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The Effect of Transfer Pricing, Capital Intensity on Tax Avoidance with Sustainability Report as a Moderation Variable

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Abstract: Tax data shows an increasing trend in Tax avoidance, with tax target achievements of 107.15% in 2021, 115.6% in 2022, 108.8% in 2023, and 97.2% in 2024, highlighting the need to analyze factors that influence Tax avoidance. On the other hand, sustainability reporting is considered to reflect a company's commitment to transparency and social responsibility, which can reduce the tendency for Tax avoidance. This study aims to examine the effect of Transfer pricing and Capital intensity on Tax avoidance, as well as to test sustainability reporting as a moderating variable. Secondary data were collected from the financial statements and sustainability reports of 20 energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, with the sample selected using purposive sampling. Analysis was conducted using Moderated Regression Analysis (MRA) via SPSS. The results indicate that before moderation, Transfer pricing has a significant positive effect on Tax avoidance, but after being moderated by sustainability reporting, the effect becomes significantly negative, suggesting that sustainability reporting can curb Tax avoidance practices. Capital intensity has a significant negative effect on Tax avoidance, both before and after moderation. The interactions between Transfer pricing and Sustainability reporting, as well as between Capital intensity and Sustainability reporting, strengthen the influence of the independent variables on Tax avoidance. These findings confirm that sustainability reporting plays a strategic role in enhancing corporate transparency and accountability regarding tax obligations.

Keywords: Transfer pricing, Capital intensity, Tax avoidance, Sustainability report.

INTRODUCTION

Taxes are payments that individuals and companies must make to the state in accordance with regulations. There are no real benefits for taxpayers and taxes are imposed by force. The public interest, which aims to improve the general welfare, is instead funded by taxes. The first

legislation regulating taxes in Indonesia was Law Number 6 of 1983, which discusses General Provisions and Tax Procedures. Law Number 7 of 2021 is the latest revision of these laws and regulations. Despite its negative connotations, taxes are essential to the economic development of a country. Infrastructure, health services, free education, and social assistance programs for the underprivileged are among the various public services that depend on tax revenue (Manik, J. & Darmanysah, 2022). Because this law emphasizes that taxes are mandatory and unavoidable, they can be a burden on those responsible for taxes. This condition encourages some business entities to use legal strategies such as tax planning, to minimize their tax burden, and some entities also use strategies that violate the law such as *tax avoidance*. Therefore, the government sets annual tax revenue targets as a tool to measure an entity's awareness of its obligations.

The Ministry of Finance reported that national tax revenues over the past four years showed inconsistent performance Revenue from taxes reached IDR 1,547.8 trillion in 2021, which is 107.15% of the target. This achievement increased in 2022 to 115.6%. However, in 2023, although it still exceeded the target, the achievement decreased to 108.8%. Then, in 2024, tax revenue did not reach the target, only realizing IDR 1,932.4 trillion or 97.2% of the set target. Although nominally tax revenues continue to increase, this does not fully reflect the success of the national tax system. The tax ratio that compares government revenue to GDP is a key metric that shows this.

In 2021, Indonesia's tax ratio was recorded at 9.11%. This figure increased in 2022 to 10.39%, but again decreased to 10.21% in 2023 and continued to decline to 10.08% in 2020This decline in tax ratio not only shows the stagnation of tax revenue to economic growth, but also reflects the still large problem of tax non-compliance, including *tax avoidance* practices. Indonesia's tax ratio is also at a relatively low level compared to international standards and other countries in the region. This was confirmed by Dr. Rijadh Djatu Winardi, an academician at the Faculty of Economics and Business, Gadjah Mada University, who stated that Indonesia's tax revenue is still lagging behind neighboring countries and is influenced by the large compliance *gap* due to low taxpayer compliance (Winardi, 2025). This condition shows that there is a significant lag in the national tax base The phenomenon of low national tax ratios is strengthened by various empirical studies that highlight that the energy sector is one of the sectors that is vulnerable to tax avoidance practices. This is in line with Apriani's research (2025) which confirms that energy sector companies have a greater opportunity to carry out *tax avoidance*, especially due to the complexity of the organizational structure, the intensity of related parties' transactions, and the potential *for transfer pricing* practices and aggressive tax planning. In addition to empirical evidence from academic research, indications of tax avoidance practices in the energy sector have also been highlighted in reports by public oversight agencies. Indonesian Corruption Watch (ICW) reported on allegations of manipulation of coal sales reports by several large companies such as PT Bumi Resources Tbk, PT Kaltim Prima Coal (KPC), and PT Arutmin Indonesia, which has the potential to cause underpaid taxes of up to trillions of rupiah (ICW, cited in Apriani, 2025). Thus, Indonesia's low tax ratio cannot be separated from the challenges of tax compliance supervision, especially in the energy sector which has great opportunities in *tax avoidance* practices. One of the forms of tax avoidance strategies that is most often associated with multinational companies in this sector is the practice *of transfer pricing*, which is the determination of prices in transactions between companies that have a special relationship with the aim of transferring profits to jurisdictions with lower tax rates. This transfer pricing practice is an important issue because the energy and mining sectors generally have a complex business group structure, involving subsidiaries abroad, and large export transactions. This condition opens up opportunities for profit *shifting* through the transfer pricing mechanism.

The case of alleged *transfer pricing* practices in the mining sector, as indicated in PT Adaro Energy Tbk.,. One of the leading coal mining businesses in Indonesia PT Adaro Energy is in the midst of a dispute that has attracted public attention. The company allegedly used its foreign affiliates to hide its true financial situation from the tax authorities by moving its money to countries with lower tax rates. Rumors about PT. Adaro engaging in *transfer pricing* practices are not new. In 2009, the issue attracted a lot of public attention, although the claim was never confirmed. The rumor resurfaced in 2019. There is evidence that PT. Adaro has used *transfer pricing* to channel funds to its Singapore subsidiary, Coaltrade Service International, according to a global report published on Thursday, July 4, 2019 by Global Witnesses. There are two parts to the process that PT. Adaro is involved in. The first part involves the purchase of coal from mines in Indonesia, carried out by PT. Adaro at a discounted price from Coaltrade. The second part involves increasing the price of coal and selling it to Coaltrade. There are additional incentives totaling US$55 million offered by other Adaro subsidiaries and others to Coaltrade. The purpose of this bookkeeping is to minimize PT Adaro's tax burden, given that the tax rate in Singapore is 17% lower than in Indonesia. From 2009 to 2017, PT Adaro evaded $125 million (Rp1.75 trillion) in tax payments in Indonesia, according to the investigation. This was done using its foreign entities (Adrian Tuswandi, SH, 2022). This phenomenon is of concern to the Indonesian government, especially since the energy sector such as coal has a large contribution to the country's revenue as this sector has special characteristics that make it more vulnerable to tax avoidance practices, especially avoidance through *Transfer pricing* schemes. Significant investments in fixed assets and infrastructure require complex tax administration in the energy industry that includes mining, oil, gas, and power generation businesses. To minimize their tax liabilities, multinational companies in the sector often use transfer pricing and other tax avoidance strategies to move their revenues to countries with lower tax rates. To prevent large companies from taking advantage of tax loopholes, the DGT has taken many steps to strengthen *transfer pricing* regulations. To further reduce energy-related tax avoidance, the Indonesian government has sought to increase cooperation with international organizations such as the OECD. However, there are major challenges in terms of supervision, especially related to financial statements that are often difficult to analyze and associated with *aggressive transfer pricing* practices. Although *transfer pricing* is not always unlawful, it is often difficult to supervise and has the potential to significantly harm state revenues. Research by Surjana (2020) highlights that uncertainty in tax regulation enforcement in Indonesia provides an opportunity for companies to leverage aggressive tax avoidance strategies, which in turn threaten the integrity of the country's tax system.

In addition to *transfer pricing*, *capital intensity* is also an important factor in tax avoidance practices in the energy sector. Companies in the energy sector, which have large investments in infrastructure such as power plants, oil processing facilities, and mines, tend to be more aggressive in managing their fixed assets for tax avoidance purposes, For example, PT Adaro Energy in the first nine months of 2023 spent $473 million (or IDR 7.32 trillion) on capex, an increase of 71% compared to the same period the previous year. This capex was mostly used for the purchase and replacement of heavy equipment, vessels, as well as investments in infrastructure and supporting facilities, which saw fixed assets increase 21% compared to the previous year and account for 16% of the Company's total assets (*https://market.bisnis.com/read/20231106/192/1711534/adaro-energy-adro-serap-capex-rp73-triliun-kuartal-iii2023#goog_rewarded*). As its fixed assets increased, Adaro was able to take advantage of depreciation more aggressively, reducing its taxable profit and, in turn, its tax liabilities. Although this strategy is still within the bounds of legality, this strategy is used by some large companies to lower their tax burden.

In the midst of increasing tax avoidance practices, the issuance of *sustainability reports* by companies in Indonesia shows an increasing trend in line with the demands of implementing

Environmental, Social, and Governance (ESG) principles. Normatively, *sustainability reports* are seen as a form of corporate commitment to business ethics, transparency, and compliance with regulations, including tax obligations. Sidorus Alfandrianus Sofran (2024) stated that companies with a high level of sustainability disclosure tend to be perceived as more ethical and responsible, so they are expected to have a better level of tax compliance. However, the empirical phenomenon in Indonesia shows a contradiction, where tax avoidance practices are still found even though companies have published sustainability *reports* or made social responsibility disclosures. Several previous studies in Indonesia indicate that the disclosure of *sustainability reports* or *Corporate Social Responsibility* (CSR) has not been consistently able to suppress tax avoidance practices. Research conducted by Tifanny Jubilim and Widijaya (2021) found that *sustainability reports* do not significantly moderate the relationship between *tax avoidance* and company value in companies listed on the Indonesia Stock Exchange for the 2017–2021 period, which shows that sustainability reporting is not necessarily followed by changes in corporate tax behavior. This condition indicates that *sustainability reports* do not necessarily function as a mechanism for controlling tax compliance directly, but can play a role in strengthening or weakening the influence of certain factors on tax avoidance practices. Therefore, this study has urgency and novelty by placing *sustainability report* as a moderation variable in examining the influence *of transfer pricing* and *capital intensity* on tax avoidance, because this approach is still relatively rarely used in previous research and is expected to be able to provide a new perspective on the role of sustainability in suppressing tax avoidance practices, especially in the energy sector.

The impact *of capital intensity* and *transfer pricing* on tax avoidance has been the focus of research, but previous findings still show inconsistencies. Several studies, such as Muhammad Agus Kurniawan (2024), Corinna Theodora et al. (2022), and Faisal Sofian & Chaidir Djohar (2022), have found a positive influence, showing that the higher *the transfer pricing* practice or the proportion of fixed assets, the greater the potential for tax avoidance. On the other hand, research by Nindiana Okta Auliya et al. (2024) and Mauliddini Nadhifah & Abubakar Arif (2020) showed a negative influence, while Odeneska J.A. Purba (2024) and Rima Isnaini & Asih Handayani (2024) did not find a significant influence. These findings are still an inventory of research results and have not fully explained the gap theoretically. The inconsistency of the results of the study confirms that an approach that only emphasizes financial factors or the company's operational characteristics is not enough, as it has not considered non-financial mechanisms such as *sustainability reports* that have the potential to suppress opportunistic management behavior. From the perspective of agency theory and legitimacy theory, *sustainability reports* can act as non-financial governance instruments that increase transparency, accountability, and corporate compliance with tax obligations. The originality of this study lies in the testing of *sustainability reports* as a moderation variable that affects the relationship between *transfer pricing*, *capital intensity*, and tax avoidance. Thus, this study not only explains the inconsistencies of previous findings, but also offers a more comprehensive approach by emphasizing the role of non-financial governance in suppressing tax avoidance practices, particularly in the energy sector, thus strengthening the theoretical and practical contributions of the research. There is great hope that this research will significantly advance the field of accounting and corporate governance by adding sustainability considerations to the analytical model. Because the focus of this study on sustainability is very important, the researcher chose to use the following title: **"The Effect of *Transfer Pricing*, *Capital Intensity* on Tax Avoidance with *Sustainability Report* as a Moderation Variable".**

METHODS

This study uses *a quantitative* approach with *a causal* design to analyze the influence of *transfer pricing* and *capital intensity* as independent variables on *tax avoidance* as a dependent

variable, as well as assess the role of moderation *of sustainability reports*. The research population includes all energy sector companies listed on *the Indonesia Stock Exchange (IDX)* for the period 2021–2024, covering *the oil and gas*, *renewable energy*, and *coal and electricity* subsectors, with a sample of 20 companies selected using *purposive sampling* based on the criteria of publication of annual financial statements, positive profits, and the existence of *sustainability reports*, resulting in a total of 80 data observations. Data is collected through *documentation* methods from the company's *financial statements and* sustainability reports *as well as literature methods* to support variable analysis, which is operationalized in the form of ratios and indices according to *GRI standards*. Data analysis was carried out using *SPSS* with a descriptive procedure, classical assumption tests including normality, multicollinearity, autocorrelation, and heteroscedasticity, as well as moderation regression (*MRA*) to evaluate the interaction of independent variables with moderation, accompanied by hypothesis *tests F*, *t, and* R^2 *determination coefficients* to measure the simultaneous and partial influence of variables on *tax avoidance*.

RESEARCH AND DISCUSSION

Research Results

This study aims to analyze the influence of Transfer pricing, Capital intensity, and Sustainability report on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024. The results of the study show that transfer pricing and capital intensity have a significant influence on tax avoidance. In addition, control variables such as LONG and company size do not show a significant direct influence. This study also emphasizes the importance of sustainability reporting as an instrument to increase transparency and reduce aggressive tax avoidance practices.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Transfer pricing	80	0.00	0.99	0.3406	0.34367
Capital intensity	80	0.15	0.96	0.6122	0.19487
Tax Avoidance	80	0.00	2.26	0.3131	0.26675
Sustainability report	80	0.25	0.55	0.4478	0.03836
LONG	80	0.00	20.65	0.4832	2.30188
Company Size	80	13.3	22.79	19.5537	2.53670

The descriptive results showed significant variation in Transfer pricing practices with a standard deviation of 0.34367. Capital intensity was relatively high and consistent across companies with an average of 0.6122, while tax avoidance varied from 0 to 2.26, indicating aggressive activity in some companies. Sustainability reports had high consistency among companies with small standard deviations (0.03836). LONG showed outliers with a maximum value of 20.65, while company sizes were widely spread from small to large. These statistics provide a preliminary picture of the distribution of data and patterns of variation that are the basis for further analysis.

Table 2. Normality Test Results (Kolmogorov-Smirnov)

Unstandardized Residual	Statistic	Sig.
	0.086	0.200

The results of the Kolmogorov-Smirnov test showed a significant value of 0.200 > 0.05, so that the residual regression model was normally distributed. This was reinforced by the P-Plot graph and histogram showing the residual points evenly distributed around the diagonal

line and symmetrical to the normal curve, so that the normality assumption was fulfilled and the regression model could be validly applied.

Table 3. Multicollinearity Test

Variable	Tolerance	VIVID
Transfer pricing	0.904	1.106
Capital intensity	0.899	1.113
Sustainability report	0.876	1.142
LONG	0.880	1.136
Company Size	0.968	1.033

The VIF values of all independent variables were well below 10 and the tolerance was above 0.10, so multicollinearity was not found. Independent variables could be analyzed independently without the high risk of correlation affecting regression results.

Table 4. Autocorrelation Test Results

Models	Durbin-Watson
1	2.133

With a Durbin-Watson value of 2.133 (1.5 < DW < 2.5), the residual shows no autocorrelation. The regression model is considered to be free of interobservational dependencies, making regression estimates more credible.

Table 5 Heteroscedasticity Test Results

Variable	Sig.
Transfer pricing	0.648
Capital intensity	0.241
Sustainability report	0.906
LONG	0.735
Company Size	0.714

All significance values > 0.05, indicating the absence of heteroscedasticity. Residual scatterplots show an even distribution without a clear pattern, so that the residual variance is stable and the linear regression model meets classical assumptions.

Table 6. Results of Regression Test Without Moderation

Variable	B	Sig.
Transfer pricing	0.103	0.011
Capital intensity	-0.159	0.000
Sustainability report	-0.022	0.528
LONG	-0.007	0.853
Company Size	-0.015	0.688

Regression without moderation showed that Transfer pricing had a significant positive effect on tax avoidance, while Capital intensity had a significant negative effect. The sustainability report and control variables were insignificant, showing that the main influence came from managerial strategy and fixed asset intensity.

Table 7. Regression Test Results with Moderation

Variable	B	Sig.
Transfer pricing	-0.085	0.000
Capital intensity	-0.202	0.000
Sustainability report	-0.048	0.005
LONG	-0.021	0.261
Company Size	0.010	0.577
X1Z	0.093	0.000
X2Z	0.055	0.000

After entering the moderation of the Sustainability report, transfer pricing and Capital intensity had a significant negative effect on tax avoidance. The positive coefficient of the interaction of X1Z and X2Z showed that the Sustainability report strengthened the relationship between the two variables to tax avoidance, showing a significant moderation effect.

Table 8. F Test Without Moderation

Models	F	Sig.
1	7.133	0.000

The F-test without moderation showed that all independent and control variables simultaneously had a significant effect on tax avoidance, confirming the validity of the basic regression model.

Table 9. F Test with Moderation

Models	F	Sig.
1	59.904	0.000

With moderation, the F-value increases dramatically, indicating that the moderation model is stronger and significantly more effective in explaining tax avoidance, while improving the model's predictive ability.

Table 10. Results of the t-test without moderation

Variable	t	Sig.
Transfer pricing	2.624	0.011
Capital intensity	-412	0.000
Sustainability report	-0.634	0.528
LONG	-0.186	0.853
Company Size	-0.403	0.688

The t-test confirms that transfer pricing is significant positive and capital intensity is negative significantly to tax avoidance. The other variables are insignificant, indicating the focus of the main influence on managerial mechanisms and fixed asset intensity.

Table 11. Results of the t-test with moderation

Variable	t	Sig.
Transfer pricing	-3.750	0.000
Capital intensity	-8.480	0.000
Sustainability report	-2.881	0.005
LONG	-1.133	0.261
Company Size	0.561	0.577
X1Z	15.274	0.000
X2Z	5.150	0.000

The sustainability report is able to turn the influence of Transfer pricing into a significant negative, confirming its role as a controller of opportunistic behavior and strengthening the company's social legitimacy in tax management.

Table 12. Coefficient of Determination R^2 Without Moderation

Models	R^2	Adjusted R^2
1	0.325	0.280

Without moderation, the model was able to explain 32.5% of the variation in tax evasion. The presence of other variables that were not included in the model still affected 67.5% of the variation.

Table 13. Coefficient of Determination R^2 by Moderation

Models	R^2	Adjusted R^2
1	0.853	0.839

With moderation, the R^2 increased to 85.3%, suggesting the Sustainability report significantly strengthened the model's predictions and explained most of the variation in tax avoidance.

This analysis confirms that the Sustainability report not only has a direct effect on tax avoidance, but also moderates the influence of transfer pricing and capital intensity, so that energy sector companies tend to reduce tax avoidance practices through sustainability disclosure. The regression model with moderation has been shown to be more accurate and valid than the model without moderation, increasing the predictive power and relevance of the research.

Discussion

Transfer pricing (X1) before being moderated by *sustainability report*

Before being moderated by *the sustainability report*, *transfer pricing* was proven to have a positive and significant effect on tax avoidance. These findings show that the practice of *transfer pricing* is still used as the main instrument in corporate tax planning strategies. Under the conditions of minimal non-financial transparency pressure, *transfer pricing* is seen as a relatively safe mechanism because it is technical, complex, and difficult to detect directly by the public.

This phenomenon is in line with the condition of tax policy in Indonesia, where although *transfer pricing* regulations have been strengthened through the application of *the arm's length principle,* the effectiveness of supervision still faces limitations, especially in companies with complex group structures. The information asymmetry between taxpayers and tax authorities opens up a large space of managerial discretion in determining transfer prices.

Previous research by Nadhifah and Arif (2020), Auliya et al. (2024), and Pramita (2023) also showed that *transfer pricing* is positively associated with *Tax avoidance* when external supervision mechanisms are not optimal. In this context, tax avoidance is understood as a rational economic decision oriented towards cost efficiency, while the dimensions of sustainability and fiscal contribution have not been the main considerations of management.

Capital intensity (X2) before moderated by *sustainability report*

Prior to being moderated by *the sustainability report*, the results showed that *capital intensity* had a significant negative effect on tax avoidance, indicating that companies with a higher proportion of fixed assets tended to be less aggressive in using tax avoidance strategies. Phenomenologically, this is understandable because the structure of companies in the energy sector has a large capital density and fixed assets reflecting a long-term commitment to business

operations and substantial capital investment, so an aggressive taxation strategy risks disrupting relationships with stakeholders and authorities, and has the potential to have a negative impact on the company's reputation and operational stability. These findings are in line with several empirical studies in Indonesia that have found that *Capital intensity* has an effect on *Tax avoidance*, as reported by Ade Helmi and Yusrawati (2025), which show that *Capital intensity* has a correlation with tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange.

Transfer pricing* (X1) after moderated by *sustainability report

Interestingly, when *sustainability reports* were included as a moderation variable in the model, the effect *of Transfer pricing* on tax avoidance went from positive to negative and significant, suggesting that sustainability disclosures have a real impact on a company's tax behavior and are not just an administrative liability. This change indicates that *sustainability reporting* substantially increases reputational and transparency pressures, so *transfer pricing* strategies that may have previously been seen as an efficient way to reduce tax burdens now run the risk of undermining the company's legitimacy in the eyes of the public, investors, and regulators if not managed carefully. This phenomenon is in line with the research of Nindiana Okta Auliya, Juli Ratnawati, Enny Susilowati Mardjono, and Ratna Herawati (2024), who found that sustainability disclosure is able to reduce tax aggressiveness in companies with high *transfer pricing* intensity, and Yulinda Devi Pramita (2023) who emphasizes that sustainability transparency limits managerial opportunistic behavior through increased organizational accountability. This empirical context also supports findings in other studies that show how ESG disclosure or *sustainability reports* can be an external control tool that influences tax decisions and corporate strategies more broadly.

This change in direction provides important insight that sustainability reports act as a mechanism for pressure on legitimacy and reputation. Companies that actively disclose sustainability information face greater stakeholder expectations regarding transparency, business ethics, and fiscal compliance. In these conditions, management will be more careful in implementing aggressive taxation strategies because there are reputational risks if tax practices are not aligned with the published social responsibility narrative. In other words, sustainability reports create social control and public supervision that can limit the use of transfer pricing as a means of tax avoidance Tifanny Jubilim & Widijaya Widijaya (2023).

Implicitly, *sustainability reports* encourage companies to balance fiscal compliance with social responsibility and business ethics, so that tax decisions are driven not only by economic efficiency alone but also by stakeholder expectations of fair and transparent business practices. This pressure of transparency and reputation means that management increasingly considers reputational risks when planning tax strategies, as the publication of sustainability information that is inconsistent with tax practices can reduce investor confidence and the company's image in society. From the perspective of government policies and tax authorities, sustainability reports become an additional oversight mechanism that strengthens substantive compliance and ensures tax strategies are in line with sustainable development goals and national fiscal regulations. Thus, the change in the direction of *the transfer pricing* coefficient after the moderated *sustainability report* not only reinforces the theory of legitimacy, but also shows how companies navigate ethical, reputational, and regulatory pressures in modern business practices, and underscores the important role of transparency disclosure in good corporate governance.

Capital intensity* (X2) after moderated by *sustainability report

After the sustainability report is included as a moderation variable, the effect of capital intensity on tax avoidance still shows a stronger negative direction than the condition before

moderation. This means that companies with high capital intensity tend to avoid tax avoidance at a lower level when they have high sustainability openness.

This phenomenon can be understood because capital-intensive companies generally have a large amount of fixed assets, resulting in a high depreciation expense. In terms of taxation, depreciation is a legal deduction of taxable profits (*tax deductible expense*), so companies with high capital intensity have benefited from tax savings naturally through the depreciation mechanism. In other words, capital-intensive companies do not necessarily need an aggressive tax avoidance strategy, because the tax shield from depreciation is already relatively large.

Additionally, from an agency's theoretical standpoint, managers responsible for large fixed assets have a stronger incentive to maintain a company's reputation and minimize tax risks. Companies with high asset investments also tend to be in the spotlight of the public and regulators, so the demands for consistency between business practices and sustainability commitments are increasing. Research by Sahla Kamila, Uswatun Khasanah, and Tutty Nuryati (2023) shows that high capital intensity is often associated with stronger internal oversight and regulatory compliance, making aggressive practices of tax avoidance less attractive to management.

On the other hand, other empirical literature shows mixed results; some studies have found that capital intensity actually provides opportunities for companies to carry out tax avoidance through accelerated depreciation strategies or the use of certain tax incentives. However, in the context of this study, sustainability reports reinforce transparency and reputation pressures, making room for aggressive tax avoidance practices increasingly limited.

In terms of implications, as capital-intensive companies become more open in sustainability reports, they are not only required to comply with fiscal regulations formally, but also substantively meet stakeholder expectations of social and ethical tax contributions. The publication of detailed sustainability information reduces management's room to pursue aggressive tax strategies as reputational risks become higher.

Thus, sustainability reports not only strengthen reputational and accountability pressures, but also change the motivation for tax decisions in companies with high capital intensity. The combination of high depreciation as a legal tax deduction and increased transparency pressure makes tax avoidance more controllable in ethical and regulatory frameworks.

CONCLUSION

Based on the results of regression analysis and statistical tests that have been carried out, this study provides the following conclusions:

1. *Transfer pricing* (X1) has been shown to have a positive and significant effect on tax avoidance before it is moderated, indicating that companies tend to use *Transfer pricing* strategies to aggressively reduce tax burdens when there is no transparency and reputation pressure from sustainability reporting.
2. *Capital intensity* (X2) negatively and significantly affects tax avoidance before it is moderated, which indicates that companies with high fixed asset structures tend to have more conservative tax behaviors due to internal oversight and reputational risk considerations, especially when large capital attachments magnify the impact of tax decisions on the stability and public exposure of companies. Previous empirical studies have also found that *Capital intensity* can influence tax avoidance practices, although its direction and strength may differ depending on the industry context and previous research methodology.
3. After being moderated by *the sustainability report* (Z), the effect *of Transfer pricing* on tax avoidance turned negative and significant, indicating that sustainability disclosure substantially increases reputational and transparency pressures, making companies more

cautious in implementing aggressive *transfer pricing* to maintain social legitimacy and stakeholder trust.

4. *Capital intensity* (X2) also had a negative and significant effect on tax avoidance after being moderated by *the sustainability report*, which showed that openness about sustainability strengthened managerial orientation to maintain fiscal compliance in capital-intensive companies, as reputational risks and increased public expectations made aggressive tax avoidance strategies less attractive, and showed that *sustainability reports* can reinforce the conservative effect of asset structures on corporate tax behavior.

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