its assets, with higher leverage ratios implying higher financial risk due to increased interest burdens.

Moderating Variable (Z)

A moderating variable influences the relationship between independent and dependent variables (Sugiyono, 2020). In this study, the moderating variable is transfer pricing, a company's policy for setting transaction prices with related parties to reduce tax burdens. Transfer pricing is calculated as the ratio of related-party receivables to total receivables.

Population and Sample

The population consists of all mining sector companies listed on the IDX from 2019 to 2023, totaling 85 companies. The sample is selected using non-probability sampling, specifically purposive sampling, which involves selecting samples based on specific criteria relevant to the research objectives. The criteria considered to determine the research sample include Mining sector companies listed on the IDX during the 2019-2023 period, Companies listed on the IDX no later than 2019, Companies consistently listed as mining sector companies during the 2019-2023 period, Companies that consistently present financial statements as of December 31 during the observation period. This process yielded 20 companies meeting these criteria, providing a sample for analysis. The study utilizes secondary data collected from the IDX's official website, analyzed using Partial Least Square (PLS) with SmartPLS version 3.0, suitable for small sample sizes and complex models.

RESULTS AND DISCUSSION

The technique used to test the hypothesis in this study is the Partial Least Squares (PLS) analysis technique. This research is tested using Smart PLS 3.0 software to analyze the effect of profitability, proxied by Return on Assets (ROA), and leverage, proxied by Debt to Asset Ratio (DAR), on tax avoidance, proxied by Cash Effective Tax Rate (CETR), with transfer pricing as the moderating variable.

Measurement Model Analysis (Outer Model)

Validity Test
Convergent Validity Test

Convergent validity is determined by the loading factor of each independent variable on its latent variable. An independent variable is considered valid and acceptable if the loading factor is >0.7 (Duryadi, 2021).

Table 1. Outer Loadings Values

	Outer Loadings
CETR	1,000
ROA	1,000
DAR	1,000
TP	1,000
ROA*TP	0,828
DAR*TP	1,112

Source: Data Processed (2024)

The table shows that each variable has a loading factor >0.7, indicating that all variables are valid and acceptable as they meet the criteria of a loading factor >0.7.

Convergent validity can also be determined using the Average Variance Extracted (AVE) value, which is considered valid and acceptable if the AVE value is >0.5 (Duryadi, 2021).

Table 2. Average Variance Extracted (AVE) Values

	Average Variance Extracted (AVE)
CETR	1,000
ROA	1,000
DAR	1,000
TP	1,000
ROA*TP	1,000
DAR*TP	1,000

Source: Data Processed (2024)

The table shows that each variable has an AVE value >0.5, indicating that all variables are valid and acceptable as they meet the AVE criteria of >0.5.

Discriminant Validity Test

In discriminant validity, cross loading is used as the indicator. An independent variable is considered valid and acceptable if the cross loading value is >0.7 (Ghozali & Latan, 2014).

Table 3. Cross Loadings Values

	CETR	ROA	DAR	TP	ROA*TP	DAR*TP
CETR	**1,000**	-0,273	0,116	0,038	0,153	0,158
ROA	-0,273	**1,000**	-0,205	-0,225	-0,565	0,120
DAR	0,116	-0,205	**1,000**	-0,180	0,161	0,083
TP	0,038	-0,225	-0,180	**1,000**	-0,313	-0,197
ROA*TP	0,153	-0,565	0,161	-0,313	**1,000**	-0,105
DAR*TP	0,158	0,120	0,083	-0,197	-0,105	**1,000**

Source: Data Processed (2024)

The table shows that each variable has a cross loading value >0.7, indicating that all variables are valid and acceptable as they meet the cross loading criteria of >0.7.

Reliability Test

Reliability testing can be conducted in two ways: using Cronbach's alpha or composite reliability. An independent variable is considered valid and acceptable if the Cronbach's alpha or composite reliability value is >0.7 (Ghozali & Latan, 2014). The following table shows the Cronbach's alpha and composite reliability values for each variable studied:

Table 4. Cronbach's Alpha and Composite Reliability Values

	Cronbach's Alpha	*Composite Reliability*
CETR	1,000	1,000
ROA	1,000	1,000
DAR	1,000	1,000
TP	1,000	1,000
ROA*TP	1,000	1,000
DAR*TP	1,000	1,000

Source: Data Processed (2024)

Table 4.8 shows that each variable has Cronbach's alpha and composite reliability values >0.7, indicating that all variables are valid and acceptable as they meet the criteria of Cronbach's alpha and composite reliability values >0.7.

Coefficient of Determination (R-square or R2)

The strength of the influence between variables can be categorized as strong if the R-square value is 0.75, moderate if the R-square value is 0.50, and weak if the R-square value is 0.25 (Ghozali & Latan, 2014). The following table shows the R-square values:

Table 5. R-Square Values

	R Square	*R Square Adjusted*
CETR	0,114	0,067

Source: Processed data (2024)

Table 5 shows that tax avoidance (CETR) has an R Square Adjusted value of 0.067, indicating that tax avoidance (Y) can be explained by profitability (X1), leverage (X2), and transfer pricing (Z) with a percentage of 6.7%, while the remaining 93.3% is explained by other variables not mentioned in this study.

Hypothesis Testing

Hypothesis testing is conducted by observing the significance of the p-value. A p-value of 0.05 or a significant level of 5% is used; if the p-value is <0.05, the hypothesis is accepted. Conversely, if the p-value is >0.05, the hypothesis is rejected (Ghozali & Latan, 2014).

Table 6. Path Coefficients and P-Values

	Path Coefficients	P-Values	Hypothesis Result
ROA ☐ CETR	-0,264	0,021	Accepted
DAR ☐ CETR	0,047	0,684	Rejected
ROA*TP ☐ CETR	0,034	0,787	Rejected
DAR*TP ☐ CETR	0,176	0,044	Accepted

Source: Data Processed (2024)

Based on Table above, the results of hypothesis testing can be explained as follows:
1. Profitability Affects Tax Avoidance (H1)
    Table 6 shows that profitability, proxied by ROA, has a significant negative effect on CETR as a proxy for tax avoidance. This is indicated by a negative regression coefficient value of 0.264 with a p-value of 0.021, which is <0.05. However, since CETR is inversely related to tax avoidance, a negative impact on CETR implies a positive impact on tax avoidance. Therefore, profitability has a significant positive effect on tax avoidance, which supports the first hypothesis that profitability affects tax avoidance, thus the first hypothesis is accepted.
2. Leverage Affects Tax Avoidance (H2)
    Table 6 shows that leverage, proxied by DAR, has a positive but not significant effect on CETR as a proxy for tax avoidance. This is indicated by a positive regression coefficient value of 0.047 with a p-value of 0.684, which is >0.05. However, since CETR is inversely related to tax avoidance, a positive impact on CETR implies a negative impact on tax avoidance. Therefore, leverage has a negative but not significant effect on tax avoidance, which is contrary to the second hypothesis that leverage affects tax avoidance, thus the second hypothesis is rejected.
3. Transfer Pricing Moderates the Effect of Profitability on Tax Avoidance (H3)
    Table 6 shows that transfer pricing does not significantly moderate the effect of ROA on CETR as a proxy for tax avoidance. This is indicated by a positive regression coefficient value of 0.034 with a p-value of 0.787, which is >0.05. Despite the positive regression coefficient indicating that transfer pricing strengthens the effect of ROA on CETR, the inverse relationship between CETR and tax avoidance implies a weakening effect on tax avoidance. This is contrary to the third hypothesis that transfer pricing moderates the effect of profitability on tax avoidance, thus the third hypothesis is rejected.
4. Transfer Pricing Moderates the Effect of Leverage on Tax Avoidance (H4)
    Table 6 shows that transfer pricing significantly strengthens the effect of DAR on CETR as a proxy for tax avoidance. This is indicated by a positive regression coefficient value of 0.176 with a p-value of 0.044, which is <0.05. The positive regression coefficient indicates that transfer pricing significantly strengthens the positive effect of DAR on CETR. However, since CETR is inversely related to tax avoidance, a positive impact on CETR implies a negative impact on tax avoidance. Therefore, transfer pricing strengthens the negative effect of leverage on tax avoidance, which supports the fourth hypothesis that transfer pricing moderates the effect of leverage on tax avoidance, thus the fourth hypothesis is accepted.

The Effect of Profitability on Tax Avoidance

The first hypothesis in this study states that profitability affects tax avoidance, and the results prove that profitability proxied by Return on Assets (ROA) has a significant positive effect on tax avoidance. This means that an increase in profitability ratio leads to an increase in corporate tax avoidance. Thus, it can be concluded that the first hypothesis in this study is accepted.

When the profit obtained increases, the amount of income tax will increase in accordance with the increase in corporate profit. According to agency theory, companies with high efficiency and consistently high income face lower tax burdens because they benefit from tax incentives and other tax reductions. This is supported by studies by Lestari & Solikhah (2019), Mahdiana & Amin (2020), Hayani & Darmawati (2023), and Adelia & Asalam (2024), which show that profitability has a positive and significant effect on tax avoidance. However, this finding contrasts with the research by Haamzah & Bahri (2023) and Paramita et al. (2023), which indicate that profitability negatively affects tax avoidance, implying that lower profitability leads to higher tax avoidance practices (Paramita et al., 2023).

The Effect of Leverage on Tax Avoidance

The second hypothesis in this study states that leverage affects tax avoidance, and the results show that leverage proxied by the Debt to Asset Ratio (DAR) has a negative but not significant effect on tax avoidance. Thus, it can be concluded that the second hypothesis in this study is rejected.

Companies with high leverage appear less favorable, prompting management to be more conservative in financial reporting. Management is unwilling to take risks associated with high debt to engage in tax avoidance. This result is inconsistent with agency theory, which posits that interest expenses from debt reduce corporate tax expenses, making agents more likely to use debt to fund their operations to benefit from the resulting interest expenses. This finding is supported by studies by Wuriti et al. (2023), Haamzah & Bahri (2023), and Putri & Suryarini (2017), which state that leverage does not affect tax avoidance. However, it contrasts with research by Lestari & Solikhah (2019), Paramita et al. (2023), and Adelia & Asalam (2024), which show that leverage positively affects tax avoidance and supports agency theory.

Transfer Pricing Moderates the Effect of Profitability on Tax Avoidance

The third hypothesis in this study states that transfer pricing moderates the effect of profitability on tax avoidance, but the results prove that transfer pricing does not significantly moderate the effect of profitability proxied by ROA on CETR as a proxy for tax avoidance. Thus, it can be concluded that the third hypothesis in this study is rejected.

According to agency theory, transfer pricing can be defined as a corporate strategy to achieve high profits with low profit payments. Continuous transfer pricing can reduce tax expenses, resulting in higher profits, which is reflected in high profitability and high tax avoidance. However, this study's results do not align with this theory, as transfer pricing is not proven to be a moderating variable. In other words, transfer pricing does not strengthen or weaken the impact of profitability on tax avoidance. This may be because the benefits companies gain from reducing the transfer costs of certain transactions conducted between divisions within the company or with other companies with strong special relationships do not significantly impact increasing company profits.

This finding is supported by Wijayanti & Ayem (2022), who also found that transfer pricing as a moderating variable does not strengthen the effect of profitability on tax avoidance.

Transfer Pricing Moderates the Effect of Leverage on Tax Avoidance

The fourth hypothesis in this study states that transfer pricing moderates the effect of leverage on tax avoidance, and the results prove that transfer pricing strengthens the negative effect of leverage on tax avoidance. Thus, it can be concluded that the fourth hypothesis in this study is accepted.

Corporate funding sources come from internal and external funding, with debt being one form of external funding. Interest expenses resulting from third-party debt reduce taxable income. Higher debt increases the amount of interest expense, thereby reducing the tax burden. Good companies are more capable of utilizing their resources to create effective tax planning (Laila et al., 2021).

The accounts receivable from related parties influence the company to engage in tax avoidance practices (Herlina et al., 2023). This is because multinational companies in Indonesia exploit gaps in tax regulations by transferring profits to subsidiaries in countries with lower tax rates to avoid taxes through unusual transactions that harm the host country. Transfer pricing reduces the tax burden borne by the company.

Therefore, larger transfer prices reduce the tax burden, indicating that transfer pricing strengthens the effect of leverage on tax avoidance. This finding is supported by Hayani & Darmawati (2023), who state that transfer pricing increases the impact of leverage on tax avoidance.

CONCLUSION

Based on the testing and analysis conducted on the influence of profitability and leverage on tax avoidance with transfer pricing as a moderating variable in mining sector companies listed on the Indonesia Stock Exchange from 2019 to 2023, the following conclusions can be drawn.

Profitability has a significant positive effect on tax avoidance. Leverage has a negative and insignificant effect on tax avoidance. Transfer pricing does not moderate the effect of profitability on tax avoidance. However, transfer pricing strengthens the negative effect of leverage on tax avoidance.

This study has several limitations that can be considered for future research to obtain better results. The limitations of this study are the results of this study, there are independent variables that do not have a significant effect on the dependent variable, indicating that there are still many variables that could significantly affect tax avoidance.

The sample size in this study is limited to only 20 companies because many mining sector companies experienced losses during the Covid-19 pandemic in 2020, which did not meet the sample selection criteria.

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