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GLOBAL COMPANY TAX STRATEGIES: CAN GOOD CORPORATE GOVERNANCE PRACTICES LIMIT TAX AVOIDANCE?

Selin Putri Cahyani
Nurul Aisyah Rachmawati (nurulaisyah@universitas-trilogi.ac.id)

Department of Accounting, Faculty of Economics, Business and Humanities, Universitas Trilogi, Indonesia

ABSTRACT

Global companies, including those based in Indonesia, must implement international tax strategies to cut their tax bills. These strategies include establishing subsidiaries in countries with lower tax rates and engaging in aggressive transfer pricing. This study looks at how multinational companies' tax strategies impact tax avoidance, with corporate governance playing a moderating role. Corporate governance is assessed by whether the company has an independent board of commissioners and the quality of the external auditors. Our study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. We used a quantitative approach based on panel data regression. The results show that multinationality and aggressive transfer pricing significantly and positively impact tax avoidance. However, having an independent board of commissioners reduces the connection between aggressive transfer pricing and tax avoidance. This reduction does not affect the link between multinationality and tax avoidance. The quality of audits does not weaken the relationship between multinationality and tax avoidance, or between aggressive transfer pricing and tax avoidance. This suggests that while auditors play a role in monitoring tax avoidance practices, they face limitations, especially when dealing with the complex strategies of multinational corporations.

Keywords: *Good Corporate Governance, Multinationality, Transfer Pricing Aggressiveness, Tax Avoidance, International Tax Strategy*

Perusahaan global, termasuk yang berada di Indonesia, perlu menerapkan strategi perpajakan internasional untuk memangkas tagihan pajaknya. Strategi ini dapat berupa pendirian anak perusahaan di negara-negara dengan tarif pajak yang lebih rendah dan mendorong penetapan harga transfer yang agresif. Penelitian ini bertujuan untuk menganalisis dampak strategi pajak perusahaan multinasional terhadap penghindaran pajak, dengan tata kelola perusahaan sebagai variabel moderasi. Tata kelola perusahaan difokuskan pada keberadaan dewan komisaris independen dan kualitas auditor eksternal. Populasi penelitian terdiri dari perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2021 hingga 2023. Penelitian ini menggunakan metode kuantitatif melalui pendekatan regresi data panel. Hasil penelitian menunjukkan bahwa multinasionalitas dan penetapan harga transfer yang agresif secara signifikan dan positif memengaruhi penghindaran pajak. Dewan komisaris independen telah terbukti mengurangi hubungan antara penetapan harga transfer yang agresif dan penghindaran pajak. Namun, hal itu tidak melemahkan hubungan antara multinasionalitas dan penghindaran pajak. Kualitas audit tidak mengurangi hubungan antara multinasionalitas dan penghindaran pajak atau antara penetapan harga transfer yang agresif dan penghindaran pajak. Hal ini menunjukkan bahwa meskipun auditor berperan dalam memantau praktik penghindaran pajak, mereka menghadapi keterbatasan, terutama saat menangani strategi rumit perusahaan multinasional.

Kata kunci: *Good Corporate Governance, Multinationality,* Harga Transfer yang Agresif, Penghindaran Pajak, Strategi Pajak Internasional

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INTRODUCTION

Economic globalization has driven multinational companies to broaden their operations across various countries. These companies often make transactions between affiliated entities using aggressive transfer pricing strategies to move profits to low-tax jurisdictions. This contributes to tax avoidance practices and may reduce state revenue (Taylor & Richardson, 2012; Syahputri & Rachmawati, 2021; Purnama & Rachmawati, 2025). Global companies,

including those based in Indonesia, must implement international tax strategies to cut their tax bills. These strategies include establishing subsidiaries in countries with lower tax rates and engaging in aggressive transfer pricing. Multinational corporations can engage in aggressive transfer pricing by setting unjustified transaction prices between parent companies and subsidiaries operating in jurisdictions with differing tax rates. This practice provides an opportunity to shift profits to lower-tax jurisdictions, thereby reducing the tax burden. Multiple studies, including those by Rego (2003); Dyreng, Hanlon, and Maydew (2008); and Febriyanti & Rachmawati (2024), have found that multinational corporations tend to have more opportunities and the ability to lower corporate taxes compared to domestic companies. A clear example of this practice is the case of PT Toyota Motor Manufacturing Indonesia, which shifts income to Singapore, where the tax rate is 17%, lower than Indonesia's 25%.

Previous research indicates that multinationality and transfer pricing significantly impact tax avoidance (Febriyanti & Rachmawati, 2024; Amelia & Nadi, 2024). Multinationality allows companies to exploit tax havens, while transfer pricing is used for income shifting to reduce tax liabilities. By taking advantage of income-shifting incentives, multinational companies use transfer pricing to shift profits to countries with lower tax rates. These incentives come about because countries' differing tax rates create opportunities for companies to move profits to places with lower taxes, reducing their overall tax liability. Tax avoidance includes various strategies, such as establishing business entities in tax haven countries or using complex transaction schemes (Rachmawati, et al, 2019; 2020; 2023; Kamila & Rachmawati, 2026). While this practice offers tax benefits for companies, it also presents legal and reputational risks (Fadillah & Rachmawati, 2024; Monikasari & Rachmawati, 2025; Syaima & Rachmawati, 2025). To manage these risks, companies adopt good governance practices to ensure transparency and compliance with regulations (Nurdin, 2015).

This study highlights two key corporate governance mechanisms: an independent board of commissioners as an internal control and high-quality external audits as an external control. These two mechanisms promote corporate transparency and accountability (Amin, 2016; Amaliyah & Rachmawati, 2019; Magdalena & Rachmawati, 2020; A'alia & Rachmawati, 2022; Putri & Rachmawati, 2023; Monikasari & Rachmawati, 2025; Zakiah & Rachmawati, 2025; Ayu & Rachmawati, 2026). An independent board of commissioners plays a crucial role in preventing tax avoidance. At the same time, external auditors, particularly those from the Big Four accounting firms, are known for thoroughly examining a company's financial statements and tax practices.

Numerous studies have examined factors influencing tax avoidance (Tebiono et al., 2019; Puspita & Febrianti, 2017; Atwood et al., 2012; Vera & Rachmawati, 2025; Fitriyani & Rachmawati, 2025; Qisti & Rachmawati, 2025; Nabila & Rachmawati, 2023; Handayani & Rachmawati, 2022). However, research focused on international tax strategies remains limited. An international tax strategy refers to the efforts made by multinational companies to legally manage their tax obligations across various jurisdictions, aiming to optimize their tax burden globally. Multinational companies can use regulatory loopholes through cross-border operations to reduce their tax liabilities. Unlike previous studies, this research aims to evaluate the effects of multinationality and aggressive transfer pricing on tax avoidance. It also investigates how the proportion of independent commissioners and audit quality can reduce the connection between multinationality, transfer pricing aggressiveness, and tax avoidance. This study helps us better understand how multinational companies' international tax strategies impact tax avoidance and emphasizes the importance of good corporate governance in addressing this issue.

The research focused on multinational manufacturing companies listed on the IDX from 2021 to 2023. In 2022, the manufacturing sector contributed 19.8% to Indonesia's GDP. The findings indicate that multinationality and aggressive transfer pricing significantly and positively influence tax avoidance. This sample selection is based on the argument that the operations of multinational manufacturing companies are generally more complex than those of local companies, thus offering greater opportunities for cross-border tax avoidance. Furthermore, manufacturing companies contribute significantly to state revenue, making this research urgent. The 2021–2023 period was chosen as the research period to capture corporate tax avoidance behavior following the COVID-19 pandemic, a time when companies are still facing heightened efficiency pressures. Research has found that an independent board of commissioners can help reduce the connection between aggressive transfer pricing and tax avoidance. However, it does not weaken the link between being a multinational company and avoiding taxes. The quality of audits does not change the relationships between being a multinational company and avoiding taxes, or between aggressive transfer pricing and avoiding taxes. The study offers valuable insights for companies, especially multinational ones, on how aggressive transfer pricing and tax management strategies can affect a company's reputation and legal risk. They also highlight the importance of good corporate governance in reducing potential conflicts with tax authorities. Moreover, these findings assist tax authorities in formulating more effective policies and regulations related to cross-border transfer pricing and tax oversight.

The rest of this paper is structured as follows: Section 2 discusses existing research, Section 3 presents our hypotheses, Section 4 explains the research approach, and Section 5 covers our sample selection, key statistics, test findings, and sensitivity analysis. The paper concludes in Section 6.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the contractual relationship between two parties, where one party—typically shareholders or principals—hires the other party—the agent—to carry out tasks and make decisions on their behalf (Jensen & Meckling, 1976). In taxation, the government acts as the principal, receiving tax revenue, while the multinational corporation is the agent, paying taxes. Indonesia's self-assessment system allows companies to calculate and report their own taxes, which can create a potential conflict of interest. The government seeks to maximize tax revenue, while companies try to minimize their tax burden through tax avoidance. This can reduce state revenue and have a negative impact on the economy (Fitriyani & Rachmawati, 2025).

Good Corporate Governance

Good corporate governance serves as a mechanism for stakeholders to monitor the actions taken by managers, ensuring they align with their goals and expectations (Ghozali, 2021). Companies that practice strong governance tend to perform more effectively, which can influence corporate decision-making, including tax compliance. In this context, effective corporate governance is anticipated to diminish the incentives for companies to engage in tax avoidance (Eksandy, 2017; Amaliyah & Rachmawati, 2019; Magdalena & Rachmawati, 2020; A'alia & Rachmawati, 2022; Putri & Rachmawati, 2023; Monikasari & Rachmawati, 2025; Zakiah & Rachmawati, 2025; Ayu & Rachmawati, 2026).

Good corporate governance plays a role in preventing aggressive tax management while promoting corporate transparency and professionalism (Jusman et al., 2020). This study assesses the supervisory function by the percentage of independent commissioners and the quality of external auditors. The independent board of commissioners ensures compliance with corporate governance principles, financial statement

transparency, and regulation adherence (Chasbiandani et al., 2020). Meanwhile, audit quality reflects the reliability of financial statements, with auditors responsible for identifying discrepancies in reports compared to accounting standards (Krisna, 2019). The reputation of public accounting firms, particularly the Big Four, indicates audit quality, as stringent standards can deter financial statement manipulation practices (Amaliyah & Rachmawati, 2019).

The Effect of Multinationality on Tax Avoidance

Agency problems arise due to differing interests and information asymmetry between principals and agents, which can encourage management to make decisions that benefit the company (Jensen & Meckling, 1976), including through global tax strategies. Multinational corporations have more complex organizational structures and transactions than domestic companies, increasing information asymmetry. Cross-border transactions conducted by multinational corporations create more opportunities for tax avoidance due to differences in tax systems between countries and limited oversight by shareholders and tax authorities. Therefore, the higher the level of multinationality of a company, the greater the tendency for it to engage in tax avoidance.

Multinational companies operate in various countries with affiliated relationships (Boone & Kurtz, 2007). This complex structure enables multinational companies to leverage these relationships in countries with differing tax systems. These affiliations can be formed through subsidiaries, agents, or branches and are driven by technology, share capital, or control to maximize profits. Boone and Kurtz (2007) state that multinational companies are business entities that significantly extend their operations beyond the borders of their home country to boost market share and profit. Global companies are more likely to succeed in dodging taxes than local ones (Febriyanti & Rachmawati, 2024). This success is closely tied to shifting profits to countries with lower tax rates.

The variation in country tax rates is a primary factor that drives multinational companies to evade taxes. The diverse tax regulations in each country influence the business decisions of multinational companies (Hendrylie et al., 2023). Countries with lower tax rates often attract companies looking to relocate profits. This strategy enables multinational companies to lessen their tax liabilities (Aqilla et al., 2024). Typically, multinational companies maintain a head office that manages operations on a global scale. Firms that operate internationally are more likely to have significant incentives to exploit the disparities in tax rates across countries compared to those that operate solely within domestic boundaries to practice tax avoidance. Gravelle (2009) posits that there may be a relationship between multinationality and tax avoidance. Thus, in developing the first hypothesis, namely:

H1: Multinationality has a positive effect on tax avoidance.

Effect of Transfer Pricing Aggressiveness on Tax Avoidance

Transfer pricing aggressiveness can minimize tax burdens when companies exploit economic, financial, and regulatory differences across various jurisdictions. Transfer pricing aggressiveness is the practice of setting unfair or overly aggressive prices for transactions between affiliated entities in a multinational corporation. This includes parent companies and subsidiaries operating in different countries, intending to shift profits from one country to another with a lower tax rate (Syahputri & Rachmawati, 2021). To do this, corporate taxpayers can use a transfer pricing strategy to establish transaction prices with affiliates. This might involve using receivables between parent and subsidiary companies, allowing the parent company to manage interest expense on these receivables. By doing so, they can shift taxable profits to a country with a lower tax rate. On the other hand, interest costs are deducted in a country with a higher tax rate, reducing the overall

tax burden (Soraya & Rachmawati, 2021; Syahputri & Rachmawati, 2021; Purnama & Rachmawati, 2025). As a result, transfer pricing aggressiveness is a common strategy multinational companies use to optimize their global tax obligations.

Transfer pricing aggressiveness is a pricing practice that's unfair or overly aggressive, and it does not reflect the market value of transactions between affiliated companies within a multinational corporation, such as parent and subsidiary companies operating in different countries. This practice aims to shift profits from one country to another with a lower tax rate (Syahputri & Rachmawati, 2021; Febriyanti & Rachmawati, 2024). To achieve this, corporate taxpayers can use transfer pricing strategies to set transaction prices with affiliated parties, including managing accounts receivable between parent and subsidiary companies. In reality, the parent company can manipulate the interest expense on these accounts to transfer taxable profits to a country with a lower tax rate. At the same time, the interest expense is deducted in countries with higher tax rates, ultimately reducing the overall tax burden (Soraya & Rachmawati, 2021).

The diverse tax provisions in each country have created loopholes that multinational companies exploit to shift income. By taking advantage of the income-shifting incentive, companies can transfer income from countries with high tax rates to those with lower rates, thereby reducing the corporate tax burden in the country of origin (Richardson & Taylor, 2015). This transfer pricing practice has become a tool that companies, particularly multinationals, employ for income-shifting practices that result in tax avoidance (Amidu et al., 2019). As Lianawati (2021) notes, multinational companies use transfer pricing aggressiveness to reduce tax liabilities. This involves setting transfer prices in transactions between affiliated entities through receivables. By leveraging interest from related receivables, a parent company in a high-tax-rate country can lend to subsidiaries in lower-tax-rate countries. The interest expense from the loan is then deducted in the high-tax-rate country, while the interest income received by the parent is taxed at a lower rate. As a result, corporate profits can be shifted from high-tax-rate countries to low-tax-rate countries, reducing the total tax burden (Rachmawati et al., 2020; Rachmawati et al., 2019; Rachmawati & Martani, 2017; Amriza & Rachmawati, 2021). This leads to the second hypothesis:

H2: Transfer pricing aggressiveness has a positive effect on tax avoidance.

Effect of Independent Board of Commissioners on the Relationship Between Multinationality and Tax Avoidance

Independent commissioners are board members without affiliations with majority shareholders, directors, or other parties that could create a conflict of interest (Chasbiandani et al., 2020). Their responsibilities include ensuring that corporate governance principles are followed and implemented effectively, which involves maintaining transparency in the company's financial reports, ensuring compliance with applicable laws and regulations, and overseeing the accountability of company programs (A'alia & Rachmawati, 2022; Putri & Rachmawati, 2023; Zakiah & Rachmawati, 2025; Ayu & Rachmawati, 2026). Independent commissioners are expected to help minimize tax avoidance practices through their roles in management decision-making, monitoring, and oversight, all of which should be conducted objectively and transparently according to good corporate governance principles. Since independent commissioners are not connected to the management or owners of the company, their oversight is more objective and impartial compared to non-independent commissioners, who may have affiliations with controlling shareholders, directors, or other commissioners. Consequently, the company must consider all stakeholders' interests when making strategic decisions. Enhanced oversight by the board of commissioners encourages company management to adhere more closely to established regulations. Independent

commissioners ensure no information gap between shareholders (principals) and management (agents). Their presence compels management to be prudent in making decisions regarding company policies. Furthermore, independent commissioners can act as intermediaries between principals and agents in policy-making to ensure compliance with legal standards, including decisions related to tax planning.

Global companies operating in multiple countries often try to lower their tax bills. One way to do this is by taking advantage of tax loopholes to cut down on taxes through avoidance tactics. In this case, an independent board of commissioners monitors and limits tax avoidance activities carried out by company management. An independent board of commissioners is more effective in overseeing these activities since they are not tied to management or company owners. Oversight performed by independent commissioners is more objective and neutral, making the supervisory process more effective (Maulana et al., 2018). Thus, for the development of the third hypothesis, namely:

H3: An independent board of commissioners weakens the positive relationship between multinationality and tax avoidance.

Effect of External Auditor Quality on the Relationship between Multinationality and Tax Avoidance

Audit quality reflects the reliability and assurance that financial statements have been presented fairly. Acting as neutral parties, auditors are expected to determine the appropriate level of materiality needed to identify any discrepancies between generally accepted accounting principles and the financial statements prepared by management (Krisna, 2019). The auditors' ability, competence in detecting material errors, and independence are crucial for avoiding conflicts of interest that could compromise the objectivity and integrity of the audit results. One way to assess audit quality is by looking at the public accounting firms that audit the company's financial statements. The reputation of these firms plays a big role in determining audit quality. Typically, the Big Four public accounting firms have a higher reputation than other firms (Monikasari & Rachmawati, 2025; Magdalena & Rachmawati, 2020; Amaliyah & Rachmawati, 2019). These firms maintain a strong reputation and adhere to strict standards in delivering audit services. This well-established reputation encourages auditors from the Big Four to exercise greater caution during audits, as they are more likely to resist actions that could harm their reputation, including management's profit manipulation practices (Amaliyah & Rachmawati, 2019). Therefore, the role of public accounting firms as independent entities responsible for overseeing and validating a company's financial statements enhances transparency and accountability in financial reporting. Ultimately, this can decrease tax avoidance practices, as company management will be more diligent in preparing financial statements to align with applicable standards and mitigate the risk of sanctions or negative audit findings.

Multinational companies frequently exploit differences in tax rates across jurisdictions through tax avoidance strategies to reduce global tax liabilities (Hanlon & Heitzman, 2010). This situation makes such companies more susceptible to tax avoidance behavior. Therefore, companies are required to disclose financial statements that a Public Accounting Firm has independently audited to ensure transparency and deter tax avoidance practices. Having top-notch external auditors, especially those from the Big Four (Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG)), acts as a strong oversight mechanism in preventing tax-related manipulation, compared to non-Big-Four public accounting firms. Big Four public accounting firms possess superior competence, reputation, and access to global resources, enabling them to more effectively identify and evaluate tax risks

associated with multinational operations that may promote tax avoidance practices. Auditors equipped with the appropriate expertise and performance strive to uphold their reputation by delivering high audit quality, which enhances the transparency of financial statements and reduces the company's potential for tax avoidance (Francis et al., 2013). Thus, for the development of the fourth hypothesis, namely:

H4: Audit quality weakens the positive relationship between multinationality and tax avoidance.

Effect of Independent Board of Commissioners on the Relationship between Transfer Pricing Aggressiveness and Tax Avoidance

Many multinational companies use transfer pricing to distribute income and costs between their parent company and subsidiaries across different countries. Although transfer pricing is legally allowed, it can reduce tax liabilities by shifting profits from a parent company in a high-income country to a subsidiary with a lower tax rate. In this context, independent boards play a crucial role in ensuring compliance with international tax rules, such as the OECD Transfer Pricing Guidelines, which helps minimize the risk of tax evasion (Armstrong et al., 2015; Purnama & Rachmawati, 2025; Syahputri & Rachmawati, 2021). Having an independent board of commissioners can reduce the link between aggressive transfer pricing and tax avoidance by regulating the level of transfer pricing intended to lower tax liabilities or evade taxes. This leads to the development of the fifth hypothesis:

H5: The independent board of commissioners weakens the positive effect of transfer pricing aggressiveness on tax avoidance

The Effect of External Auditor Quality on the Relationship Between Transfer Pricing Aggressiveness and Tax Avoidance

High-quality external auditors are vital in maintaining the transparency and integrity of financial statements, especially when monitoring transfer pricing practices used by multinational companies. These companies often use aggressive transfer pricing to shift profits to jurisdictions with lower tax rates, increasing the risk of tax avoidance (Richardson et al., 2013; Purnama & Rachmawati, 2025; Syahputri & Rachmawati, 2021). As a result, competent auditors can play a key role in limiting the use of aggressive transfer pricing to reduce tax liabilities. A company's audit quality reflects the quality of its financial statements' audit or review process. In the context of transfer pricing aggressiveness, auditors examine contracts between entities, transfer pricing policies, and adherence to the arm's length principle outlined in tax regulations and accounting standards. A thorough audit can help identify potential earnings manipulation and ensure that transfer pricing practices do not lead to aggressive tax avoidance. The higher the audit quality, the less effort the company puts into tax avoidance (Putranti & Putri, 2023). This leads to the development of the sixth hypothesis:

H6: External audit quality weakens the positive effect of transfer pricing aggressiveness on tax avoidance.

Table 1.
Sample Criteria

Sample Criteria	Total
Total manufacturing companies listed on the Indonesia Stock Exchange from 2021 to 2023	470
Companies that suffered losses and provided incomplete financial reports continuously from 2021 to 2023	(183)
Companies without subsidiaries during 2021-2023	(241)
Companies that did not have current tax obligations during the research period of 2021-2023	(10)
Total sample companies	36
Total sample period from 2021 to 2023	108

RESEARCH METHODS

Sample selection

Our study focuses on multinational manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Previous research, such as Rego (2003) and Dyreng, Hanlon, and Maydew (2008), Febriyanti & Rachmawati (2024), suggests that multinational corporations have more opportunities and capacity to lower their corporate taxes than domestic companies. We used purposive sampling to select our sample. This study relies on secondary data from the financial statements of multinational companies on the IDX for 2021-2023 and global tax rate information from the Tax Foundation website. This sample selection is based on the argument that the operations of multinational manufacturing companies are generally more complex than those of local companies, thus offering greater opportunities for cross-border tax avoidance. Furthermore, manufacturing companies contribute significantly to state revenue, making this research urgent. Multinational companies can use regulatory loopholes through cross-border operations to reduce their tax liabilities. The 2021–2023 period was chosen as the research period to capture corporate tax avoidance behavior following the COVID-19 pandemic, a time when companies are still facing heightened efficiency pressures. Due to the limited number of companies meeting the criteria, we used balanced panel data, resulting in the Table 1.

Research Models

This study differentiates between the research model without moderating variables (Equation I) and the research model with moderating variables (Equation II) to reduce bias.

$$BTDit = \alpha0 + \alpha1MULTIit + \alpha2TPit + \alpha3SIZEit + \alpha4ROAit + e \quad (1)$$

$$BTDit = \alpha0 + \alpha1MULTIit + \alpha2TPit + \alpha3KIit + \alpha4BIG4it + \alpha5MULTIit*KIit + \alpha6MULTIit*BIG4it + \alpha7TP*KIit + \alpha8TP*BIG4it + \alpha9SIZE + \alpha10ROAit + e \quad (2)$$

Where: BTDit= Tax Avoidance, company i year t; MULTIit=Multinationality, company i year t, TPit = Transfer Pricing Aggressiveness, company i year t, KIit= Independent Board of Commissioners, company i year t, BIG4 = Audit Quality, company i year t, IZEit = Firm Size, company i year t, ROAit= Profitability, company i year t, e= Error terms

Variables Operationalization

This study examines tax avoidance, using regulatory loopholes to lower corporate taxes (Panjalusman et al., 2018). A key indicator is the Book-Tax Difference (BTD), which measures the gap between accounting profit and tax profit and signals tax avoidance practices (Jihan et al., 2023). BTD are considered a better measure of tax avoidance because they directly capture the gap between accounting income and taxable income arising from various tax planning and avoidance strategies, thereby providing a more comprehensive indication of tax avoidance than other measures (Fitriyani & Rachmawati, 2025). Taxable income is calculated by dividing the current tax expense by the corporate tax rate of 22%.

The first independent variable is multinationality. Multinationality assesses companies operating in multiple countries (Kurubah & Waskito, 2021). Compared with other measures of multinationality, this measure is better because it can represent the magnitude of a company's income shifting incentives. In this study, multinationality is determined as the weighted average tax rate difference between the parent company and its subsidiaries, with weights based on the proportion of total assets held by each entity (Sari et al., 2020). The calculation proceeds as follows:

MULTIit = (The difference between the parent and subsidiary tax rates in country i x Total assets of the subsidiary in country i) / Total assets of the subsidiaries

Our second independent variable is transfer pricing aggressiveness. This refers to setting prices in transactions between companies within a multinational group, ensuring they comply with fairness principles. We determine the TP variable by

comparing the proportion of trade receivables from related parties to the company's total receivables, which shows how extensively transactions occur with related parties. This transfer pricing proxy is considered appropriate because receivables also arise from sales or service transactions between the company and its affiliated entities, which are the main means of implementing transfer pricing. Trade receivables indicate buying and selling transactions within the group, which can help minimize profitability and tax burdens, notably by applying low interest rates on receivables owed by related parties (Febriyanti & Rachmawati, 2024). Companies with specialized relationships, such as subsidiaries in other countries, can conduct such transactions.

One key moderating variable is the independent board of commissioners. Having more independent commissioners boosts oversight of financial performance and helps prevent questionable management decisions. We expect a higher percentage of independent commissioners to lead to more objective supervision, including a lower risk of tax avoidance (Maulana et al., 2018). According to POJK No. 57 / POJK.04 / 2017 Article 20 paragraph (3), companies must have at least two independent commissioners, making up at least 30% of the total board. In this study, we measure the independent commissioner variable by dividing the number of independent commissioners by the total number of board members (Zakiah & Rachmawati, 2025).

Another factor influencing audit quality is the size of the public accounting firm. The Big Four firms are known for their high-quality audits, thanks to their international reputation. As a result, companies audited by these firms are less likely to engage in tax avoidance due to the lower risk of fraud. In this study, we assess the quality of external auditors using a dummy variable. A value of 1 means the company is audited by a Big Four firm (EY, Deloitte, KPMG, or PwC), while 0 means it is not (Monikasari & Rachmawati, 2025).

One key control variable is firm size, which differentiates large and small companies. Larger companies tend to be more complex and earn higher profits due to their greater operational capacity (Rachmawati et al, 2019; 2020; 2023; Sakti & Rachmawati, 2024). As profits rise, the incentive to avoid taxes increases (Sterling & Christina, 2021). Total assets represent a company's wealth (Haryanto, 2014), and we measure them using the natural logarithm of total assets to smooth out data fluctuations and simplify large nominal values without altering the proportion.

Another control variable is profitability, which is measured using ROA (Return on Assets) in this study. ROA indicates how efficiently a company generates profits from its total assets (Shinta et al., 2021; Sinta & Rachmawati, 2025). Companies with lower ROA tend to have more incentive to avoid taxes by shifting profits to lower-tax jurisdictions. As Anderson & Reeb (2003) point out, higher profitability means a greater tax burden, so agents use agency theory to minimize their taxes.

Table 2.
Statistical Analysis

Variable	N	Mean	Median	Std.Dev	Minimum	Maximum
BTDit	108	0,0007	-0,0010	0,0388	-0,061	0,3022
MULTIit	108	0,0466	0,0285	0,0847	-0,08	0,3972
TPit	108	0,3142	0,0858	0,3676	0,0007	1
KIit	108	0,4403	0,4	0,1094	0,25	0,75
SIZEit	108	29,8212	30,1268	18,75	24,5325	32,8599
ROAit	108	0,0755	0,05904185	0,0819	0,0011	0,7117
Variable		Dummy = 1			Dummy = 0	
		N	%		N	%
BIG4it		61	56,48%		47	43,52%

ANALYSIS AND DISCUSSION

Descriptive Statistical Analysis

According to the results in Table 2, the average company in the sample uses the difference between accounting profit and fiscal profit for tax avoidance, with a mean value of 0.0007 for the independent variable BTD. The standard deviation of 0.0388 is higher than the mean, showing that the values for this variable vary widely, ranging from a maximum of 0.3022 to a minimum of -0.061. On average, the sample firms exhibit a low level of tax avoidance.

On average, multinational companies have a 4.66% difference in tax rates between their parent company and overseas subsidiaries, as shown by the MULTI variable's mean value of 0.0466. On average, the sample firms utilize income-shifting incentives through transactions with foreign subsidiaries located in low-tax jurisdictions. The variable's standard deviation of 0.0847 is higher than its mean, indicating that the data points for this variable have a wide range. This is confirmed by the maximum value of 0.3972 and the minimum value of -0.08. The TP variable's average value is 0.3142, showing that companies typically use aggressive transfer pricing through receivables with related parties, making up 31.42% of total receivables. The standard deviation of 0.3676 is higher than the mean, indicating that the data points for this variable are spread out, with a maximum of 1 and a minimum of 0.0007. According to the KI variable, the average company in the sample has 44.03% independent commissioners on its board, with a mean of 0.4403. However, some companies do not meet the OJK 57/ POJK.04/2017 requirement, which requires at least 30% independent commissioners, as shown by the minimum value 0.25. On the other hand, some companies have as many as 75% independent commissioners, with a maximum value of 0.1094. The data for this variable is quite diverse, with a standard deviation of 0.1094. For the BIG4 variable, we use a dummy variable to show whether a Big Four or non-Big Four accounting firm audits a company. Of 108 companies, 61 (56.48%) had a Big Four firm as their auditor, while 47 (43.52%) were audited by a non-Big Four firm. This suggests that most companies in our sample chose a Big Four accounting firm.

Our SIZE control variable, which is calculated using the natural logarithm of total assets, has an average value of 29.8212. This suggests that the companies

Table 3.
Person Correlation

	BTD	MULTI	TP	KI	BIG4	SIZE	ROA
BTDit	1,0000						
MULTIit	0,0542	1,0000					
TPit	0,2196	0,0195	1,0000				
KIit	-0,0553	0,0736	-0,0585	1,0000			
BIG4it	-0,1415	-0,2143	-0,1019	0,0632	1,0000		
SIZEit	-0,0363	0,4282	0,1577	-0,0031	0,2171	1,0000	
ROAit	0,5607	-0,1826	1,1565	-0,0106	0,0708	-0,014	1,0000

Table 4.
Hypothesis Testing Results without Moderation

BTD	Prediksi	Coefficient	Std. Err	t	P>ItI
MULTIit	H1 (+)	0,1003	0,0368	5,44	0,004***
TPit	H2 (+)	0,0156	0,0089	3,5	0,041**
SIZEit	+/-	-0,003	0,0023	-2,58	0,198
ROAit	+/-	0,2728	0,0994	5,5	0,07**
_cons		0,0604	0,0669	1,8	0,1845
R-Squared					0,3724
Prob (F-Statistic)					0,0479**

in our sample typically have significant total assets. This variable's standard deviation is below the mean and median values, at 18.75. This indicates that the companies in our research sample are generally similar in size, with a maximum value of 32.8599 and a minimum of 24.5325. The average value for the ROA control variable is 0.0755, meaning a typical company in the sample generates a profit of 7.55% of its total assets. The standard deviation is 0.0819, which is higher than the mean, showing that the data points for this variable have a wide range, from a maximum of 0.7117 to a minimum of 0.0011.

Person Correlation

Correlation analysis helps show how dependent and independent variables are related through pairwise correlation. If a study finds a correlation above 0.8, it may have a multicollinearity problem. In this study, the pairwise correlation test results for each variable in the table do not indicate multicollinearity issues, since none correlate at 0.8.

The Influence of Multinationality on Tax Avoidance

According to the regression analysis in Table 4, Multinationality (MULTI) has a significant and positive effect on Tax Avoidance, with a coefficient of 0.1003 and a significance level of 0.004 (α = 1%). When tax rates between the parent country and subsidiary differ significantly, companies are more likely to shift profits to countries with lower rates to reduce their tax burden. This suggests that multinational corporations are more likely to use international strategies for tax avoidance than domestic companies.

In the Indonesian context, multinational companies have a greater opportunity to obtain income shifting incentives by exploiting differences in tax systems, tax rates, and regulations across countries through cross-border transactions with affiliated entities. Companies generally exploit countries with lower tax rates to legally minimize their tax burden. Furthermore, complex organizational structures and numerous subsidiaries in various jurisdictions increase information asymmetry between management, shareholders, and tax authorities, making oversight of tax strategies more difficult. Management can leverage operational flexibility and the information it possesses to implement global tax strategies, ultimately increasing tax avoidance practices. Therefore, multinational companies in Indonesia tend to have higher levels of tax avoidance than local companies.

These findings suggest that differences in tax rates between countries where parent companies and subsidiaries are based create incentives for multinational corporations to shift profits to countries with lower tax rates. This, in

Table 5.
Hypothesis Testing Results with Moderation

BTD	Predicted Sign	Coefficient	Std. Err	t	P>ItI
MULTIit	+	-0,019	0,183	-0,22	0,4575
TPit	+	0,077	0,046	3,34	0,0495**
KIit	-	0,203	0,042	0,94	0,3185
BIG4it	-	-0,013	0,010	-2,72	0,089*
MULTI*KIit	H3 (-)	0,232	0,389	1,20	0,276
MULTI*BIG4it	H4 (-)	0,001	0,947	0,02	0,494
TP*KIit	H5 (-)	-0,164	0,105	-3,14	0,0605**
TP*BIG4it	H6 (-)	0,009	0,018	1,02	0,306
SIZEit	+/-	-0,001	0,002	-1,68	0,2025
ROAit	+/-	0,268	0,038	13,86	0,000***
_cons		0,022	0,061	0,74	0,357
R-Squared					0,4033
Prob (F-Statistic)					0,0000**

turn, reduces the tax burden in countries with higher tax rates. The more global a company's operations are, the more likely it is to use international strategies to minimize its tax liability. Multinational corporations typically have a global headquarters that oversees their worldwide operations. Companies operating across borders have stronger incentives to take advantage of country-to-country tax rate differences than those operating domestically, which may lead them to engage in tax avoidance practices (Gravelle, 2009). Previous research indicates that the higher the multinationality value, the more a company tends to avoid taxes (Ariyani & Arif, 2023; Febriyanti & Rachmawati, 2024). This study supports this claim by showing that the multinationality variable positively and significantly impacts tax avoidance practices.

The Effect of Transfer Pricing Aggressiveness on Tax Avoidance

As shown in Table 4, our regression analysis reveals that Transfer Pricing Aggressiveness (TP) has a positive and significant impact on Tax Avoidance, with a coefficient of 0.0156 and a significance level of 0.041 (α = 5%). The more aggressive a company's approach to setting transfer prices between affiliated entities, the greater its tendency to avoid taxes. Companies can shift profits and reduce tax liabilities by engaging in related transactions, such as loans between entities in lower-tax jurisdictions. This result supports the second hypothesis (H2) and aligns with the findings of Richardson and Taylor (2015).

In the Indonesian context, companies with affiliated relationships frequently engage in cross-border transactions within a single group. By establishing transfer prices that less closely reflect the arm's length principle, companies can shift profits from Indonesia to countries with lower tax rates. Consequently, the taxable profit reported in Indonesia is lower, thereby reducing the company's tax burden. Although tax regulators have implemented specific transfer pricing regulations, the complexity of affiliated transactions still presents opportunities for companies to engage in tax avoidance.

Companies can use transfer pricing strategies to avoid taxes by shifting transactions between related parties, such as loans from parent companies in high-tax countries to subsidiaries in low-tax countries. Companies can reduce their tax liability in high-tax countries by taking interest expenses on these loans as deductions. At the same time, their interest income is taxed at a lower rate. This way, companies can transfer profits from high-tax areas to low-tax areas, lowering their overall tax bill. Research has shown that companies can move income from high-tax countries to low-tax countries to reduce their tax burden at home (Richardson & Taylor, 2015; Syahputri & Rachmawati, 2025; Purnama & Rachmawati, 2023; Febriyanti & Rachmawati, 2024). Additionally, Amidu et al. (2019) found that aggressive transfer pricing can help companies avoid taxes.

The Influence of Tax Avoidance Control Variables

Based on the panel data regression results in Table 4, a company's size (SIZE) does not seem to have a significant impact on tax avoidance, with a P-value (P>|t|) of 0.198, which is greater than 0.05. This suggests that a company's size is not a deciding factor in its decision to avoid taxes, which is consistent with Yuda and Irawati's (2024) findings. On the other hand, profitability (ROA) has a positive and significant effect on tax avoidance, with a P-value (P>|t|) of 0.007, which is less than 0.05. As profitability rises, companies are more likely to avoid taxes to reduce their tax burden and boost profits.

The Influence of the Independent Board of Commissioners on the Relationship between Multinationality and Tax Avoidance

According to the regression results in Table 5, the interaction variable MULTI*KI has a coefficient of 0.232 with a significance value of 0.276, greater than 0.05. This indicates that the variable is insignificant. As a result, we find that the Independent Board of Commissioners does

not weaken the relationship between multinationality and tax avoidance. Therefore, we reject H3. Furthermore, this finding suggests that independent commissioners are ineffective in preventing multinational companies from engaging in tax avoidance, especially when the company already has subsidiaries in countries with low tax rates. This aligns with research by Minnick and Noga (2010), which shows that independent commissioners cannot always curb tax avoidance practices.

Transfer pricing aggressiveness can facilitate tax avoidance by exploiting transactions between related parties, such as receivables from parties in countries with lower tax rates, and by leveraging interest from those receivables, where parent companies are based in countries with lower tax rates. According to the results of the hypothesis, an independent board of commissioners cannot reduce the connection between multinationality and tax avoidance. This implies that an independent board cannot stop multinational companies from practicing tax avoidance. One explanation for this finding is that an independent board cannot avoid taxes if the company has subsidiaries in other countries. Since subsidiaries in low-tax jurisdictions often become part of the company's operations before the independent board can intervene, the board lacks full control to halt the creation of subsidiaries in countries with more favorable tax policies.

Having independent commissioners does not always effectively curb tax avoidance practices (Minnick & Noga, 2010). Research by Lanis and Richardson (2012) also suggests that independent boards of commissioners may not be strong enough to oversee management decisions on the company's tax strategy. Countries with high tax rates often lend to subsidiaries operating in countries with lower tax rates. The interest expense on these loans is deductible in high-tax countries, while the interest income received by the parent company is taxed at a lower rate. This allows companies to shift profits from high-tax to low-tax jurisdictions, reducing their overall tax burden. Previous studies show that companies can transfer income from high-tax countries to those with lower rates, resulting in a lower tax burden at home (Richardson & Taylor, 2015). Additionally, Amidu et al. (2019) found that aggressive transfer pricing positively correlates with tax avoidance.

The Influence of Audit Quality on the Relationship between Multinationality and Tax Avoidance

According to the regression results presented in Table 5, the interaction variable MULTI*BIG4 has a coefficient of 0.001 and a significance value of 0.494 (> 0.05), indicating that it is insignificant. This suggests that Audit Quality does not weaken the relationship between Multinationality and Tax Avoidance, leading to the rejection of H4.

Audit quality, as measured by Big Four and Non-Big Four public accounting firms, does not weaken the relationship between multinationality and tax avoidance due to the high operational complexity of multinational companies. Consequently, the tax planning strategies utilized are complex for external auditors to detect or limit. Furthermore, auditors from Big Four and Non-Big Four firms face limitations in intervening in tax policies set by company management. One reason for this finding is the limited scope of external audits in monitoring the tax avoidance practices of multinational companies. External auditors concentrate on the fairness of financial statements according to accounting standards but do not have the direct authority to intervene in strategic business decisions, such as establishing subsidiaries in low-tax countries. Additionally, external audits emphasize compliance with financial reporting standards rather than evaluating strategic business decisions related to profit allocation among entities in different jurisdictions. Therefore, although high audit quality can enhance the transparency and accountability of financial reports, external auditors continue to face limitations in preventing multinational companies from

implementing tax avoidance strategies ingrained in their business structures.

Although the Big Four public accounting firms are recognized for their higher reputation regarding audit quality, factors related to internal company management—such as managerial policies, tax decisions, and ownership structure—play a more significant role in determining whether a company engages in tax avoidance (Fitrianingsih & Wulandari, 2024). Therefore, while the Big Four generally offer superior audit quality, this advantage does not diminish the relationship between multinationality and tax avoidance in this study.

The Influence of the Independent Board of Commissioners on the Relationship between Transfer Pricing Aggressiveness and Tax Avoidance

According to the regression results in Table 5, the TPKI interaction variable has a coefficient of -0.164 and a significance value of 0.060, less than 0.10, indicating significance at a 90% confidence level. This suggests that the Independent Board of Commissioners reduces the connection between transfer pricing aggressiveness and tax avoidance, so we accept H5.

Having an Independent Board of Commissioners is key to closely monitoring affiliate transactions. As part of the company's governance structure, this board ensures that deals between group companies are fair and follow the arm's length principle. By supervising all stages, from planning to implementing transfer pricing transactions, the independent board can identify potential signs of aggressive transfer pricing practices, such as setting prices that deviate from market values or creating inter-company loan structures intended to lower the tax burden unreasonably. This oversight helps limit aggressive transfer pricing strategies, preventing the transfer of profits to jurisdictions with lower taxes. As a result, the effect of transfer pricing on tax avoidance is lessened, showing how an independent board of commissioners helps reduce the risk of using transfer pricing policies to avoid taxes.

Research has shown that having an independent board of directors can help reduce the impact of transfer pricing on tax avoidance. A well-functioning board can also weaken the link between aggressive transfer pricing and tax avoidance, promoting more ethical business practices and compliance with tax laws. Furthermore, the presence of an independent board can influence transfer pricing strategies, potentially reducing aggressive tax practices. As a result, a strong independent board can reduce the connection between aggressive transfer pricing and tax avoidance, leading to more transparent and responsible business practices that follow current tax rules.

The Influence of Audit Quality on the Relationship Between Transfer Pricing Aggressiveness and Tax Avoidance

According to the regression results in Table 5, the interaction variable TP*BIG4 has a coefficient of 0.009 with a significance value of 0.612, greater than 0.05. This indicates that the variable is insignificant in weakening the relationship between Transfer Pricing Aggressiveness and Tax Avoidance. As a result, we reject hypothesis H6.

Even with high-quality audits conducted by Big Four and Non-Big Four public accounting firms, the connection between aggressive transfer pricing and tax avoidance remains strong. This is because these firms cannot influence managerial decisions on tax strategies, as long as they follow accounting standards and regulations. However, Big Four firms are highly respected but unlikely to reduce tax avoidance through transfer pricing significantly. Auditors may lack the resources or access to identify and address aggressive transfer pricing practices fully. Furthermore, multinational corporations can structure their transactions and documentation to comply with regulations. As a result, auditors can only verify that financial reports reflect these practices, but they cannot prevent the direct effects of tax avoidance. Audits mainly focus on ensuring the completeness and accuracy of financial reports. Therefore, high-quality

audits do not permanently break the link between aggressive transfer pricing and tax avoidance, since tax avoidance practices through transfer pricing are often difficult to detect through standard audits.

CONCLUSION

Analysis results show that having multiple nationalities positively and significantly impacts tax avoidance. This means that companies with more nationalities shift profits to countries with lower tax rates, which aligns with Ariyani and Arif's 2023 findings. Additionally, being more aggressive in setting transfer prices between affiliated entities positively and significantly affects tax avoidance. This implies that the more aggressive a company is in setting transfer prices, the more likely it is to avoid taxes, which supports Amidu et al.'s 2019 research and Richardson and Taylor's 2015 research. According to Minnick and Noga's 2010 research and Lanis and Richardson's 2012 research, the Independent Board of Commissioners does not weaken the connection between multinationality and tax avoidance due to the complex nature of multinational companies. Furthermore, audit quality, as measured using Big Four and Non-Big Four firms, does not weaken the connection between multinationality and tax avoidance. Auditors have limited influence on a company's tax policy, consistent with Fitrianingsih and Wulandari's 2024 findings. On the other hand, the Independent Board of Commissioners can weaken the connection between transfer pricing aggressiveness and tax avoidance. This suggests that adequate supervision can mitigate aggressive transfer pricing practices. However, audit quality does not significantly weaken the connection between transfer pricing aggressiveness and tax avoidance, whether from Big Four or Non-Big Four firms. This is due to auditors' limitations in intervening in managerial decisions and the complex nature of transfer pricing transactions.

Managerial Implications

Research findings demonstrate a positive and significant relationship between multinationals, transfer pricing aggressiveness, and tax avoidance, which can inform business expansion strategies. Companies must recognize that a broader operational scope presents greater opportunities and incentives for tax avoidance but also brings tax risks and potential legal penalties. To mitigate these risks, companies can enhance the independence of the board of commissioners to oversee and limit excessive tax avoidance practices.

The implications of this research for investors are that they need to exercise greater caution when analyzing the tax strategies of multinational companies, particularly those with subsidiaries in countries with lower tax rates. While aggressive transfer pricing can boost company profits in the short term, it also poses risks of future tax issues, including sanctions from tax authorities or damage to the company's reputation. Furthermore, although an independent board of commissioners can effectively monitor transfer pricing practices, it cannot entirely prevent tax avoidance. Therefore, investors should consider corporate governance mechanisms and the transparency of financial reports before making investment decisions to mitigate risks that could adversely affect the value of their investments.

The implication for tax regulators from the results of this research is that, in supervising and examining companies with potential tax avoidance practices, they need to pay closer attention to multinational companies with subsidiaries in jurisdictions that offer lower tax rates. This concern arises from these companies' potential to shift income and profits to locations with lower tax rates to minimize their overall tax burden. Additionally, tax regulators can identify signs of aggressive transfer pricing through large related receivable balances, as the interest on these receivables can be utilized to reduce tax liabilities significantly. This research also indicates that a greater proportion of independent commissioners can help

prevent tax avoidance practices related to transfer pricing. Therefore, tax regulators should consider policies regarding the proportion of independent commissioners as part of their tax supervision strategy.

LIMITATIONS AND SUGGESTIONS

Future research should consider the limitations of this study to achieve more optimal results. One limitation is that the study only focuses on board independence and audit quality as moderating variables, without exploring other factors that could affect the relationship between multinationality, transfer pricing aggressiveness, and tax avoidance. Given these limitations, it is recommended that future studies investigate other Good Corporate Governance (GCG) variables as moderating factors, in addition to board independence and audit quality. Potential variables to examine include institutional ownership, audit committee size, or ownership concentration, which could provide a more comprehensive understanding of GCG's role in this relationship.

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