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INCOME SHIFTING AND TAX AVOIDANCE: EVIDENCE IN INDONESIA

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ABSTRACT

Purpose: This study aims to examine the effect of income shifting instruments on tax avoidance efforts. The instruments focused on transfer pricing and intangible assets, and the role of multinationality in moderating both

Methodology/approach: The sample selection used a purposive sampling method with a final sample of 110 observations. With secondary data from the company's annual report and financial statements, this study uses Panel Data Regressions and Moderated Regression Analysis (MRA) with Stata 15.

Findings: The results show that transfer pricing has a positive effect and intangible assets have a negative effect on tax avoidance. Also, multinationality only moderates the relationship between transfer pricing and tax avoidance.

Practical implications: This study contributes to helping companies evaluate performance by always complying with tax regulations. Nowadays, there are regulations governing transfer pricing mechanisms and ownership of intangible assets and this study can be an assessment of the regulations effectiveness. Lastly, this study offers empirical evidence to support the discourse of the two pillars of the international tax architecture agreement at the G20 event, where no studies have yet attempted to provide this information.

Originality/value: This study uses multinationality as a moderating variable which in previous studies was widely used as an independent variable. This study also uses Internalization theory to explain tax avoidance in cross-border transaction context, especially related to transfer pricing and intangible assets

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Keywords: Income Shifting; Intangible Asset; Multinationality; Tax Avoidance; Transfer Pricing.

ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan menguji pengaruh instrumen *income shifting* terhadap upaya *tax avoidance*. Instrumen yang menjadi fokus penellitian adalah *transfer pricing* dan aset tidak berwujud, serta peran *multinationality* dalam memoderasi keduanya

Metode/pendekatan: Teknik pemilihan sampel menggunakan metode purposive sampling dengan sampel akhir berjumlah 110 observasi. Penelitian ini menggunakan data sekunder laporan tahunan dan laporan keuangan perusahaan. Teknik analisis data yang digunakan adalah Regresi Data Panel dan *Moderated Regression Analysis* (MRA) dengan Stata 15.

Hasil: Hasil analisis regresi menunjukkan *transfer pricing* berpengaruh positif dan aset tak berwujud berpengaruh negatif terhadap *tax avoidance*. Hasil penelitian juga menunjukkan bahwa *multinationality* hanya memperkuat hubungan *transfer pricing* dan *tax avoidance.*

Implikasi praktik: Penelitian ini berkontribusi membantu perusahaan mengevaluasi kinerja dengan selalu mematuhi peraturan perpajakan. Saat ini terdapat regulasi yang mengatur mekanisme *transfer pricing* serta kepemilikan aset tidak berwujud dari pemerintah dan penelitian ini dapat menjadi penilaian efektivitas regulasi tersebut. Terakhir, penelitian ini memberikan bukti empiris yang mendukung diajukannya wacana dua pilar kesepakatan arsitektur perpajakan internasional dalam pertemuan G20, dimana belum ada penelitian yang mencoba memberikan informasi ini.

Orisinalitas/kebaharuan: Penelitian ini menggunakan *multinationality* sebagai variabel moderasi dimana dalam penelitian sebelumnya banyak digunakan sebagai variabel independen. Penelitian ini juga menambahkan teori Internalisasi untuk menjelaskan *tax avoidance* dalam konteks *cross border transaction*, khususnya berhubungan dengan transfer pricing dan aset tak berwujud

Kata kunci: Aset Tak Berwujud; *Income Shifting*; *Multinationality;* Penghindaran Pajak; *Transfer Pricing*.

INTRODUCTION

Taxation has an important contribution to supporting the Indonesian economy. This is shown by the large amount of tax sectors that contributed to the National Income and Procurement Budget (APBN) every year. In the last five years, state income from taxes has contributed an average of 78% of GDP annually (BPS, 2023). Despite the large amount of contribution, it is not in optimal condition. From 2018-2022, domestic revenue sourced from taxation only shows an average range of 87% of the expected target in the APBN. In addition, other data from the Ministry of Finance (2022) shows that Indonesia currently still has a low tax ratio of 9.11 percent of GDP, which is very low when compared to the G20 and ASEAN countries which are already above 10 percent. One indication of the reason why the realization of state revenue from taxes is continuously difficult to reach the target and Indonesia's low tax ratio is because of taxpayers, especially corporate taxpayers, who often take tax avoidance actions.

Tax avoidance is an action to minimize the amount of tax payable in a legal way and not in violation of tax regulations (Thomsen & Watrin, 2018). Tax avoidance is prone to being carried out by multinational companies (OECD, 2023). They are used to conduct cross-border transactions from the parent company to the subsidiary in other regions that have lower tax rates. According to Country-by-Country Reports (CbCR) data, multinational companies legally exploit gaps in international tax rules to shift profits to jurisdictions with low tax rates (Ken, 2020). Global Financial Integrity, or GFI in 2021 released a report documenting the global problem of illicit financial flows (IFFs) related to trade in 134 developing countries from 2009 to 2018 (GFI, 2021). Illicit financial flow is defined as funds obtained, transferred, or used illegally across jurisdictions. According to the report, Indonesia is among the top 10 countries with the largest flow of illegal funds among developing countries. During the period 2009-2018, the flow of illegal funds from Indonesia reached US$ 40.2 billion.

The phenomenon that can explain the above conditions is income shifting. Income shifting is defined as a method of reducing the tax burden of multinational companies by shifting income from high-tax to low-tax jurisdictions (De Simone et al., 2017). Income shifting is one of the tax planning strategies carried out by multinational companies (Demeré & Gramlich, 2019). Multinational companies may shift their income through several instruments, such as transfer pricing, intangible assets, multinationality, thin capitalization, treaty shopping, and other instruments (Richardson & Taylor, 2015). This study will focus on transfer pricing, intangible assets, and multinationality, referring to the research of Richardson and Taylor (2015) and Pramesthi et al. (2019). Transfer pricing is defined as the price determined in transactions between group members within a company or related parties (OECD, 2012). Transfer pricing is a fairly common practice in corporate operations but is also vulnerable to price manipulation and mispricing. Transfer pricing can be motivated by tax, which is to reduce the tax burden (Plasschaert, 1994). The next income shifting instrument is intangible asset. Intangible asset is non-monetary asset that can be identified without a physical form (IAI, 2009). These assets can be used for tax avoidance by utilizing deductible expenses from amortization.

This study will examine the impact of transfer pricing and intangible assets on tax avoidance. This is a replication of Richardson and Taylor (2015)'s research on income-shifting instruments and their implications for tax avoidance. The topic was then re-tested by Pramesthi et al. (2019) with a research background in Indonesia. Based on the phenomena and tax data in Indonesia nowadays, income shifting and its relationship with tax avoidance

is still very relevant and interesting to be tested again. Moreover, cross-border transactions carried out by multinational companies were highlighted at the G20 summit in Bali in 2022. In addition, different from the research of Richardson and Taylor (2015) and Pramesthi et al. (2019) who use tax avoidance through the utilization of tax haven countries as the dependent variable, this study uses tax avoidance measured by Book Tax Difference (BTD) as the dependent variable.

There are differences in test results from previous studies. Putri and Mulyani (2020) proved that transfer pricing affects tax avoidance. Transactions between companies are not extempt from transfer pricing manipulations, including by taxpayer Foreign Direct Investment (FDI) and branches of foreign companies in Indonesia. Lutfia and Pratomo (2018) support these results by proving that transfer pricing is often a tax implication. However, the results are inconsistent with Falbo and Firmansyah (2018) which prove that transfer pricing does not affect tax avoidance. Companies in Indonesia perform transfer pricing only for performance evaluation and not for tax avoidance purposes. Nurhidayati and Fuadillah (2018) also prove that transfer pricing transactions with affiliates are generally carried out by Indonesian companies with local subsidiaries where there is no difference in tax rates, so it does not affect tax avoidance. Related to intangible asset, Park et al. (2016) proved that ownership of intangible assets can exploit the burden of amortization as deductible expenses to reduce taxes. Nurhidayati and Fuadillah (2018) also proved that intangible assets are often used by companies for avoid tax to tax haven countries. Not in line with the results, Puspita et al. (2018) also Jati and Murwaningsari (2020) proved that intangible assets have no effect on tax avoidance. Intangible assets cannot be used as tax avoidance opportunities, therefore do not reduce tax liabilities. In addition, companies in Indonesia that present information about ownership of intangible assets in the financial statements are still limited, this may lead to no effect of intangible assets on tax avoidance. The differences in previous studies's test results resulted in income shifting instruments testing on tax avoidance needing to be reinvestigated.

This study differs from the research of Richardson and Taylor (2015) and Pramesthi et al. (2019) that makes a novelty by positioning multinationality as a moderating variable where many previous studies used multinationality as independent variable. Multinationality is the expansion of a company beyond its domestic market into foreign countries (Hennart, 2011). According to Rego (2003), multinational companies have more opportunities and capacity to reduce taxes significantly, compared to companies that only operate domestically. Multinationals can exploit the gap of tax regulation and the interaction of tax systems across countries. Previously there were inconsistencies in the results of many studies including Falbo and Firmansyah (2018), Nurhidayati and Fuadillah (2018), Pramesthi et al. (2019), Puspita et al. (2018), Jati and Murwaningsari (2020) which did not prove the effect of transfer pricing and intangible assets on tax avoidance. Considering the more opportunities for tax avoidance when companies are operating multinationally, this study will use multinational companies as samples and positioning multinationality as moderating variable that strengthens the effect of transfer pricing and intangible assets on tax avoidance. Several studies, including Damayanti and Prastiwi (2017), Fernández-Rodríguez et al. (2019), Roza et al. (2020), and Widodo et al. (2020), prove that being a multinational company has implications for corporate taxation.

This study has contributed to complete accounting research related to tax avoidance. This study is based on the phenomenon of income shifting that explains cross-border transactions and their implications for corporate taxation. Several previous studies including Richardson and Taylor (2015) as well as Pramesthi et al. (2019) tested the effect of income-shifting instruments such as transfer pricing, intangible assets, multinationality, thin capitalization,

and other instruments on corporate tax avoidance but have not been associated with a particular theory. Based on research conducted by Cooper and Nguyen (2020), this study will close the gap by including internalization theory by Buckley and Casson (1976) to explain international business behavior that leads to tax avoidance. Internalization theory focuses on the company's choice to resolve limitations in their operations by becoming a multinational company for the purpose of synergy and competitive advantage (Buckley & Casson, 1976). This theory can explain the relationship between multinationality, transfer pricing, and intangible assets with corporate tax avoidance.

Based on the explanation above, the formula of the hypothesis can be explained as follows.

Agency Theory explains that there are differences in interests between principal and agent (Jensen & Meckling, 1976), and this may lead managers to take tax avoidance action. From the corporate side, taxes are a cost whose the benefits cannot be felt directly. In addition, high taxes will reduce profits which are a measure of management performance, so management will try to minimize this burden. Management knows more information about the company and can choose opportunistic actions to reduce the tax burden. One of the opportunistic actions that can be chosen is transfer pricing (Chan et al., 2004).

Transfer pricing defined as the price specified in transactions between members of a group or a company (OECD, 2012). In its practice, transfer pricing often involves price manipulation that aims to minimize the tax burden (Nainggolan & Sari, 2020). Transfer pricing also one of the instruments used by multinational companies to avoid taxes by shifting income or profits between countries by utilizing different tax rates (Darussalam & Tobing, 2014). Shabika et al. (2023), Putri and Mulyani (2020), Amidu et al. (2019), Nainggolan and Sari (2020) also Lutfia and Pratomo (2018) proved that transfer pricing has a positive effect on tax avoidance. Transfer pricing transactions in companies are not apart from transfer price manipulation. This is not only carried out by domestic companies but also Foreign Direct Investment (FDI) taxpayers and branches of foreign companies in Indonesia. In addition, the transfer pricing also spends lots of costs so it can be used as a reduction in taxable income.

H1: Transfer pricing has a positive effect on tax avoidance

Agency theory explains that agent are expected to maximize shareholder wealth (Jensen & Meckling, 1976). This may be achieved by minimizing the tax burden. Companies can use many strategies to avoid taxes. One of the opportunistic actions that management can use to reduce the tax burden is through ownership of intangible assets. Intangible assets are defined as non-monetary assets that can be identified without a physical form (IAI, 2009). Intangible assets are something that cannot be separated from a company. These assets have an indefinite useful life and also can have significant valuation changes (Subramanyam & Wild, 2010). Companies also may decide to own intangible assets that can reduce the company's tax burden through deductible expenses from amortization so that they dont need to transfer their assets to another jurisdiction (Pramesthi et al., 2019)..

Deng et al. (2022) also Turwanto and Alfan (2022) proved that intangible assets have a positive effect on tax avoidance. Companies with intangible asset ownership can take the advantage of amortization expense to reduce tax burden. In addition, intangible assets can be shifted between companies within the same group in different tax jurisdictions to reduce taxes. This transfer of assets is easily done because it does not involve the physical transfer of assets, especially most intangible assets are difficult to determine their fair value. The difference between depreciation methods according to accounting and tax regulations also can be utilized for tax purposes.

H2: Intangible assets have a positive effect on tax avoidance

Multinationality is the expansion of a company to foreign countries from its domestic market. Through operating in several countries, multinational companies have more investment opportunities than domestic companies (Rego, 2003). This study extends the role of multinationality in moderating the relationship between transfer pricing and tax avoidance, which can be explained from the perspective of internalization theory. Internalization theory explains that to be efficient and effective in the operations, companies will expand in various regions (Cooper & Nguyen, 2020). One of the interests of management is to minimize the tax burden. When the company operates multinational, there are more opportunities to avoid taxes so they can reduce the tax burden more efficiently. They can utilize the different tax rates in different jurisdictions to minimize their total group tax liability (Adeniyi, 2008). Transfer pricing is the core of internalization theory and becomes one of the most important issues in multinational companies.

This study summarizes the results of several studies that prove the multinationality presents more opportunities for companies to avoid taxes through transfer pricing mechanisms. Nainggolan and Sari (2020) and Pramesthi et al. (2019) prove that multinational companies utilized differences in tax rates between countries to carry out transfer pricing to related parties in foreign countries, including to tax haven countries. Transfer pricing schemes in the cross-border transaction context are often used to utilize differences in tax rates and do not represent arm's length prices. These results are also supported by research conducted by Fasita et al. (2022) and Roza et al. (2020). Multinational companies tend to use transactions with their foreign affiliates that have lower tax rates as a consideration in their tax planning

H3: Multinationality strengthens the relationship of transfer pricing to tax avoidance

Multinational operations offer management more opportunistic actions to avoid taxes, including the use of different tax rates between countries, the existence of tax facilities in DTAAs, and the utilization of tax haven countries that have low or even none tax rates. Internalization theory explains that companies will expand into external markets including forming subsidiaries or affiliates in foreign countries (Cooper & Nguyen, 2020). Companies may also consider the countries that have low tax rates such as tax haven countries. The existence of tax haven countries offers more opportunities for companies to avoid taxes. Intangible assets are one of the instruments that companies use to shift to subsidiaries or affiliates in tax haven countries to reduce taxes (Richardson & Taylor, 2015). These assets have unique values that can be exploited by companies in some jurisdictions at the same time. Therefore, there is a huge opportunity for companies to deal with income shifting through the transfer of intangible assets to low-tax jurisdictions including tax haven countries (Dyreng et al., 2008).

Several studies prove that intangible assets are used for tax avoidance because companies operate and have affiliates in other countries, including if the affiliates are located in tax haven countries. Nurhidayati and Fuadillah (2018) prove that intangible assets are often transfer to tax haven countries to minimize corporate taxes so that further monitoring of the transfer of these assets is needed. Turwanto and Alfan (2022) in their study also prove that intangible assets can be shifted between companies within the same group in different tax jurisdictions to avoid taxes.

H4: Multinationality strengthens the relationship of intangible assets to tax avoidance

RESEARCH METHODS

This is an associative research with quantitative methods. The instruments of income shifting focused on transfer pricing and intangible assets as independent variables, tax avoidance as dependent variable, and multinationals as moderation variable. This study uses the manufacturing sector companies listed on the Indonesian Stock Exchange (BEI) in the period 2018-2022 as population. This sector was chosen because a high trend of tax avoidance. Several previous studies have also proven that in the manufacturing sector of Indonesia there are indeed frequent tax avoidance efforts, including research by Falbo and Firmansyah (2018), Pramesthi et al. (2019), Jati and Murwaningsari (2020), Turwanto and Alfan (2022). In addition, the characteristics of manufacturing companies are also considered in line with the variables of this study, namely frequent transfer pricing mechanisms, ownership of intangible assets and many multinational operations.

Definition of Variable	Measurement
Tax avoidance is an action to minimize the amount of tax payable in a legal way and not in violation of tax regulations (Thomsen & Watrin, 2018)	$\frac{\text{Pretax accounting income} - \text{taxable income}}{\text{Total assets of the company}} x\ 100\%$ Hanlon and Heitzman (2010) and Tang and Firth (2012)
Transfer pricing defined as the price determined in transactions between group members within a company or related parties (OECD, 2012).	$\frac{\text{Total receivables to related parties}}{\text{Total receivables of the company}} x\ 100\%$ Panjalusman et al. (2018) and Putri and Mulyani (2020)
Intangible asset is non-monetary asset that can be identified without a physical form (IAI, 2009)	$\frac{\text{Total intangible assets}}{\text{Total assets of the company}} x\ 100\%$ Chen et al. (2010) and Richardson and Taylor (2015)
Multinationality is the expansion of a company beyond its domestic market into foreign countries (Hennart, 2011)	$\frac{\text{Foreign sales}}{\text{Total sales of company in a year}} x\ 100\%$ Hennart (2011) and Damayanti and Prastiwi (2017)

Tabel 1. Variable Definition and Measurement

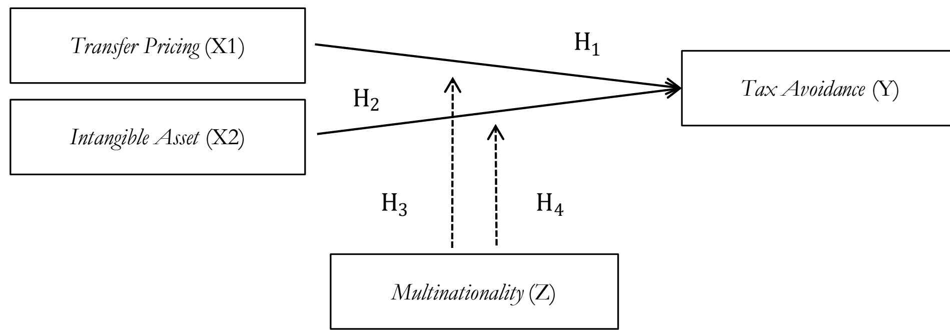

Figure 1. Conceptual Framework

Sampling techniques use purposive sampling methods with criteria that have been established to match the purposes of the research. The sample consisted of 22 companies, with a five-year observation period then the final sample amounted to 110 years of the company. The research uses the technique of obtaining documentation data with secondary data taken from the annual reports and financial statements of Manufaktur companies accessed and downloaded from the official website of the company and the BEI. The data analysis technique used in this study are Panel Data Regressions and Moderated Regression Analysis (MRA) with Stata 15 software. Table 1 provides the operational definitions and measurements of the variables.

This study also uses control variables to determine the effect of other variables in the research model. The control variables used are profitability, company size and growth potential. Profitability is measured by Return on Assets (ROA) based on research by Richardson and Taylor (2015) and Amidu et al. (2019). Company size (SIZE) is measured by the natural logarithm of the company's total assets based on research by Richardson and Taylor (2015) and Amidu et al. (2019). Last, Growth Potential (GP) or company growth potential is measured by comparing the difference between this year's revenue and the previous year, then divided by total assets, based on the research of Amidu et al. (2019).

RESULTS AND DISCUSSION

Tabel 2. Descriptive Statistics

Variable	Obs	Mean	Std Dev	Min	Max
BTD	110	-0,0065651	0,0208452	-0,080136	0,0349322
TP	110	0,1182640	0,1759688	0,0000268	0,7715386
IA	110	0,0537581	0,1037397	0,0000718	0,5397462
FSR	110	0,2233449	0,281344	0,0000878	0,9801395

Source: Processed data, STATA (2023)

Table 2 provides the descriptive statistics of variables. Based on the table, tax avoidance measured with Book Tax Difference (BTD) has a minimum value of -0,080136 and a maximum value of 0,0349322. The mean value of the BTD is -0,0065651 which means that the average sample in this study has a negative value of BTD. The Transfer Pricing (TP) has a minimum value of 0,0000268 and a maximum value of 0,7715386. The mean value of the TP variable is 0,1182640, meaning that each sample in the study reports at least 11% of receivables to related parties divided in the CALK. The Intangible Asset (IA) has a minimum value of 0,0000718 and a maximum value of 0,5397462. The mean of the variable IA is 0,0537581, meaning that the average sample of the study has a small number of presentations of intangible assets which is 5% of the overall company's assets. The last is the moderation variable, that is multinationality whose measured by foreign sales ratio (FSR) has a minimum value of 0,0000878 and a maximum value of 0,9801395. The mean value of the FSR variable is 0,2233449, which means that the average amount of company sales in the study is dominated by domestic sales compared to foreign sales which is only 22%.

This study used panel data regression for data analysis. There are three models of panel data regression, and one of the best will be selected to test the hypothesis based on Chow Test, Hausman Test, and Lagrange Multiplier Test. Based on the first test, the probability value of the Chow test is 0.0011 <0.05, then the selected model is the fixed effect model. Furthermore, based on the Hausman test, the probability value obtained is 0.0956> 0.05, so the selected model is the random effect model. Because the selected model in the Hausman test is the random effect, it will be continued with the Lagrange Multiplier test. Based on the test results, the probability value of the Lagrange Multiplier test is 0.0060 < 0.05, then the selected model is the random effect model. Because the final model chosen is the random effect model, no classical assumption testing is performed. The estimation of random effect model using generalized least square (GLS) is different from common effect model and fixed effect model using ordinary least square (OLS). The most important assumption in generalized least square is that there is no correlation or relationship between individual errors and explanatory variables (independent variables) in the model, so no classical assumption test is required on the model.

The following is model of the Moderated Regression Analysis (MRA) of the research.

$$\boldsymbol{TA = -0,0455284 + 0,0080791\,TP - 0,0127292\,IA + 0,0034997\,MNC * TP}$$

$$\boldsymbol{- 0,0027464\,MNC * IA + 0,0337088\,ROA + 0,0010686\,SIZE - 0,0018595 +}$$

$$\boldsymbol{GP + \varepsilon}$$

Where: TA= Tax Avoidance (BTD), TP= Transfer Pricing (total receivables to related parties scaled by total receivables of the company), IA= Intangible Asset (total intangible assets scaled by total assets of the company), MNC= Multinationality (FSR=foreign sales dividing to total sales of company in a year).

The coefficient of determination (adjusted R-square) of the research model is 0,2617 or 26%. This means that the independent variables of transfer pricing and intangible assets and the moderating variable of multinationality are expected to explain 26% of the change in the tax avoidance variable, while the remaining 74% is explained by other variables or factors excluding this study. The next test is the F test to measure the validity of the research model used. Based on the results, the F-statistic probability value of the model is 0.0070 <0.05, which means that the model is valid and suitable to proceed to hypothesis testing.

Hypothesis testing is performed with partial significance test (t test) presented in table 3. Based on table 3, the t-statistic probability value of transfer pricing is 0.041 <0.05 with a coefficient value of 0,0080791 so that transfer pricing is proven to have a positive effect on tax avoidance. While the t-statistic probability value of intangible assets variable is 0.004 <0.05 with a coefficient value of -0,0127292 so that intangible assets are proven to have a negative effect on tax avoidance. The next t-statistic probability value of the interaction between transfer pricing and multinationality variable is 0.011 < 0.05 with a coefficient value of 0,0034997 so it is conclusions that multinationality strengthens the positive effect of transfer pricing on tax avoidance. Furthermore, the t-statistic probability value of the interaction variable between intangible assets and multinationality is 0.053> 0.05 with a coefficient value of -0,0027464 so it can be concluded that multinationality is proven to have no effect on the relationship between intangible assets and tax avoidance.

The results of hypothesis testing prove that the first hypothesis is that transfer pricing has a positive effect on tax avoidance, is accepted. This shows that the higher value of transfer pricing transaction, so the higher tax avoidance carried out by the company. This means that higher transactions to related parties will increase the BTD value which indicates the lower corporate tax.

Tabel 3. Partial Significance Test

Variable	*Coefficient*	Prob	Conclusion
BTD	-0,0455284		
TP	0,0080791	0,041	Positive effect
IA	-0,0127292	0,004	Negative effect
MNCxTP	0,0034997	0,011	Moderation Strengthens
MNCxIA	-0,0027464	0,053	Not Moderating
ROA	0,0337088	0,303	Not Significant
SIZE	0,0010686	0,027	Positive effect
GP	-0,0018595	0,838	Not Significant
	Weighted Statistics		
Adj. R-Squared	0,2617		
F-statistic	19,39		
Prob(F-statistic)	0,0070		

Source: Processed data, STATA (2023)

Agency Theory explains that different purposes and interests between the principal and agent can lead managers to take actions that are unnoticed and undesirable by the principal, such as tax avoidance. Management is responsible for manage the company so they know more information about the company than shareholders. With the information advantage, management can choose opportunistic actions that will reduce the tax burden. One of the opportunistic actions that can be chosen is transfer pricing (Chan et al., 2004). Transfer pricing is a fairly common practice in company's operations (Rabbi & Almutairi, 2021). But in the practice, it often involves price manipulation aimed at minimizing the tax burden (Nainggolan & Sari, 2020). Companies can avoid taxes through transfer pricing by minimizing the sales price (under invoice) or increasing the purchase price (over invoice). In addition, transfer pricing is one of the instruments that is often used by multinational companies to avoid taxes through shifting income or profits among countries by utilizing the differences of tax rates (Darussalam & Tobing, 2014).

This study supports the results of Amidu et al. (2019) and Nainggolan and Sari (2020), and Putri and Mulyani (2020) which prove that transfer pricing has a positive effect on tax avoidance. The scheme that can be utilized is price manipulation which will affect the company's tax burden. In addition, the transfer pricing mechanism also spends a lot of costs that will reduce taxable income. The transfer pricing mechanism can also be carried out on foreign affiliates. To earning maximum profit and minimum tax burden, companies can utilize transfer pricing to perform income shifting by utilizing the difference in tax rates between countries.

The results of hypothesis testing prove that the second hypothesis, that intangible assets have a positive effect on tax avoidance, is rejected. Intangible assets are proven to have a negative effect on tax avoidance. This shows that the higher value of intangible assets owned by the company, so the lower tax avoidance carried out by the company. Higher ownership of intangible assets will reduce the BTD value which indicates high corporate taxes.

As with transfer pricing, one of the opportunistic actions that can also be utilized by management to reduce the tax burden is through the ownership of intangible assets. Intangible asset also has a unique value that can be utilized at the same time by companies in different regions and used as an opportunity for tax avoidance. Companies can also choose to own intangible assets that can reduce the company's tax burden through deductible expenses from amortization so that they do not have to transfer these assets to another jurisdiction (Pramesthi et al., 2019).

This study proves that intangible assets have a negative effect on corporate tax avoidance. This can be explained by the ownership of intangible assets that are used by the company to increase profits. One of the objectives of companies owning intangible assets is to increase sales such as acquiring licenses for additional products and performing research and development to develop new products. With the ownership, the company is able to sell more products which will increase sales and finally increase corporate taxes. Similar to transfer pricing, nowadays there are many regulations governing the ownership of intangible assets in Indonesia. The existence of these regulations limits tax avoidance opportunities through ownership of intangible assets. So that the higher the intangible assets owned by the company will increase corporate tax.

This finding supports the results of Suryarini et al. (2021) which prove that intangible assets have a negative effect on tax avoidance. The study proves that the higher ownership of intangible assets, the higher the ETR where a higher ETR indicates low tax avoidance. The disclosure of intangible asset information causes the financial statements of the company to

be more reliable and trusted. The good image causes the company gain stakeholder trust so that management would try to not perform actions that can degrade the company's value, such as tax avoidance. Companies will deal with fines from tax authorities, litigation and reputational consequences if tax avoidance is proven to lead to illegal and unlawful actions (Wang et al., 2020).

The results of hypothesis testing also prove that the third hypothesis, that is multinationality strengthens the effect of transfer pricing on tax avoidance, is accepted. Multinationality is proven strengthen the positive effect of transfer pricing on tax avoidance. The interaction between multinationality and transfer pricing which is higher, will increase the company's BTD which indicates the higher tax avoidance by the company. This shows that the expansion of the overseas market by the company will increase the opportunity for tax avoidance through transfer pricing mechanism.

Internalization Theory explains that for the purpose of efficiently and effectively operating, companies will expand in various regions (Cooper and Nguyen, 2020). This may be achieved by the company through the transfer of goods or knowledge to the external market (Buckley & Casson, 1976). One of the important issues in multinational companies is transfer pricing. The existence of multinational companies provides more complicated dimensions to the transfer pricing mechanism (Awodiran, 2014). According to Cooper and Nguyen (2020), transfer pricing is the core of Internalization theory and offers an important advantage to multinational companies over domestic companies. They can exploit the differences of tax rates in different jurisdictions to minimize the total tax burden of the group (Adeniyi, 2008). It can be made possible by performing transfer pricing schemes that reduce the profitability of subsidiaries in high-tax-rate countries and increase the profitability of subsidiaries in low-tax-rate countries. This means that when the regulations of a country limit the transfer pricing mechanism performed by companies, then expansion can be an option. The company may choose to have related parties in countries that offer tax benefits for the transfer pricing transactions, such as low tax rates.

This study supports the results of several studies that prove the multinationality offers more opportunities for companies to avoid taxes through transfer pricing mechanisms. Nainggolan and Sari (2020) prove that multinational companies utilize differences in tax rates between countries to carry out transfer pricing. Transfer pricing in cross-border transactions often aims to take advantage of differences in tax rates and do not represent arm's length prices. These results are also supported by research of Fasita et al. (2022) and Roza et al. (2020). Multinational companies tend to utilize transactions with their foreign affiliates that have lower tax rates as a consideration in their tax planning. Pramesthi et al. (2019) also prove that multinational companies carry out transfer pricing schemes to their foreign affiliates, especially in tax haven countries that have low or even none tax rates for the purpose of obtaining a low tax burden.

The results of hypothesis testing prove that the fourth hypothesis, multinationality strengthens the effect of intangible assets on tax avoidance, is rejected. Multinationality is not proven to strengthen the effect of intangible assets on tax avoidance. The interaction between multinationality and intangible assets does not affect the BTD value, which means it is not related to tax avoidance by the company. This shows that the foreign expansion carried out by the company in Indonesia may not increase the opportunity for tax avoidance through the ownership of intangible assets.

The company's objective is to expand not only for tax motivation, but also for business development, establishing partnerships, funding purposes and obtaining resources. In the

context of manufacturing companies in Indonesia nowadays, expansion offers the opportunity for higher intangible asset ownership, which in turn will increase profits and corporate taxes. This is proven by the fact that many companies included in the research sample acquired product licenses from their foreign affiliates for sales purposes. The result maybe also caused by the use of foreign sales ratio as a measurement of multinationality. According to Hennart (2011), foreign sales are unable to identify the possibility of intangible asset exploitation. Therefore, the interaction between multinationality and intangible assets does not affect the BTD value of the company, which means not related to tax avoidance by the company.

This result supports the research of Pramesthi et al. (2019) that intangible assets do not influence tax avoidance in cross-border transactions. Manufacturing companies in Indonesia are not shifting intangible assets to foreign affiliates but rather utilizing deductible expenses as tax deductions. The finding does not support the research results of Nurhidayati and Fuadillah (2018) that companies can transfer their intangible assets to tax havens to reduce the corporate tax burden.

This study includes control variables to determine the influence of other factors excluding the research model. Based on the results of data analysis, only company size has a positive effect on tax avoidance. This means that the larger the size of the company, the more efficient the tax burden paid. This can be related to large companies that have better tax planning so as to successfully reduce the tax burden (Richardson & Taylor, 2015). Meanwhile, profitability and growth potential proved to have no effect on tax avoidance. The profit generated by the company, both high and low, and the growth of the company will not affect the tax avoidance actions taken by the company.

The discussion above proves that transfer pricing in multinational companies is often used to avoid taxes by utilizing differences in tax rates between countries. This brings up the question of why tax avoidance by utilizing differences in tax rates across jurisdictions is an important issue. According to Darussalam. and Septriadi (2017), various studies explain that a 1% difference in corporate income tax rates tends to result in a decrease in reported profits by 0.4% to 2.3% of actual profits. This provides evidence that tax avoidance by performing income shifting that utilizes differences in cross-jurisdictional tax rates needs to be a serious concern for all governments and tax authorities.

CONCLUSION

This study examines the effect of transfer pricing and intangible assets on tax avoidance with multinationality as a moderating variable. The results prove that income shifting instruments that are focused on research, which are transfer pricing, intangible assets and multinationality, affect the tax avoidance by the company. Transfer pricing can minimize the tax burden by manipulating prices and performing transactions to affiliates in countries with low tax rates. Intangible assets can also minimize the tax burden by utilizing deductible expenses from asset amortization. However, companies in Indonesia tend to have intangible assets for sales purposes rather than tax purposes. The results also proved that multinationality strengthens the effect of transfer pricing on tax avoidance. Expansion by the company increases the opportunity to avoid taxes. Companies can perform transfer pricing mechanisms to affiliates in countries with low tax rates to obtain a minimal tax burden. In terms of intangible assets, multinationality does not affect the relationship between intangible assets and tax avoidance. The companies in Indonesia have not utilized intangible assets in cross-border to make tax avoidance efforts.

This study used receivables to related parties to measure transfer pricing variables. Some companies do not present information of receivables to related parties, thus reducing the research sample significantly. Future research can use a similar measurement, measuring transfer pricing with transactions to related parties, but more attention to sales or purchases to related parties because it is information that is more widely presented than accounts receivable to related parties. This study proves that multinationality does not moderate the relationship of intangible assets to tax avoidance. This might happen because the measurement used to measure multinationality is the foreign sales ratio which according to Hennart (2011) it cannot identify the exploitation of intangible assets. Future research that will examine the effect of intangible assets on tax avoidance in the context of cross border transactions can use the measurement of Diversity of foreign countries entered (HMD) from Hennart (2011). This measurement according to Hennart (2011) reflects the possibility to exploit intangible assets. Future research may also use multinationality as a moderating variable because in terms of the concept, multinationality is suitable as a moderating variable, including when associated with the income shifting phenomenon. Multinationality as a moderating variable can also explain the inconsistency of the previous studies on the effect of transfer pricing and intangible assets and other income shifting instruments on tax avoidance. Finally, this study uses a particular theory to explain tax avoidance in the context of cross-border transactions, that is Internalization theory. Future research that would to examine corporate tax avoidance in the context of cross-border transactions may use the Internalization theory, especially those related to transfer pricing, intangible assets and multinationality.

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