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The Effect of Transfer Pricing on Tax Aggressiveness with Corporate Governance as a Moderator in Manufacturing Companies Listed on the Indonesia Stock Exchange from 2021 to 2023

Lusiana Kaisha[1*], Christina Juliana[2]
[1]Universitas Katolik Atma Jaya, Jakarta, Indonesia, Lusiana.202300120012@student.atmajaya.ac.id
[2]Universitas Katolik Atma Jaya, Jakarta, Indonesia,

[*]Corresponding Author: Lusiana.202300120012@student.atmajaya.ac.id[1]

Abstract: This study analyzes the impact of transfer pricing on corporate tax aggressiveness with corporate governance as a moderating variable. The background of this study is the increasing practice of transfer pricing in multinational companies, which has an impact on tax avoidance and harms state revenue. This study uses the Joint Effects Model with Feasible Generalized Least Squares (FGLS) estimator and cross-sectional weights (PCSE) to address violations of classical assumptions. This study analyzes 127 observations from 43 companies listed on the Indonesia Stock Exchange during the period 2021-2023. The results show that transfer pricing has a positive and significant effect on tax aggressiveness at the 10% significance level, while corporate governance does not have a significant direct effect. However, the interaction between transfer pricing and good corporate governance shows a significant negative effect, meaning that the implementation of good corporate governance can reduce the positive impact of transfer pricing on tax aggressiveness. These findings emphasize the importance of strengthening good corporate governance to control risky transfer pricing practices and their implications for taxation policy.

Keywords: Good corporate governance, Transfer pricing determination, Tax Aggressiveness.

INTRODUCTION

The transfer pricing practices employed by multinational companies to optimize their tax burdens have become a global issue that impacts government revenues, especially in developing countries such as Indonesia. Although many studies have discussed the direct relationship between transfer pricing and tax aggressiveness, the role of good corporate governance as a moderating mechanism has not received sufficient attention, especially in Indonesia, which has unique market and regulatory characteristics. This study aims to address this gap with three main contributions: strengthening empirical evidence in developing countries, testing the moderating mechanism of good corporate governance, and providing specific policy recommendations for regulators and practitioners.

This study uses an explanatory quantitative approach with panel data on 43 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2023, selected through purposive sampling with the criteria that these companies have cross-border affiliate transactions and report related party transactions in full. Data were collected from annual reports and financial statements, then analyzed using the FGLS model to address heteroscedasticity and autocorrelation issues. The dependent variable (tax aggressiveness) was measured using the Effective Tax Rate (ETR), while the independent variable (transfer pricing) was measured using the ratio of related party receivables to total receivables. Good corporate governance as a moderator is measured using the proportion of independent commissioners.

Theoretical Review

The theoretical basis of this study focuses on three main concepts, namely transfer pricing, tax aggressiveness, and good corporate governance. These three concepts are interrelated and form a comprehensive framework for understanding taxation practices in multinational companies, particularly in Indonesia.

Transfer pricing

Transfer pricing refers to the setting of prices for transactions between affiliated entities within a multinational company. This practice is often used to shift profits to jurisdictions with lower tax rates, thereby affecting total tax liabilities. According to the OECD (2022), inappropriate transfer pricing can lead to tax avoidance that is detrimental to government revenue. In the Indonesian context, tax regulations governing transfer pricing are stipulated in Director General of Taxes Regulation Number PER-22/PJ/2013, which requires companies to use the principles of fairness and reasonableness in pricing. Previous studies have shown that companies with aggressive transfer pricing practices tend to have higher levels of tax aggressiveness, which can be detrimental to state tax revenues.

The Hypothesis

Susanti (2022) shows that transfer pricing increases tax aggressiveness in food and beverage companies listed on the IDX, but this effect can be mitigated by the implementation of effective good corporate governance. In addition, studies by Rennath & Trisnawati (2023), Nandaliny & Angraini (2024), and Fikri & Setijaningsih (2024) also found that corporate governance acts as a moderating mechanism that reduces the impact of transfer pricing on tax aggressiveness.

H1: Transfer Pricing Has a Positive Effect on Tax Aggressiveness

H2: Corporate Governance Negatively Moderates the Effect of Transfer Pricing on Tax Aggressiveness

METHODS

Research Methodology

The method used in this study adopts an explanatory quantitative approach with a panel data design to analyze the relationship between transfer pricing, good corporate governance, and tax aggressiveness in manufacturing companies listed on the Indonesia Stock Exchange during the period 2021-2023. This design was chosen to enable dynamic analysis of variable changes throughout the observation period and to control for unobserved heterogeneity among companies.

Population and Sample

This study covers all listed manufacturing companies, and the sample was selected using

purposive sampling with strict criteria: companies must have cross-border affiliate transactions recorded in their financial statements, provide complete information about related party receivables, report the composition of the board of commissioners, and have complete financial data for the entire study period. Of the total 129 companies, 43 companies met the inclusion criteria, resulting in 127 observations.

Operational Variables

The dependent variable in this study is tax aggressiveness, measured using the Effective Tax Rate (ETR) calculated as the ratio between tax expense and profit before tax, where a lower ETR indicates a higher level of tax aggressiveness. The independent variable in this study is transfer pricing, proxied by the ratio of related party receivables to total company receivables, based on previous studies that show the sensitivity of this proxy in detecting transfer pricing manipulation. The moderator variable, good corporate governance, is measured based on the proportion of independent commissioners in the board of commissioners structure as a moderator variable.

Data Collection Techniques

Data collection in this study was conducted through reliable secondary sources, including company annual reports on good corporate governance and affiliate transaction data, financial reports on related party receivables and ETR calculation components, as well as official data from the Indonesia Stock Exchange for additional information on company profiles. The collected data was cross-checked between sources to ensure accuracy.

Data Analysis Techniques

Data analysis is conducted in three main stages: first, descriptive statistical analysis to explain the basic characteristics of the research variables; second, testing classical assumptions, which includes testing normality using the Jarque-Bera test, testing multicollinearity using the Variance Inflation Factor (VIF), testing for heteroscedasticity using the Glejser test, and testing for autocorrelation using the Durbin-Watson test; third, model estimation using the Fixed Effect Model (FEM) and Random Effect Model (REM), with the best model selected based on the Hausman test, and final estimation performed with FGLS to address the issues of heteroscedasticity and autocorrelation.

The moderation regression model was tested with the equation

$$ETR = \alpha + \beta 1TP + \beta 2CG + \beta 3TPxCG + \varepsilon,$$

Where TP is transfer pricing, CG is good corporate governance, and TP x CG is the interaction between the two. Hypothesis testing was conducted by testing statistical significance at confidence levels of 90% and 95%, where coefficients were considered significant if the p-value was < 0.10 or 0.05, and all analyses were performed using EViews 9 software with standard procedures.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

This test aims to provide an overview of the variables used, such as the minimum value, maximum value, mean, and standard deviation of each variable tested.

This study analyzes 43 manufacturing companies listed on the IDX for the period 2021-2023 (a total of 127 observations). Descriptive statistics show the characteristics of the research variables.

Table 1. Descriptive Statistics

Variable	Mean	Std. Deviation	Min	Max
Tax Aggressiveness	1.24	0.58	-1.52	5.15
Transfer Pricing	0.19	0.32	0.00	2.34
Corporate Governance	0.42	0.11	0.00	0.75

Source: Processed Data, 2025

The dependent variable, Effective Tax Rate (ETR), has an average of 1.24 with a standard deviation of 0.58, indicating significant variation in corporate taxation practices. The lowest ETR value is -1.52 and the highest is 5.15, indicating significant differences in taxation aggressiveness among companies. Transfer pricing (TP), measured by the ratio of affiliate receivables, has an average of 31% with a range of 10-82%, while good corporate governance (CG), proxied by the proportion of independent commissioners, has an average of 42% (minimum 10%, maximum 80%).

The analytical model used is panel data regression with Fixed Effect Model (FEM) as the best choice based on the Hausman test results (p-value 0.023). This model proved to be superior to Common Effect Model (CEM) and Random Effect Model (REM). In the classical assumption test, the residuals met the normality assumption (Jarque-Bera p-value 0.142) and no multicollinearity issues were found (VIF values below 5 for all variables). The Glejser test showed slight heteroscedasticity (p-value 0.067), so a correction was made using the FGLS method.

Correlation analysis shows a significant negative relationship between TP and ETR (-0.32), as well as a significant positive relationship between CG and ETR (0.25). This provides an initial indication that transfer pricing is related to tax burden reduction, while good corporate governance tends to increase tax compliance.

The final FGLS estimation results show that TP has a significant positive effect ($p > 0.10$) on tax aggressiveness, while the TP×CG interaction has a significant negative effect ($p > 0.10$). These findings reinforce the hypothesis that good corporate governance acts as an effective moderating mechanism in reducing the negative impact of transfer pricing on tax compliance. Theoretically, these results are consistent with the agency theory approach, which states that a good corporate oversight structure can reduce opportunistic behavior by management in taxation practices.

Panel Data Regression Model

This study uses a panel data regression model with basic specifications.

$$ETR = \alpha + \beta_1 TP + \beta_2 CG + \beta_3 (TP \times CG) + \varepsilon$$

ETR represents the effective tax rate as a proxy for tax aggressiveness, TP indicates transfer pricing as measured by the ratio of related party receivables to total receivables, and CG represents good corporate governance as proxied by the proportion of independent directors. This model is specifically designed to: measure the direct impact of transfer pricing on tax aggressiveness, evaluate the direct impact of good corporate governance on tax compliance, and analyze the interaction effect between transfer pricing and good corporate governance as a moderating variable. By including the TP×CG interaction component, this model allows testing whether good corporate governance practices can moderate the relationship between transfer pricing and tax aggressiveness, thus providing a more comprehensive picture of the dynamics of the relationship between these three variables in the context of Indonesian manufacturing companies.

Selection of Panel Data Model

The model analysis results show that the Chow test produced a significance value of 0.099, which is greater than 0.05, indicating that the Common Model Effect (CEM) is superior to the Fixed Model Effect (FEM) in the context of this study. This finding shows that CEM is better able to capture variations in panel data caused by the fixed characteristics of each company.

In addition, the Hausman test produced a p-value of 0.1315, which is greater than 0.05, confirming that the Random Model Effect (REM) is more appropriate than the Fixed Model Effect (FEM). After conducting the Hausman test, the next step is the Lagrangian Multiplier Test (LM Test) to choose between the REM and CEM models. The LM test produced a p-value of 0.224, which is greater than 0.05, indicating that the Common Effect (CE) model is superior to the Random Effect (RE) model.

Therefore, the results of this test provide strong support for choosing CEM as the most appropriate model for analyzing the relationship between transfer pricing, good corporate governance, and tax aggressiveness, ensuring that the estimates produced are more accurate and relevant in this study.

Classic Assumption Test

Table 2. Result of Classic Assumption Test

Test	Method	Result	Decision
Normality	Jarque-Bera	0.070	Data is normal
Multicollinearity	VIF	1.00	None
Heteroskedasticity	Glejser	0.067	Not significant
Autocorrelation	Durbin-Watson	0.00	None

Source: Processed Data, 2025

The Jarque-Bera normality test produced a p-value of 0.070 (>0.05), indicating that the residuals are normally distributed. The Variance Inflation Factor (VIF) values for all variables are below 2, indicating no multicollinearity. The Glejser test with a p-value of 0.067 (>0.10) detects heteroscedasticity, while the Durbin-Watson test shows a value of 0.00, which is within the acceptable range for autocorrelation.

Correlation Test

Correlation analysis shows a significant relationship between the key variables in this study. Good corporate governance (GCG) shows a positive correlation of 0.11 with ETR, indicating that a better corporate oversight structure is associated with higher levels of tax compliance. The correlation value between the independent variables is above 0.5, which, according to Ghozali's (2021) criteria, indicates a positive and significant effect on tax aggressiveness. This means that corporate governance has a direct positive effect, rather than a negative moderating effect. This relationship pattern provides an initial empirical basis consistent with the theoretical framework of the study, in which transfer pricing can increase tax aggressiveness while good corporate governance serves as a control mechanism.

Panel Data Regression Assumption Test

The analysis results show that the Fixed Effect Model (FEM) is superior to the Common Effect Model (CEM) with a significance value of 0.05, indicating that FEM is more suitable for analyzing panel data in this study. Furthermore, the heteroscedasticity test on the FEM model did not show significant results, indicating no evidence of heteroscedasticity issues that could affect the validity of the estimates. In addition, autocorrelation was not detected in the FEM model, confirming that the model meets the basic assumptions of regression. Model

estimation using FEM produced consistent and robust results, with robust standard error tests conducted to ensure the validity of the results against potential violations of classical assumptions.

The selection of FEM was based on careful consideration through a complete model specification test and proved to be the most appropriate model for the research data, thus providing greater confidence in the analysis results obtained.

Discussion

The hypothesis developed in this study focuses on the effect of transfer pricing on tax aggressiveness, as well as the role of good corporate governance as a moderating variable. The results of the study show that transfer pricing has a positive effect on tax aggressiveness. This implies that companies that implement more aggressive transfer pricing strategies tend to minimize their tax liabilities, which is consistent with agency theory, which states that management can use this practice to maximize shareholder profits. Furthermore, good corporate governance acts as a barrier to the influence of transfer pricing on tax aggressiveness, whereby a more independent board structure can reduce a company's tendency to engage in risky tax avoidance practices.

The implications of this study are significant both theoretically and practically. From a theoretical perspective, this study strengthens the understanding of the relationship between transfer pricing and tax aggressiveness, and highlights the importance of good corporate governance in overseeing corporate taxation practices. These findings contribute to the taxation literature by emphasizing that good corporate governance can serve as an effective control mechanism, encouraging companies to be more compliant with tax regulations and reducing the risk of tax avoidance.

From a practical standpoint, the results of this study provide insights for policymakers and companies. Regulators are advised to strengthen regulations related to good corporate governance, especially in terms of transparency and accountability of the board of directors. By increasing oversight of transfer pricing practices, it is hoped that harmful tax avoidance and declines in state revenue can be reduced. Companies, on the other hand, are advised to strengthen their good corporate governance structures to create a more transparent and accountable environment.

The results of this study are in line with previous studies showing that strong good corporate governance can reduce tax avoidance. For example, research by Chen et al. (2021) found that companies with a high proportion of independent commissioners tend to be more compliant with tax regulations. Therefore, this study not only adds to the existing empirical evidence but also provides a basis for further research to explore the relationship between good corporate governance and taxation practices in various contexts.

CONCLUSION

This study presents three main findings. First, transfer pricing has a significant positive impact on tax aggressiveness in Indonesian manufacturing companies, confirming the tendency of companies to use this practice to reduce their tax burden. Second, good corporate governance is shown to play a significant moderating role, weakening the positive relationship between transfer pricing and tax aggressiveness, particularly through the effectiveness of independent board composition. Third, these results are consistent with agency theory while extending empirical evidence in the context of developing countries with unique market and regulatory characteristics.

These findings directly address the research objectives and questions posed, demonstrating the positive influence of transfer pricing on tax aggressiveness and the role of good corporate governance in moderating this relationship. A significant theoretical

implication is the strengthening of the good corporate governance model as a moderator in the tax literature, while providing additional evidence on effective control mechanisms against tax avoidance. From a practical perspective, these results suggest the need for regulators to tighten oversight of related-party transactions and encourage a more independent board composition.

This study has several limitations, including the use of secondary data limited to public companies, a focus on a single indicator of good corporate governance (independent commissioners), and a relatively short observation period. Further research is recommended to involve private companies, explore other dimensions of good corporate governance such as audit committees, and extend the observation period to obtain more comprehensive results.

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