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ESG DISCLOSURE: MODERATING THIN CAPITALIZATION, TRANSFER PRICING AND TAX AGGRESSIVENESS

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ABSTRACT

Purpose: Empirically, this study aims to examine the role of ESG Disclosure in moderating thin capitalization and transfer pricing on tax aggressiveness.

Methodology/approach: The population in this study is energy companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. By referring to associative research as the type of research and purposive sampling technique in determining the sample, 105 energy companies listed on the IDX from 2018-2022 were obtained. Multiple linear regression using MRA was used as the analysis technique with SPSS 29 as the analysis tool.

Findings: The results showed that thin capitalization has a negative effect on tax aggressiveness and transfer pricing variables have a positive effect on tax aggressiveness. ESG disclosure in this study is able to weaken the relationship between thin capitalization and transfer pricing on tax aggressiveness.

Practical implications: The implication of this study is that companies can better improve their tax planning through a deeper understanding of ESG disclosure, thin capitalization, transfer pricing, and tax aggressiveness. By paying attention to ESG factors, companies can not only optimize financial returns but also improve compliance and transparency, and minimize negative impacts on the environment and society. This research also provides valuable insights for investors, allowing them to evaluate the risks and opportunities associated with corporate tax planning, so that investment decisions can be more focused on sustainability and social responsibility.

Originality/value: This study examines the tax aggressiveness strategy carried out by energy companies through thin capitalization and transfer pricing practices. The addition of ESG disclosure as a moderator in this study serves to narrow the use of tax regulation loopholes so as to weaken the practice.

Keywords: *ESG Disclosure; Tax Aggressiveness; Thin Capitalization; Transfer Pricing.*

ABSTRAK

Tujuan penelitian: *Secara empiris penelitian bertujuan untuk menguji peran ESG Disclosure dalam memoderasi thin capitalization dan transfer pricing terhadap agresivitas pajak.*

Metode/pendekatan: *Populasi penelitian ini adalah perusahaan energi yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2018-2022. Dengan mengacu pada penelitian asosiatif sebagai jenis penelitian dan teknik purposive sampling dalam menentukan sampel diperoleh sebanyak 105 perusahaan energi tercatat di BEI dari tahun 2018-2022. Regresi linier berganda dengan menggunakan MRA digunakan sebagai teknik analisis dengan SPSS 29 sebagai alat analisis.*

Hasil: *Hasil penelitian menunjukkan bahwa thin capitalization berpengaruh negatif terhadap agresivitas pajak dan variabel transfer pricing berpengaruh positif terhadap agresivitas pajak. ESG disclosure dalam penelitian ini mampu memperlemah hubungan antara thin capitalization dan transfer pricing terhadap agresivitas pajak.*

Implikasi praktik: *Implikasi dari penelitian ini adalah perusahaaan dapat memperbaiki perencanaan pajak dengan lebih baik melalui pemahaman mendalam mengenai ESG disclosure, thin capitalization, transfer pricing, dan agresivitas pajak. Dengan memperhatikan faktor-faktor ESG, perusahaan tidak hanya dapat mengoptimalkan keuntungan finansial tetapi juga meningkatkan kepatuhan dan transparansi, serta meminimalkan dampak negatif terhadap lingkungan dan masyarakat. Penelitian ini juga memberikan wawasan berharga bagi investor, memungkinkan mereka untuk mengevaluasi risiko dan peluang terkait perencanaan pajak perusahaan, sehingga keputusan investasi dapat lebih berfokus pada keberlanjutan dan tanggung jawab sosial.*

Orisinalitas/kebaharuan: *Penelitian ini mengkaji terkait strategi agresivitas pajak yang dilakukan perusahaan energi melalui praktik thin capitalization dan transfer pricing. Penambahan ESG disclosure sebagai moderator dalam penelitian ini berperan untuk mempersempit pemanfaatan celah peraturan perpajakan sehingga mampu memperlemah praktik tersebut.*

Kata kunci: Agresivitas Pajak; *ESG Disclosure; Thin Capitalization; Transfer Pricing.*

INTRODUCTION

Tax aggressiveness becomes a strategy to minimize tax owed by manipulating income that can be assessed through tax management which can be done legally to illegally (Frank et al., 2009). Tax Justice Network (2020) revealed that Indonesia is expected to lose up to US$ 4.86 billion per year due to tax aggressiveness. The Ministry of Finance noted that Indonesia's tax ratio experienced fluctuations in 2017-2022 amounting to 9.89%; 10.24%; 9.76%; 8.33%; 9.11%; 10.4% (Sopiah, 2023). When compared with ASEAN and G20 countries, Indonesia is ranked lowest even though Indonesia has the largest GDP (Wicaksono, 2022) The low tax ratio that occurs can indicate aggressive tax practices carried out by companies in Indonesia (Pradhana & Nugrahanto, 2021).

Indonesian companies such as PT. Adaro Energy Tbk is suspected of using transfer pricing as an action to minimize the tax owed. Global Witness Report (2019) explained that from 2009 to 2017 PT. Adaro Energy Tbk transferred company profits in Indonesia to its subsidiary in Singapore, from this action PT. Adaro Energy Tbk was able to minimize the tax owed by up to US$ 125 million. Apart from that, reported on the Jambione (2023) PT Bumi Borneo Inti experienced management dualism which resulted in tax evasion through illegal mining activities on the Mining Business License (IUP). Mining activities carried out on behalf of PT Bumi Borneo Inti and do not have licensing components related to the Mineral Online Monitoring System (MOMS), Minerba One Data Indonesia (MODI) (Jambione, 2023). It is known that the Ministry of Energy and Mineral Resources of the Republic of Indonesia, through the Directorate General of Minerals and Coal has temporarily deactivated PT Bumi Borneo Inti's MOMS and MODI accounts (Wartalika, 2023). The community suspects that there is a conspiracy between related parties in the management and utilization of coal mineral mining, causing the coal produced and sold to not pay taxes (Jambiupdate, 2023). The indications of tax evasion that occur from these activities are assumed to reach hundreds of billions from coal production of 250,000 tons (Jambiupdate, 2023). Based on the description above, it can indicate the existence of tax aggressiveness carried out by companies in Indonesia, especially energy companies.

Based on the explanation above, this could indicate aggressive tax practices by energy companies. PWC Indonesia revealed that of the 40 large mining companies in Indonesia, 70% of the companies have not been transparent in reporting their taxes so that mining companies are considered not fully compliant with existing tax regulations (Suwiknyo, 2021). The contribution of energy companies to the country's economy is also considered less than optimal because the government has special policies such as Minister of Finance Regulation of 2019 Number 116/PMK.04; Government Regulation Number 37 of 2018; Law Number 3 of 2020. Tax aggressiveness can occur due to thin capitalization and transfer pricing practices (Taylor & Richardson, 2012). These two practices are most commonly used by companies to minimize their tax payable (Taylor & Richardson, 2012).

First, thin capitalization is a practice used by increasing the company's funding sources through liabilities so that the amount of liabilities will be greater than the amount of equity (OECD, 2012). Based on the capital structure theory of Modigliani & Miller (1963) funding sources with liabilities can reduce taxable income because there is interest expense. The existence of interest expense which includes deductible expense is the reason the company utilizes it (Dewi et al., 2023). Thin capitalization has a positive effect on tax aggressiveness (Falbo & Firmansyah, 2018; Rohmah & Romadhon, 2023; Utami & Irawan, 2022). The greater the thin capitalization practice used by the company, the greater the level of tax aggressiveness carried out by the company. The above argumentation is different from the research of Pradana et al (2024); Putri & Rohman (2024); Salwah & Herianti (2019) which proves that thin capitalization has a negative effect on tax avoidance. This is because companies do not make interest expense a goal in tax avoidance, the existence of Minister of Finance Regulation No.169 / PMK.010 / 2015 is also able to reduce the company's gap for tax avoidance. Meanwhile, there are empirical studies that prove that thin capitalization has no effect on tax aggressiveness (Haryanti et al., 2020; Selistiaweni et al., 2020). Companies tend to use equity as a source of funding rather than liabilities.

Second, transfer pricing is a practice with pricing in a transaction carried out between divisions within a company or between companies that have a special relationship (Shodiq et al., 2017). Transfer pricing occurs when the predetermined price exceeds the limit of reasonableness or is not in accordance with the arm's length principle. Transfer pricing has a positive effect on tax aggressiveness (Utami & Irawan, 2022; Wijaya & Rahayu, 2021). This is because the company diverts profits to affiliated companies by determining the price in a transaction so that the tax burden will decrease. The greater the transfer pricing practices used by the company, the greater the level of tax aggressiveness carried out by the company. The above argument is different from the research of Rosani & Andriyanto (2024); Susanto et al (2022) which proves that transfer pricing has a negative effect on tax avoidance. Regulations related to transfer pricing make companies that want to practice transfer pricing must meet the points on the arm length principle, making it difficult for companies to carry out transfer pricing which aims to minimize the amount of tax payable by conducting tax aggressiveness. Meanwhile, there are empirical studies that prove that transfer pricing has no effect on tax aggressiveness (Falbo & Firmansyah, 2018; Haryanti et al., 2020; Rohmah & Romadhon, 2023). This is because financial accounting standards in Indonesia do not regulate in detail the disclosures, transactions and methods that need to be carried out by related parties so that bias occurs.

This study uses Environmental, Social and Governance (ESG) disclosure as a moderating variable. ESG disclosure is a reference in measuring performance and corporate social responsibility (Amalia & Kusuma, 2023). ESG can include various activities carried out by companies related to environmental aspects, relationships with the community, and internal management of the company, with the aim of achieving corporate performance and social responsibility (Amalia & Kusuma, 2023). Internal management of the company, with the aim of achieving company goals and meeting the needs of stakeholders (Husada dan Handayani, 2021). ESG disclosure has a positive effect on tax aggressiveness (Mao, 2018; Zahira & Ratnawati, 2021). Companies tend to create a good reputation in front of stakeholders by making extensive ESG disclosures. With a good reputation, the company performs tax aggressiveness because the company already has public trust. The above argument is different from the research of Lee et al (2021); Nurlaely & Dewi (2023); Yoon et al (2021) which proves that ESG disclosure has a negative effect on tax aggressiveness. Companies that disclose ESG well tend not to engage in tax aggressiveness because the practice will generate negative sentiment and put the company at public risk which can affect the company's reputation and relationship with stakeholders. Meanwhile, there are empirical studies that prove that ESG disclosure has no effect on tax aggressiveness, namely Anggraini & Wahyudi (2022); Mukhtaruddin et al (2024). This is because the company's ESG disclosure does not motivate the company to carry out tax aggressiveness. The lack of regulatory control over reporting makes companies tend to make disclosures that are not always true and socially responsible companies cannot be guaranteed not to practice tax aggressiveness (Makhfudloh et al., 2018). ESG factors are the latest trend used by companies to reduce information asymmetry and stock price volatility in the market (Shakil, 2020). ESG can reduce information asymmetry by providing transparency and oversight through disclosure. Information asymmetry arises due to information imbalance, giving rise to agency problems in the form of conflicts of interest between agents and principals (Scott, 2015; 390).

Agency theory is a contractual relationship between the agent and the principal, the agent does not always make decisions in accordance with the principal's expectations (Jensen & Meckling, 1976). Agency theory explains that tax aggressiveness arises because there is a conflict of interest between the company as a corporate taxpayer (agent) and the government (principal) (Falbo & Firmansyah, 2018). The government wants taxpayers to make tax payments in line with the provisions because the taxes paid by taxpayers will be used to fund state spending or activities, while for companies the payments made will reduce income. Conflict of interest occurs due to information imbalance between agent and principal. Agents who know more information than the principal tend to increase utility with tax aggressiveness as a strategy to minimize taxes payable through thin capitalization and transfer pricing practices.

Tax aggressiveness can occur due to thin capitalization (Taylor & Richardson, 2012). Thin capitalization is a practice used to increase a company's funding sources through liabilities (OECD, 2012). Liabilities give rise to debt interest which is a tax deduction because it is included in deductible expenses (Dewi et al., 2023). The argument above supports findings from research Falbo & Firmansyah (2018); Rohmah & Romadhon (2023); Utami & Irawan (2022). Agency theory explains that managers as company managers have more information about the company so that there is an information imbalance between managers as agents and the government as principal. This information imbalance provides an opportunity for managers to act opportunistically to increase company profits by using tax aggressiveness as a strategy. Tax aggressiveness can be achieved through thin capitalization practices. In this case the agent will utilize the interest expense arising from the obligation to minimize the tax owed. Liabilities can reduce taxable income by utilizing interest expenses which can be used as a deduction from tax income or deductible expenses. Thin capitalization positively influences tax aggressiveness due to the presence of interest expenses in funding through obligations which can be used as a tax deduction (Falbo & Firmansyah, 2018). The argument presented aligns with the findings of research conducted by Utami & Irawan (2022) which elucidating that as the company's liabilities increase, the interest expense also rises, consequently serving as a deduction from taxable income. By utilizing facilities to reduce loan interest expenses, company taxes will be lower (Rohmah & Romadhon, 2023). From the description provided, a hypothesis can be formulated:

H1: Thin capitalization Increases tax aggressiveness.

Tax aggressiveness can occur due to transfer pricing (Taylor & Richardson, 2012). Transfer pricing involves establishing prices for transactions conducted among divisions on company or among affiliated companies (Shodiq et al., 2017). This practice is able to minimize the tax burden owed (Utami & Irawan, 2022; Wijaya & Rahayu, 2021). Agency theory explains that managers as company managers have more information about the company so that there is an information imbalance between managers as agents and the government as principal. This information imbalance provides an opportunity for managers to act opportunistically to increase company profits by using tax aggressiveness as a strategy. Tax aggressiveness can be achieved through transfer pricing practices. In this case, the agent will determine the price in the transaction that aims to manipulate the price. This causes the taxable profit to be low so that it can minimize the tax payable. Transactions used by the company include receivables, sales, purchases, service payments, royalties, loan interest and others. Companies tend to set lower transfer prices to related parties so that the sales value is lower. On the other hand, this will lower income tax and trigger tax aggressiveness. Transfer pricing contributes positively to tax aggressiveness because companies that have special relationships tend to carry out aggressive transfer pricing practices in order to optimize income through tax aggressiveness (Utami & Irawan, 2022; Wijaya & Rahayu, 2021). From the description provided, a hypothesis can be formulated:

H2: Transfer Pricing Increases tax aggressiveness.

ESG disclosure is a reference in measuring social responsibility and company performance (Amalia & Kusuma, 2023). Companies that carry out ESG disclosures well are less likely to carry out tax aggressiveness because this practice will create negative sentiment and place the company at public risk which can affect the company's reputation and relationships with stakeholders (Lee et al., 2021; Yoon et al., 2021). Agency theory explains that the information imbalance that occurs provides an opportunity for managers to act opportunistically to increase company profits by using tax aggressiveness as a strategy. Tax aggressiveness can be achieved through thin capitalization practices (Taylor & Richardson, 2012). Thin capitalization is a practice used to increase a company's funding sources through liabilities (OECD, 2012). Liabilities give rise to debt interest which is a tax deduction because it is included in deductible expenses (Dewi et al., 2023). The argument above supports findings from research Falbo & Firmansyah (2018); Rohmah & Romadhon (2023); Utami & Irawan (2022).

In this case the agent will utilize the interest expense arising from the obligation to minimize the tax owed. ESG disclosure in this case can be used as a controlling factor that can weaken thin capitalization on tax aggressiveness because ESG disclosure is able to reduce information inequality by providing transparency and external supervision of company actions so that companies tend to behave better ethically and responsibly. ESG disclosure as a moderator plays a role in narrowing the use of loopholes in tax regulations. ESG disclosure exerts a detrimental impact on tax aggressiveness. Yoon et al (2021) prove that companies that carry out ESG disclosures typically discourage tax aggressiveness because thin capitalization will give rise to negative reputation and relationships with stakeholders. Companies that have a good reputation do not carry out tax aggressiveness because companies tend to maintain that reputation (Lee et al., 2021). From a sustainability perspective, companies that implement ESG solely aims to achieve long-term profits by cultivating a good image among stakeholders. From the description provided, a hypothesis can be formulated:

H3: ESG disclosure can weaken thin capitalization and tax aggressiveness.

In measuring corporate social performance and responsibility, ESG disclosure can be used as a reference(Amalia & Kusuma, 2023). ESG can cover various activities carried out by companies related to environmental aspects, community relations, and internal company management, with the aim of achieving company goals and meeting stakeholder needs (Husada dan Handayani, 2021). Companies that carry out ESG disclosures well are less likely to carry out tax aggressiveness because this practice will create negative sentiment and place the company at public risk which can affect the company's reputation and relationships with stakeholders (Lee et al., 2021; Yoon et al., 2021). Agency theory explains that the information imbalance that occurs provides an opportunity for managers to act opportunistically to increase company profits by using tax aggressiveness as a strategy. Tax aggressiveness can be achieved through transfer pricing practices (Taylor & Richardson, 2012).

In this case, the agent will set the price in a transaction conducted between related parties, with the intention of manipulating prices. This practice is able to minimize the tax burden owed (Utami & Irawan, 2022; Wijaya & Rahayu, 2021). ESG disclosure can be used as a controlling factor that can weaken transfer pricing on tax aggressiveness because ESG disclosure is able to reduce information inequality by providing transparency and external supervision of company actions so that companies tend to behave better ethically and responsibly. ESG disclosure as a moderator plays a role in narrowing the use of loopholes in tax regulations. ESG disclosure exerts a detrimental impact on tax aggressiveness. Yoon et al (2021) prove that companies that carry out ESG disclosures typically discourage tax aggressiveness because transfer pricing will give rise to negative reputation and relationships with stakeholders. Companies that have a good reputation do not carry out tax aggressiveness because companies tend to maintain that reputation (Lee et al., 2021). From a sustainability perspective, companies that implement ESG solely aims to achieve long-term profits by cultivating a good image among stakeholders. From the description provided, a hypothesis can be formulated:

H4: ESG disclosure can weaken transfer pricing and tax aggressiveness.

METHODS

The research methodology employed is associative research, which examines ESG dicslosure in moderating thin capitalization, transfer pricing and tax aggressiveness. Energy companies on the IDX in 2018-2022 are the population of this study and sampling technique uses purposive sampling. Researchers use this period to obtain relevant data to analyze the phenomenon being studied. The criteria used are as follows:

Table 1. Sample Selection Results

No	Criteria	Not According	According
1	Energy companies on the IDX in 2018-2022.	0	76
2	Energy companies whose annual reports and financial reports can be accessed for 2018-2022.	(22)	54
3	Energy companies that present data related to research variables for 2018-2022.	(33)	21
	Total company × 5 Years 21 × 5 = 105		105 samples

Using purposive sampling technique in sampling, 21 energy companies were obtained as samples. This research was conducted for 5 years so that the total sample used was 105 samples. Multiple linear regression analysis with MRA was carried out to determine whether the moderating variable was able to moderate the influence of the independent variable on the dependent variable. The following is the regression equation model for the moderating variable in this research:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3(X1Z) + \beta 4(X2Z) + e$$

Explanation:

Y: tax aggressiveness (NPM Index)

α: object constant

β1; β2; β3; β4 : Regression coefficients

X1: Thin Capitalization

X2: Transfer Pricing

Z: ESG Disclosure

e : error

There are four research variables, which have operational measurement as follows:

Table 2. Measurement Variables

Variable	Measurement Variables
Thin Capitalization (Falbo & Firmansyah, 2018; Taylor & Richardson, 2012)	$MAD\ ratio = \frac{Average\ Debt}{\mathrm{SHDA}}$ Explanation: SHDA= 80% X (Average Total Assets-Non IBL) Average Debt = Total IBL
Transfer Pricing (Haryanti et al., 2020; Rohmah & Romadhon, 2023)	$\mathrm{TP} = \frac{\text{Trade Receivables from Related Parties}}{\text{Total Receivable}}\ x\ 100\%$
ESG Disclosure (Ihsani et al., 2023)	$\mathrm{ESG} = \frac{\text{Number of Each Indicator Disclosed by the Company}}{\text{Total Items}}$

Table 2. Sample Selection Results

RESULT AND DISCUSSION

Descriptive Statistics

Variables	Mean	Min	Max	Standard Deviation

Thin Capitalization	0,6528	0,13	1,05	0,21305
Transfer Pricing	0,3241	0,00	0,98	0,29867
Tax aggressiveness	0,3998	-8,44	11,66	1,75317
ESG *Disclosure*	0,7126	0,24	0,97	0,19706

Table 3. Results of Descriptive Statistical Tests

Source: SPSS Output

Table 3 shows that thin capitalization has an average value of 0.6528. In terms of observations on 105 sample companies, it shows that 75 companies have thin capitalization values below 65.28% and 30 samples have values above 65.28%. The distribution of data shows normal results because the average value exceeds the standard deviation value. Meanwhile transfer pricing has an average of 0.3241. In terms of observations on 105 sample companies, it shows that 62 companies have transfer pricing values below 32.41% and 43 samples have values above 32.41%. The data distribution shows normal results. ESG disclosure has an average value of 0.7126. Based on observations of 105 sample companies, it shows that 48 companies have ESG disclosure values below 71.26% and 57 samples have values above 71.26%. The average ESG disclosure in sample companies is 71.26% or around 23 indicators disclosed out of a total of 33 Bumi Global Karbon (BGK) indicators. Data distribution shows normal results. Tax aggressiveness has an average value of 0.3998. Based on observations of 105 sample companies, it shows that 53 companies have a tax aggressiveness value below 39.98% and 52 samples have a value above 39.98%. The standard deviation of tax aggressiveness is greater than the average, this indicates that the variability in the tax aggressiveness data is large so that the tax aggressiveness data varies.

Classic assumption test

Variables	Kolmogorov-Smirnov	Tolerance	VIF	Glejser Test	Durbin Watson
TH	0,126	.138	7.247	.203	1,523
TP		.079	1.656	.213	
TH_ESG		.120	8.337	.925	
TP_ESG		.075	1.267	.476	

Table 4. Results of Classic Assumption Test

Source: SPSS Output

Table 4 shows that the test for normal distribution has p-value > 0.05, namely 0.126. This indicates the data is normally shaped distribution. The multicollinearity test has VIF <10, namely 7.247 for the thin capitalization variable and 1.656 for the transfer pricing variable. The tolerance value for the thin capitalization variable > 0.10, namely 0.138, while for the transfer pricing has tolerance value < 0.10, namely 0.079. This proves that in this study that the data did not experience multicollinearity. heteroscedasticity test has p-value > 0.05. This proves that in this study the data did not experience heteroscedasticity problems. autocorrelation test has Durbin-Watson value is 1,523. That value is on a scale of -2 to 2. This proves that in this study the data did not contain autocorrelation.

Multiple Linear Regression

Model	Coefficients	t value	Sig value	F value	Sig value	Adjusted R Square

1	(Constant)	1.871	32.207	.000				
	TH	-2.015	-11.670	.000	232.578	0,000	0.899	
	TP	.375	2.308	.023				
	TH_ESG	.178	.925	.357				
	TP_ESG	-.243	-1.211	.229				
a. Dependent Variable: AP								

Table 5. Results of Multiple Linear Regression

Source: SPSS Output

Table 5 shows that the regression equation is as follows:

$$Y= 1,871 - 2.015\ X1 + 0,375X2 + 0,178X1Z - 0,243X2Z + e$$

The constant has a coefficient value of 1.871. This shows that if thin capitalization, transfer pricing and ESG disclosure are constant, then tax aggressiveness increases 1.871. Thin capitalization coefficient is – 2.015. In other words, when thin capitalization increases by 1 unit, tax aggressiveness decreases 2.015. Transfer pricing coefficient is 0.375. In other words, when transfer pricing increases 1 unit, tax aggressiveness increase 0.375. The ESG disclosure coefficient value moderates thin capitalization by 0.178. This shows that each ESG disclosure variable moderates thin capitalization by increasing 1 unit, then tax aggressiveness will increase 0.178. The coefficient value of ESG disclosure which moderates transfer pricing is – 0.243. This shows that each ESG disclosure variable moderates transfer pricing 1 unit, then tax aggressiveness decrease 0.243.

Coefficient of determination is 0,899. It proves that 89,9% of the diversity of tax aggressiveness is impacted by the variables studied and 10.1% is impacted by variables outside the variables studied. P-value < 0,05, it proves the resulting regression can indicate the impact of thin capitalization, transfer pricing, and ESG disclosure moderation on tax aggressiveness.

Sig value for thin capitalization is 0.000 with coefficient -2.015. It shows H_1 is unacceptable. Sig value for transfer pricing is 0.023 with a coefficient 0.375. It shows H_2 is accepted. The significance value of the ESG disclosure variable which moderates thin capitalization is 0.357 with a coefficient 0.178. It shows H_3 is accepted. The significance value of the ESG disclosure variable which moderates transfer pricing is 0.229 with a coefficient -0.243. It shows H_4 is accepted.

DISCUSSION

Thin Capitalization Reduces Tax Aggressiveness

The significance value of the thin capitalization variable is 0.000 <0.05 with a coefficient value of -2.015. This shows that thin capitalization has a negative effect on tax aggressiveness. Therefore, H1 is rejected. The higher the thin capitalization, the lower the company's tax aggressiveness. This study supports research conducted by Pradana et al (2024); Putri & Rohman (2024); Salwah & Herianti (2019). Thin capitalization is carried out by increasing funding sources through liabilities so that the amount of liabilities will be greater than the amount of equity. The interest expense from these liabilities can be deducted from tax revenues. This creates an incentive for companies to use more liabilities than equity and results in aggressive practices in tax management. From the results of the analysis that has been carried out, it is known that energy companies use funding sources through liabilities but do not make interest expenses a goal in tax aggressiveness because the average energy company has a thin capitalization value of 65.28%. In terms of observation of 105 sample companies, as many as 69 sample companies use an average capital structure below 80%. This shows that energy companies comply with the Regulation of the Minister of Finance Number 169/PMK.10 of 2015 which sets a maximum DER limit of 4:1.

These findings aren't consistent with the agency theory proposed by Jensen & Meckling (1976) which explains that about imbalance of information results in conflicts of interest between the government and companies. Companies tend to want to pay small taxes. By having more information than external parties, companies tend to carry out various strategies such as thin capitalization to minimize taxes owed. However, based on the results of this study, there is a negative influence. This means that companies do not use thin capitalization as a strategy to minimize their taxes.

Transfer Pricing Increases Tax Aggressiveness

The significance value of the transfer pricing variable is 0.023 < 0.05 with a coefficient value of 0.375. This shows that transfer pricing has a positive effect on tax aggressiveness.Therefore, H2 is accepted. The higher the transfer pricing, the higher the company's tax aggressiveness. Transfer pricing refers to the practice of companies in determining the price of a transaction conducted between related parties. Transfer pricing occurs when the price of a predetermined transaction exceeds the limits of fairness or does not comply with the arm's length principle. This principle explains that the price set in a transaction must reflect fair market conditions, namely the price determined between related parties and independent parties must be the same. The outcomes of this investigation align with the research conducted by Utami & Irawan (2022) and Wijaya & Rahayu (2021). Transfer demonstrating that transfer pricing yields a beneficial impact. Determining the price in the transaction will reduce taxable profits so as to minimize the tax payable. Energy companies use transfer pricing through related party transactions. By setting the price of a transaction with a related party, it can have a beneficial impact on the company because the determination of the price can reduce taxable profit. The transactions used by energy companies are through related party receivables. Related party receivables occur due to sales transactions to related parties that are carried out on credit. This causes profit to be low because revenue is only recognized when goods or services are delivered to customers, even though payment has not been received.

These findings are consistent with the agency theory proposed by Jensen & Meckling (1976) which explains that an imbalance of information results in a conflict of interest. Managers as company managers are known to have more information about the company, resulting in an information imbalance between managers as agents and the government as principal. This information imbalance provides managers with the opportunity to act opportunistically to increase company profits by using tax aggressiveness as a strategy. Tax aggressiveness can be done through thin capitalization and transfer pricing practices.

ESG Disclosure Weakens Thin Capitalization on Tax Aggressiveness

The significance value of the ESG disclosure variable moderating thin capitalization is 0.357 > 0.05 with a coefficient value of 0.178. This shows that ESG disclosure is able to weaken the relationship between thin capitalization and tax aggressiveness. Therefore, H3 is accepted. Thin capitalization using funding sources through liabilities that the total liabilities will be greater than the amount of equity. This practice is used to minimize tax payable by utilizing interest expenses as deductible expenses. From the results of the analysis that has been carried out the average energy company has a thin capitalization value of 65.28%. In terms of observation of 105 sample companies, as many as 69 sample companies use an average capital structure below 80%. In this case it is known that the company still prioritizes funding sources through liabilities. The outcomes of this investigation align with the research conducted by Pradana et al (2024); Putri & Rohman (2024); Salwah & Herianti (2019). Which proves that thin capitalization has a negative effect on tax aggressiveness. The higher the thin capitalization practice, the lower the level of tax aggressiveness carried out by the company.This shows that energy companies comply with the Regulation of the Minister of Finance Number 169/PMK.10 of 2015 which sets a maximum DER limit of 4:1.

A total of 36 energy companies have thin capitalization values above the average value. However, there are only 3 companies that have thin capitalization values of more than 80%. Energy companies that have high thin capitalization values also have high ESG disclosures. This shows that even though the companies use a debt-dominated capital structure, they do so with transparency and strict adherence to good governance practices. ESG disclosure in this case can be used as a controlling factor that can weaken the impact of thin capitalization on tax aggressiveness because ESG disclosure is able to reduce information imbalances by providing transparency and supervision by external parties on company actions so that companies tend to behave more ethically and responsibly. ESG disclosure as a moderator plays a role in narrowing the use of loopholes in tax regulations. The more extensive ESG disclosures are, the better the company is at improving The accuracy of information regarding the company's actual state. This can build the company's reputation and increase stakeholder trust. The outcomes of this investigation align with the research conducted by Lee et al (2021) and Yoon et al (2021) demonstrating that ESG disclosure exerts a detrimental impact on tax aggressiveness. These findings are consistent with the agency theory proposed by Jensen & Meckling (1976) which explains that an imbalance of information results in a conflict of interest. Managers as company managers are known to have more information about the company, resulting in an information imbalance between managers as agents and the government as principal. This information imbalance provides managers with the opportunity to act opportunistically to increase company profits by using tax aggressiveness as a strategy through thin capitalization practices. To minimize the information imbalance, ESG disclosure can be used.

ESG Disclosure Weakens Transfer Pricing on Tax Aggressiveness

The significance value of the ESG disclosure variable that moderates transfer prices is 0.229 > 0.05 with a coefficient value of -0.243. This shows that ESG disclosure is able to weaken the relationship between transfer prices and tax aggressiveness. Therefore, H4 is accepted. Transfer pricing refers to company practices in determining prices for transactions between parties with a special relationship. Transfer pricing occurs if the price of a predetermined transaction exceeds reasonable limits or does not comply with the arm's length principle. Tax aggressiveness increases due to high transfer pricing. The results of this observation are in line with research conducted by Utami & Irawan (2022) and Wijaya & Rahayu (2021), which show that transfer pricing has a positive impact. Pricing in transactions can reduce tax profits to minimize taxes payable. In Indonesia, accounting practices use the accrual basis so that recorded profits can be low because revenue is recognized when goods or services are delivered to customers, even though payment has not been received. Therefore, credit between related parties is often used in transfer pricing practices. Energy companies use transfer pricing through related party transactions. The transactions used by energy companies are through related party receivables. Related party receivables occur due to sales transactions to related parties that are carried out on credit. This causes profit to be low because revenue is only recognized when goods or services are delivered to customers, even though payment has not been received.

Energy companies with higher ESG disclosure values have a weaker transfer pricing effect on tax aggressiveness. Increasing ESG values can reduce transfer pricing values in this study. Energy companies that disclose ESG more than 50% on average have small transfer pricing values, which are close to 0. ESG disclosure in this case can be used as a controlling factor that can weaken the impact of transfer pricing on tax aggressiveness because ESG disclosure is able to reduce information imbalances by providing transparency and supervision by external parties on company actions so that companies tend to behave more ethically and responsibly. ESG disclosure as a moderator plays a role in narrowing the use of loopholes in tax regulations. The broader the ESG disclosure, the better the company is at increasing the accuracy of information regarding the actual state of the company. The more extensive ESG disclosures are, the better the company is at improving The accuracy of information regarding the company's actual state. This can build the company's reputation and increase stakeholder trust. The outcomes of this investigation align with the research conducted by Lee et al (2021) and Yoon et al (2021) demonstrating that ESG disclosure exerts a detrimental impact on tax aggressiveness. These findings are consistent with the agency theory proposed by Jensen & Meckling (1976) which explains that an imbalance of information results in a conflict of interest. Managers as company managers are known to have more information about the company, resulting in an information imbalance between managers as agents and the government as principal. This information imbalance provides managers with the opportunity to act opportunistically to increase company profits by using tax aggressiveness as a strategy through transfer pricing practices. To minimize the information imbalance, ESG disclosure can be used.

CONCLUSION

This study empirically examines ESG disclosure in moderating thin capitalization, transfer pricing and tax aggressiveness. From the results of the analysis that has been done, it can be concluded that thin capitalization has a negative effect on tax aggressiveness. This shows that energy companies do not maximize capital structure restrictions. This means that energy companies comply with Minister of Finance Regulation No. 169/PMK.010/2015. This also shows that energy companies do not make interest expense a goal in conducting tax aggressiveness. Transfer pricing affects tax aggressiveness. This shows that energy companies use transfer pricing practices to minimize taxes payable. ESG is able to moderate the influence of thin capitalization and transfer pricing on tax aggressiveness. This shows that ESG disclosure can be used to minimize the information imbalance that occurs. The information disclosed is able to improve the quality of information about the real condition of the company so that it can narrow the utilization of tax regulation loopholes. The findings of this study are not universally applicable to the wider population. This study only applies to the specific context or sample used in the study. For this reason, future researchers are expected to use alternative companies other than energy companies, especially if using thin capitalization, transfer pricing, ESG disclosure and tax degradation variables.

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