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CONSERVATISM AND TRANSFER PRICING ON TAX AVOIDANCE: TAX SHELTER APPROACH

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ABSTRACT

This study aims to examine the effect of conservatism and transfer pricing on tax avoidance. This study uses a tax shield that has a positive impact on tax aggressiveness as a tool for tax defense that produces interest expenditures as a taxable income deduction to assess tax avoidance activities. Sample determination in this study using purposive sampling method. The sample in this study consisted of 579 observations from 193 non-financial service sector companies on the Indonesia Stock Exchange in the period 2016-2018. Panel data estimation with Stata statistical test version 15 was used as the analysis method. The results show that conservatism and transfer pricing are not used as arguments for lowering tax burdens, but as a way of fulfilling corporate tax obligations. This research is potentially relevant to academics, researchers, and regulators. By examining the factors of conservatism and transfer pricing against tax avoidance can be taken into consideration in future policy making by regulators in this case the Director General of Taxes on the actions of companies that take advantage of loopholes in tax laws to minimize the tax burden with maximum profits.

KEYWORDS: Conservatism, Tax Avoidance, Tax Shelter, Transfer Pricing.

INTRODUCTION

The tax sector is the primary source of state revenue for national funding and increasing a nation's and society's economic growth. This requires the government's role in maximizing tax revenue by improving taxpayer compliance with the implementation of tax legislation. Owing to the emergence of loopholes in tax law, taxpayers often engage in tax avoidance activities in order to reduce their tax burden.

There have been several tax avoidance cases in Indonesia, one of which is the biggest mining business in Indonesia, PT. Adaro Energy Tbk. The company is able to pay taxes of US$ 125 million or equal to Rp 1,75 trillion (exchange rate of Rp 14 thousand) lower than what it should have paid in Indonesia. About 70% of the coal sold comes from subsidiaries of Adaro in Indonesia. This will raise corporate income in Singapore, where they will be levied at a rate of 10% on an annual basis. This rate is lower than the Indonesian tax rate, which should be set at 50% (Sugianto, 2019).

Tax avoidance is classified in two types, namely passive in the form of obstacles which complicate the collection of taxes and are linked to the economic structure, and active in the form of measures directly aimed at the tax authorities to avoid tax payment obligations (Darma et al., 2019). The company's tax avoidance activities are therefore a phenomenon of agency theory. According to this theory, tax avoidance is triggered by a dispute between the fiscus and the taxpayers' interests. As the principal, Fiskus requires the company to pay the maximum amount of tax according to tax regulations, while as an agent, the taxpayer seeks to reduce profits in order to decrease tax payments because taxes are considered a burden affecting the existence of the company.

Tax avoidance can be proxied legally using tax shelter measurements. It is a tax protection mechanism that aims to take advantage of the time value of money and establish interest expenses as a deduction from taxable income, which is known as a tax shelter. The tax shelter measurement is often used since it utilizes more calculation metrics, including total BTD, leverage (DAR), company size (SIZE), profitability (ROA), multinational corporations (MNC), and RD (Sundari & Aprilina, 2017).

Aronmwan & Okafor, (2019) mentioned that there are indicators used to conceptually capture various aspects of corporate tax avoidance, including Etr Accounting, Current ETR, Cash ETR, Cash Flow ETR, Book-Tax Difference (BTD) Measures, Temporal Book-Tax Difference, Total Discretionary Book-Tax Difference, Discretionary Permanent Book-Tax Difference, Tax Effect Book-Tax Difference, Henry and Sansing's Measures, Unrecognised Tax Benefits (UTB), and Tax Shelter Score.

Differences in interest between the government and taxpayers can lead to differences in the amount of commercial profit and fiscal profit. Hidayat & Mulda, (2019) explained that the difference between commercial income statement and fiscal profit and loss statement is due to differences in financial accounting standards (SAK) and the provisions of tax law regulations. Sundari & Aprilina, (2017) explained that The Financial Accounting Standard (SAK) provides freedom for every taxpayer (company) to determine the use of accounting methods in preparing financial statements in accordance with the needs of the company. One of the methods used is conservatism.

Conservatism is a principle of prudence in a financial statement in which the company is in no hurry when acknowledging and measuring assets and profits and may immediately acknowledge losses and debts that are likely to occur (Watts, 2003). Conservatism method can have an effect in the form of decreased corporate profit that becomes a guideline in the

payment of taxes so that the low level of income then the tax borne by the company is also lower. The application of the principle of conservatism in the company indirectly also affects the accuracy of the results of financial statements that are used as the basis of corporate policy making, one of which is in terms of taxation including tax avoidance practices (Adi, 2018).

Transfer pricing is another strategy that can cause tax avoidance. Based on the phenomenon of PT. Adaro Energy Tbk, the company indicated is conducting transfer pricing by selling the coal to the Coaltrade Services International company at a lower price and selling it to other countries at a higher price. Sentanu et al., (2016) explains that transfer pricing occurs when there is a transaction between a domestic taxpayer and an overseas taxpayer in a related parties relationship where the determined price exceeds the fairness limit. In this case, multinational companies that carry out transfer pricing are indicated to practice tax avoidance in minimizing the company's tax burden.

Based on previous studies that show inconsistent results motivate researchers to conduct analysis regarding conservatism factors, and transfer pricing that affects companies in tax practices avoidance. Princing transfer factors and conservatism as decision-making factors for tax avoidance. Based on research OECD, (2006) there are as many as 39 countries that include tax haven countries. These countries allow for a shift in income from high-tax countries and divert costs in the opposite way. This practice is what causes transfer pricing aggressiveness which has an impact on reducing the amount of tax that must be paid by the company as a whole, including in Indonesia (Tanoto, 2013). While the level of conservatism in the company's financial reporting is determined by the commitment factors of the company's internal parties in informing financial statements that are transparent, accurate, and not misleading. This is reflected in good corporate governance. If a company has a well-structured corporate governance mechanism, it will be directly proportional to compliance in fulfilling its tax obligations. In addition, the reason for this research with previous research lies in the object of research, research period, and indicators of tax avoidance measurements.

Based on the explanation above, the formulation of research problems are: (1) whether conservatism variable has a significant effect on tax avoidance; (2) whether transfer pricing variable has a significant effect on tax avoidance. This study aims to empirically prove: (1) the influence of conservatism on tax avoidance; (2) effect of transfer pricing on tax avoidance.

THEORETICAL BASIS AND HYPOTHESES

Agency Theory

Jensen & Meckling, (1976) define agency theory based on contractual relationships between owners of economic resources (principal) involves management (agent) to manage these resources on behalf of the principal and the decision-making of a business. Falbo & Firmansyah, (2018) explain that tax avoidance treatment can be affected by the agency problem, where the manager will manipulate the condition of the company accordingly with target principal when the principal does not provide incentives or appreciation for the performance of management (agent).

In this study agency theory explain that tax avoidance is influenced by differences in interests between government (principal) who wants compulsory taxes pay taxes in accordance with tax regulations while on the other hand management will try to minimize the tax burden of the company or agency costs with significant profits. Difference of

interest from the point of view different views will cause a conflict of interest between the principal and management. Emergence problems caused by differences of interest are known as information asymmetry . The result of this agency problem is that management will use its ability to manage fiscal and accounting profits by taking advantage of regulatory differences and tax rates between countries.

In its activities, often the behavior of agents improves its own well-being so that conservatism can prevent information asymmetry by restricting agents from manipulating financial statements. This cautious reaction to management's commitment to provide information related to financial statements that are transparent accurate and not misleading is a factor that determines the level of accounting conservatism in corporate financial reporting (Cheng, 1992).

Conservatism and Tax Avoidance

Conservatism is an accounting principle when applied will result in low profit and asset figures, while the figures of costs and losses tend to increase. The application of the principle of conservatism relates to positive accounting theory where conservatism will affect the value of profit earned by a company and this profit will affect the tax expense paid by the company. Therefore managers tend to report low profits in order to be said to be conservative profit reporting.

In a previous research conducted by Sarra, (2017) showed the results that conservatism has a significant effect on tax avoidance. In line with the results of Sundari & Aprilina, (2017) and Adi (2018) which stated that conservatism has a significant effect on tax avoidance. This suggests that the more conservative the presentation of financial statements, the greater the tax avoidance.

H_1: Conservatism has a positive effect on tax avoidance

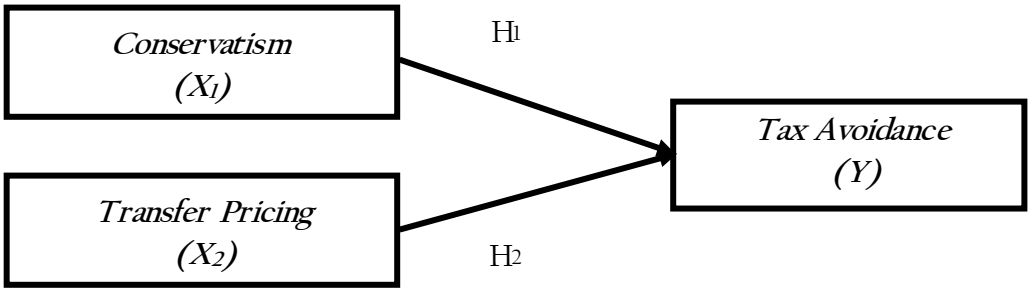
Transfer Pricing and Tax Avoidance

Utami & Irawan, (2022) argues that transfer pricing can be interpreted as transferring income to a country that has the lowest tax burden (tax haven) where the country concerned has an affiliated company, so that the company can adjust the transfer price when making transactions with related parties. Multinational companies will seek to exploit loopholes in tax laws to minimize taxable income by minimizing the purchase price to below the invoice price and maximizing the selling price to above the invoice price.

Agency theory explains the relationship between transfer pricing and tax avoidance practices conducted by parties with special relationships located in different countries with different tax rates. Management as an agent will reduce sales or revenue and increase purchases or expenses, causing the company's taxable profit to be low. In line with the research results of Putri & Mulyani, (2020) and Lutfia & Pratomo, (2018) stated that the practice of transfer pricing has a significant effect on tax avoidance. This is also similar to the research Sentanu et al., (2016) which explained that transfer pricing occurs when there is a transaction in a related party relationship where the price crosses the fairness limit.

From this hypothesis, a conceptual framework can be formed as follows:

H_2: Transfer pricing has a positive effect on tax avoidance



METHOD

The focus of this study is on companies in the non-financial services sector that are listed on the Indonesia Stock Exchange from 2016 to 2018. Companies in the non-financial sector were selected as research objects on the basis that the study results were able to present the impact of variables conservatism and transfer pricing in general in Indonesian public companies. In this research, secondary data was used as a source. The secondary data in question comes from 579 companies in the non-financial services sector's annual reports and financial reports from 2016 to 2018. This study uses the 2016-2018 research year period because during that year there are several non-financial services companies that tend to do tax avoidance, such as: affiliated healthcare companies in Singapore, in 2016 were identified as practicing tax avoidance in many different ways.

The population used in this study are non-financial services sector companies listed on the Indonesia Stock Exchange for the period 2016-2018. The purposive sampling method was chosen to determine the research sample according to the type and criteria required. The sampling criteria are as follows: (1) non-financial service sector companies listed on the Indonesia Stock Exchange for the period 2016-2018; (2) non-financial service sector companies that publish annual reports and financial reports during the research period; (3) non-financial services sector companies that have positive profit before tax during the research period; (4) non-financial service sector companies that pay taxes regularly; (5) non-financial services sector companies that disclose complete conservatism indicators.

Variable Research and Variable Measurement

The independent variable is the variable that causes the emergence of the dependent variable or causes the change. The study uses independent variables conservatism, and transfer pricing. Juanda, (2007) stated that conservatism is an accounting pinsip if applied will result in low profit and asset figures, while cost and loss figures tend to increase.

The use of the *CONACC* formula is obtained through the division between non-operating accrual and total assets then diverted with (-1), where the higher the value of *CONACC* indicates the higher the practice of *conservatism* applied in the company. *CONACC* proxy usage used in research because it is relevant to project tax avoidance by looking at the depreciation value and CFO as a deduction for tax payments. Here is the calculation formula to obtain the *CONACC* value:

$$CONACC = \frac{(NIO + DEP - CFO)\ x\ (-1)}{Tax\ Avoidance}$$

Variable *transfer pricing* is the price charged by the seller's division in the buyer's division for a transaction of goods and services that occurs in a company that has a special relationship

or transfer of revenue in the country that has the lowest tax rate with the aim of manipulating the price. This variable is projected by dividing trade receivables to parties who have a special relationship with total trade receivables. The calculation formula:

$$TP = \frac{Accounts\ receivable\ to\ parties\ who\ have\ a\ special\ relationship}{Amount\ of\ Receivables}\ x\ 100\%$$

The dependent variable is a variable that is influenced or becomes a result of the influence of the independent variable. Tax avoidance is an effort to make savings in tax payments as a form of legal action by utilizing loopholes from tax laws to minimize the income tax burden of the company or legal arrangements of tax fairs affairs ((Henny, 2019). Tax avoidance is projected using the tax shelter approach. The tax shelter formula used in the study is as follows:

P.(Shelter) = -4.30 + (6.63*TotalBTD) + (-1.72*LEV) + (0.66*SIZE) + (2.26*ROA) + (1.56*MNC) + (1.56*RD)

Data Analysis Techniques

The data analysis technique used in this research is panel data regression analysis (data pooling) using Stata15 software.The stages of data analysis are as follows:

Descriptive Statistics

Descriptive statistics are carried out with the aim of describing the characteristics of the data or providing an overview of the variables as they should be when the variables are studied by looking at the mean, standard deviation, maximum, and minimum.

Panel Data Regression Test

There are three possible data regression models to be used: (1) Common Effects Model (CEM); (2) Fixed Effect Model (FEM); (3) Random Effect Model (REM). The three models will choose one of the best models to test the hypothesis.

Panel Data Regression Model Selection

If the initial model specified is a FEM model, a *chow (likelihood ratio)* test will be conducted to choose between the CEM and FEM models. If the FEM model has been selected, then the next test is conducted *hausman* to choose between the FEM model and REM. FEM models are required to test classic assumptions through *the Ordinary Least Square* (OLS) estimation method, while REM models do not need to be tested for classic assumptions because the estimation model uses *generalized least square* (GLS).

Classic assumption test

Multicolinearity Test

The multicolinearity test aims to test whether or not there is a high correlation between the independent variables in the multiple linear regression model. If the tolerance value indicates <0,10 or VIF > 10 then there is a multicolinearity that cannot be tolerated so that in order for the result to be unbiased, the variable must be excluded from regression.

Autocorrelation Test

The autocorrelation test is a correlation between the residuals in one observation and other observations in a regression model. Autocorrelation can be known where if the value of

prob < 0.05 then there is a symptom of autocorrelation, whereas if the value of prob > 0.05 then there is no symptom of autocorrelation in a research model.

Heteroskedastisitas Test

This assumption test is used to determine whether in the regression model there is a residual variant inequality on one observation to another. The prerequisite that must be met in the regression model is the absence of heteroscedasticity symptoms. If the prob value is <0.05 there is a symptom of heteroscedasticity in the research model whereas if the prob value is >0.05 then there is no symptom of heteroscedasticity in the research model (Oktamawati, 2017).

Normality Test

The normality test is carried out to test the data for the independent variable and the dependent variable in the resulting regression equation to determine whether the distribution is normal or not. If normal significance or p-value> 0.05, the residual data is normally distributed, while if significant normally or p-value <0.05, the data is not normally distributed.

Panel Data Regression Model

Panel data is a combination of time-series and cross-section data. Panel data regression model is a regression technique which combines cross-section and time-series data so that more observations will be obtained when compared to using cross-section data and time-series data only. This model uses an Ordinary Least Square (OLS) regression is a technique in modeling in which the independent variable and the dependent variable are described in a linear equation. In general, the general model equation for panel data regression can be formulated as follows :

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Explanation :

Y	= Tax Shelter
α	= Constante
$\beta 1, \beta 2$	= Regression Coefficent
X1	= Conservatism
X2	= Transfer Pricing
e	= Error Coefficient

Hypothesis Test

Partial Test (t-test)

This test is carried out to see how far the influence of one explanatory variable individually in explaining the variation of the dependent variable. If the probability value> the significance rate then H0 rejected, meaning that it does not have a significant effect on the dependent variable. When the value probability < significance rate then H0 accepted, meaning that the independent variable has an influence on the dependent variable. The significance level used is 0.10 where this value is usually used for the social and humanities fields, above this value it is not said to have a significant effect (Brooks, 2014).

F Test (Simultaneous Model Significance)

This test is conducted to determine whether there is an influence relationship between the independent variables together with the dependent variable simultaneously. If the probability value> the significance level, then H0 rejected, but when the value probability < significance level then H0 accepted. The significance level used is 0.10 where this value is usually used for the social and humanities fields, above this value it is not said to have a significant effect (Brooks, 2014).

Coefficient of Determination (R^2)

The R^2 test is conducted with the aim to measure the amount of contribution or percentage of the number of dependent variables explained by regression or to measure the size of the contribution of the independent variable to the rise and fall of the value of the dependent variable.The value close to one is said to be the more appropriate a regression line is used as an approach and shows that the independent variable is able to provide more information than the coefficient of determination close to zero. Conversely, the smaller the value indicates that the more imprecise a regression line is used to represent the data from the observations. When the value (R^2) is equal to 0, then it can be said that the approach does not match, on the contrary ifscore (R^2) is equal to 1, so the approach has a perfect match.

RESULTS AND DISCUSSION

Descriptive Statistics

Tabel 1. Descriptive Statistics of Research Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Tax Shelter	579	4.753	0.968	1.377	8.295
Conservatism	579	-0.028	0.118	-0.850	1.538
Transfer Pricing	579	0.405	0.379	0.000	0.999

Based on the results of descriptive statistical tests using Stata15, it shows that conservatism has a minimum value of -0.850966 while the maximum value is 1.538428. The mean value of conservatism is -0.028784, while the value for standard deviation of conservatism is 0.118366, which means that the mean value is smaller than the standard deviation value. This shows that the mean value of conservatism is lower, close to 0, which can be concluded from the 579 companies studied generally using the conservatism method not for tax avoidance purposes.

Transfer pricing has a minimum value of 0.000113 while the maximum value is 0.999806. The mean value of transfer pricing is 0.405982 while the value for the standard deviation of transfer pricing is 0.379728, meaning that the mean value is greater than the standard deviation value. This shows that the average sample in this study has transfer pricing, especially transactions at overseas affiliated companies, namely 51% of total trade receivables.

Tax avoidance which is proxied by the tax shelter has a minimum value of 1.377369 while the maximum value is 8.295099. The mean value of tax avoidance with the tax shelter proxy is 4.753714 while the standard deviation value is 0.968457 which means that the mean value is greater than the standard deviation value. This shows that there is a high level of tax avoidance in non-financial service sector companies seen from 579 sample companies because the results obtained are higher than the minimum limit of 0.076.

Selection of Panel Data Regression Test

Tabel 2. Chow Test

Effect Test	Prob
Chi-square cross-section	0.0000

Based on the chow test table, it can be seen that the Chi-square probability is 0.0000 <0.10, so the chosen model is FEM.

Tabel 3. Hausman Test

Effect Test	Prob
Chi-square cross-section	0.0197

Based on the test table, it can be seen that the Chi-square probability is 0.0197 <0.10, so the chosen model is FEM.

Tabel 4. Fixed Effect Model

Variable		Tax Shelter	Conclusion
INTERSEPT	Coef.	4.801193	H1 Accepted
	Prob.	0.000 ***	
Conservatism	Coef.	0.0194121	
	Prob.	0.919	
Transfer Pricing	Coef.	-0.1155726	
	Prob.	0.469	
Weighted Statistics			
Adj. R-Squared		0.0644	
F-statistic		0.27	
Prob (F-statistic)		0.7619	

Classic assumption test

The sample in this study amounted to 193 non-financial service sector companies listed on the Indonesia Stock Exchange. Panel data tests have been carried out, but with these two models where the tax shelter proxy using FEM results does not show any significant effect on the relationship between variables. Thus, in proving H1 and H2, the researcher in estimating the effect uses the CEM model with the Ordinary Least Square (OLS) method based on the classical assumption test.

Multicollinearity Test

Tabel 5. Multicollinearity Test Results

Model	Collinearity Statistics	
	VIF	1 / VIF
Conservatism	1.00	0.999251
Transfer Pricing	1.00	0.999251

Based on table 5., it shows that the tolerance value for the conservatism variable and transfer pricing is 0.999251> 0.10 while the variance inflation factor (VIF) value is 1.00 <10.Thus it can be concluded that the independent variables used in this study have no multicollinearity relationship. .

Autocorrelation Test

Tabel 6. Tax Shelter Autocorrelation Test

Model	Autocorrelation Test
F (1, 192)	3,341
Prob> F	0.0691

Based on the test results in table 6, it can be seen that the prob value is 0.0691> 0.05. Thus it can be concluded that the variables used with the tax shelter proxy have met the requirements to pass the assumption test or are free from autocorrelation problems in the research model.

Heteroscedasticity Test

Tabel 7. Heteroscedasticity of Tax Shelter Results

Tax Shelter			**Conclusion**
chi2 (1)	=	0.68	**Passed the Test**
Prob> chi2	=	0.4081	

Based on the results of the heteroscedasticity test, it shows that the prob value on the tax shelter proxy is 0.4081> 0.05. Thus it can be concluded that the regression model with tax shelter proxies shows no heteroscedasticity symptoms.

Normality test

Tabel 8. Normality Test Results

Variable	Obs	Pr (Skewness)	Pr (Kurtosis)	adj chi2	Prob> chi2
Tax Shelter	579	0.0000	0.0270	22.98	0.0000

Based on the results of the normality test above, it shows that the prob> chi2 value using the tax shelter proxy is equal to 0.0000 <0.05, it can be concluded that the residual value of the research data is not normally distributed. According to Gujarati, (1972) states that the assumption of normality does not really matter in large data sets where the number of data is more than 30. This study has a total of 579 observations, where 193 companies are multiplied by 3 years.

OLS Regression Test

Model	Unstandardized Coefficients Y1 Tax Shelter B	Std. Error
Constant	4,985483	0.0579964
Conservatism	-0.7003539	0.3292993
Transfer Pricing	-0.62054	0.1026465

Tabel 9. OLS Regression Tax Shelter Test Results

Based on the results of the OLS Regression test in the table above, the following equation is obtained:

$$\textit{Tax Shelter}_{it} = 4.985483 - 0.7003539\ \textit{Conservatism}_{it} - 0.62054\ TP_{it} + \varepsilon_{it}$$

From the results of the regression model test, it can be seen that the effect of conservatism and transfer pricing on tax avoidance with the tax shelter proxy with a constant value of 4.985483 means that the resulting conservatism and transfer pricing variables are 4.985483. The coefficient value which is negative indicates that there is an effect of the relationship between conservatism and tax avoidance and the tax shelter proxy. Conservatism regression coefficient (X1) of-0.7003539 shows that every change of 1 will have a decreasing effect on tax avoidance with a tax shelter proxy of 0.7003539 assuming other factors do not change.

Transfer pricing regression coefficient results show a value of -0.62054.The coefficient value which is negative indicates that there is an effect of the relationship between transfer pricing and tax avoidance (tax shelter). Transfer pricing regression coefficient (X2) of-0.62054 shows that every change of 1 will have an effect on reducing tax avoidance with a tax shelter proxy of 0.62054 assuming other factors do not change.

Hypothesis testing

Variable		Tax Shelter	Conclusion
INTERSEPT	Coef.	4,98548	
	Prob.	0,000 ***	
Conservatism	Coef.	-0.70035	**H1**
	Prob.	0.034 **	**Accepted**
Transfer Pricing	Coef.	-0.62054	
	Prob.	0,000 ***	
Weighted Statistics			
Adj. R-Squared		0.0644	
F-statistic		20.90	
Prob (F-statistic)		0.0000	

Tabel 10. Results of Tax Shelter Panel Data Regression

Coefficient of Determination (R2)

Based on table 4.10 it is known that the coefficient value of determination or Adj. R-squared (R2) of0.0644, this value indicates that the independent variable conservatism and transfer pricing has an effect on the dependent variable tax avoidance, which is proxied by using the tax shelter, which is 6%, while the other 94% is explained by other factors outside the independent variables in this study.

F Test (Simultaneous Model Significance)

Based on table 4.10, it shows that the probability value of the f-statistic is equal to 0.0000 <0.10. Thus it can be concluded that H1 accepted, meaning that the independent variables conservatism and transfer pricing simultaneously have a significant effect on the dependent variable tax avoidance with the tax shelter proxy.

Partial Test (t-test)

Conservatism

Based on table 4.10, it shows that the t-statistic probability value of conservatism variable is 0.034, while the coefficient value is -0.70035. These results indicate that there is a negative influence on the tax avoidance variable with the tax shelter proxy. The probability value of t-statistic is 0.034 <0.10, then H1 is accepted. Thus it can be concluded that the conservatism variable with the 193 sample data used has a significant negative effect on tax avoidance with the tax shelter proxy.

Transfer Pricing

The probability value of the transfer pricing variable t-statistic is 0.000 while the coefficient value is -0.62054. These results indicate a negative effect on tax avoidance with the tax shelter proxy. The probability value of t-statistic is 0.000 <0.10, then H2 is accepted. Thus it can be concluded that the transfer pricing variable with the 193 sample data used has a significant negative effect on tax avoidance with the tax shelter proxy.

Discussion

The Effect of Conservatism on Tax Avoidance

Based on the results of regression testing, it shows that a high tax shelter value indicates a higher tax avoidance action taken by a company. *Tax Shelter* it can be said as a tax shelter where it is a mechanism for tax protection that aims to take advantage of the time value of money and create interest expenses as a deduction from tax or taxable income (Aronmwan & Okafor, 2019). From the results of logistical tests on each indicator, namelytotal BTD, leverage (DAR), company size (SIZE), profitability (ROA), MNC, and RD, where the most dominant value in influencing tax avoidance is total BTD.

Based on data, the value of conservatism has a low value, while the corporate tax avoidance rate is high. The low level of application of accounting conservatism in companies, then the precautionary attitude of making financial statements will also be smaller, and tax avoidance activities will be even greater to do.

This research supports the agency's theory, in its activities often the behavior of agents improves its own well-being so that the principle of low conservatism can lead to high information asymmetry so that the company's behavior to do tax avoidance is higher. This has an impact on management's commitment to provide information related to financial statements that are transparent accurate and not misleading (Hartoto, 2018).

This study supports research Windaryani & Jati, (2020) and Hidayanto et al., (2021) that states that conservatism has a negative effect on tax avoidance. This means that the company applies conservatism. Companies that have a high principle of conservatism will have a low tax burden because the profits generated are low. Companies with an already low tax burden are it makes less sense to take tax avoidance to reduce their tax burden.

Effect of Transfer Pricing on Tax Avoidance

Based on the results of regression testing, it shows that a high tax shelter value indicates a higher tax avoidance action taken by the company. In determining the tax shelter model, a logistic test is also carried out where the value is 1 if the company is indicated to be doing tax avoidance efforts and the value is 0 if the company is not indicated that it is doing tax avoidance efforts. From the results of logistical tests on each indicator, namelytotal BTD, leverage (DAR), company size (SIZE), profitability (ROA), MNC, and RD, where the most dominant value in influencing tax avoidance is total BTD.

In accordance with the data in this study average sample in this study has transfer pricing especially transactions on foreign affiliated companies amount to 41% of total receivables business, while transactions in the country amounted to 59%. Which means that the transaction rate of related parties abroad is still low compared to domestic. However, the tax rate high avoidance in non-financial services sector companies seen from 579 sample of the company. Transactions with related parties then have the potential to be used by companies to avoid taxes through the imposition of transfer prices that are not arm's length price (ALP).

This result is opposite to agency theory where transfer pricing is carried out by parties who have a special relationship in a different country with a low tax rate (tax haven) to do tax avoidance. Management as an agent will reduce sales or revenue and increase purchases or expenses, causing the company's taxable profit to be low. Low taxable profit will be followed by low tax expense. When the company operates within the tax jurisdiction, this will motivate managers to transfer profits between entities within the tax jurisdiction in order to minimize tax payments.

It is similar with research Putri & Mulyani, (2020) and Lutfia & Pratomo, (2018) which states that transfer pricing practices have a significant effect on tax avoidance. In line with research Sentanu et al., (2016) who explained that transfer pricing occurs when there is a transaction in a related party relationship between a domestic taxpayer and an overseas taxpayer where the determined price exceeds the fairness limit.

CONCLUSION

Based on the results of data analysis that has been carried out on non-financial service sector companies listed on the Indonesia Stock Exchange (BEI). From these results, it can be concluded that the conservatism variable has a significant negative effect on tax avoidance using the tax shelter proxy. This shows the low level of application of accounting conservatism in companies, then the precautionary attitude of making financial statements will also be smaller, and tax avoidance activities will be even greater to do. Transfer pricing variable shows the same results where transfer pricing significantly negative effect on tax avoidance which is proxied by using the tax shelter. Transactions with related parties have the potential to be utilized by companies to avoid taxes through the imposition of transfer prices that are not the old price of the arm (ALP).

This research is potentially relevant to academics and regulators. By examining the factors

that affect tax avoidance with proxy tax shelter this research is used as a reference in future policy making by regulator in this case the Director General of Taxes on the actions of the company who take advantage of loopholes in tax laws to minimize tax burden with maximum profit.

The limitations of researchers during carrying out this study, first, financial statement data, because many companies do not publish annual reports and complete financial statements for the period 2016-2018, secondly, the identification of tax shelter measurement components to measure tax avoidance in each company's report. Companies have different ways of reporting finances so, researchers must be careful in finding and writing down intangible asset components and index components for voluntary reporting calculations.

Based on the limitations experienced by researchers, researchers have some suggestions for subsequent researchers. Researchers are then expected to take tax avoidance measurements using tax shelter proxies with different objects. Researchers too can increase the observation period so that the results of the study are more accurate and in-depth.

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