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THE EFFECT OF TRANSFER PRICING AND POLITICAL CONNECTIONS ON TAX AVOIDANCE WITH PROFITABILITY AS A MODERATING VARIABLE

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ABSTRACT

This study aims to analyze the effect of transfer pricing and political connections on tax avoidance with profitability as a moderating variable. The research method used is quantitative and data analysis techniques using multiple linear regression and MRA. This study uses a sample of multinational manufacturing sector companies listed on the Indonesia Stock Exchange in 2018-2022. The total sample used was 66 companies with a research period of 5 years, namely 2018-2022, so that 330 samples were obtained. The results of this study indicate that the transfer pricing variable has a positive effect on tax avoidance and the profitability variable can moderated relationship between transfer pricing and tax avoidance, while political connections do not affect tax avoidance even with profitability moderation.

KEYWORDS *Tax Avoidance, Transfer Pricing, Political Connections, Profitability*

INTRODUCTION

The success of a country's development is determined by the amount of state revenue. Taxes are the largest contributor to state revenue. Evidence of this can be seen from the fact that tax revenues continue to account for the majority of the state budget, with an average of more than 75% (Kartiko, 2020). Before the COVID-19 pandemic tax revenue increased by an average of 7.4 percent per year, as confirmed in a report (Ministry of Finance, 2022). Tax performance declined by 16.9 percent

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in 2020 as a result of social restriction policies and incentive programs. However, in 2021, tax performance was able to recover with positive growth of 20.4 percent (Ministry of Finance, 2022).

The largest tax contributor comes from manufacturing companies, not only as the largest tax contributor but also able to contribute the highest as a tax depositor. In Harian Ekonomi Neraca (www.neraca.co.id) it is said that among all economic categories, the manufacturing industry is still the most tax contributor. The manufacturing sector's contribution to tax revenue has decreased compared to the pre-pandemic situation, according to(www.kompas.id). Previously, in the first semester of 2018, the contribution from the manufacturing sector could also still touch 30.3 percent. The decline in tax deposits from the manufacturing sector has made the government more wary of the company's industrial activities. The reality is that companies always try to lower their tax liabilities as much as possible because it can affect profits. This is due to the fact that companies that have large profits will be able to position themselves to reduce the amount of tax (Nasution et al., 2022). Therefore, according to Maulida (2023), the company's ability to manage its capital effectively can be shown by profitability performance assessed using ROE (Return On Equity). This allows shareholders and other capital owners to see how much profit they make from their investment.

Tax reduction can be done in various ways, such as tax evasion or tax avoidance (D. Puspita & Febrianti, 2018). Tax Avoidance is defined by (Pohan, 2013) as a method of tax reduction that does not violate applicable laws or regulations, therefore, it is safe for taxpayers to do. It is said in (Himawan, 2017) and (Syadeli, 2021) that tax avoidance cases in Indonesia are very concerning, explained in more detail by the Secretary General of the Indonesian Forum for Budget Transparency (FITRA), it is estimated that Indonesia's Rp110 trillion is lost every year due to tax avoidance. The following is a historical chart of cases heard by the Tax Court.

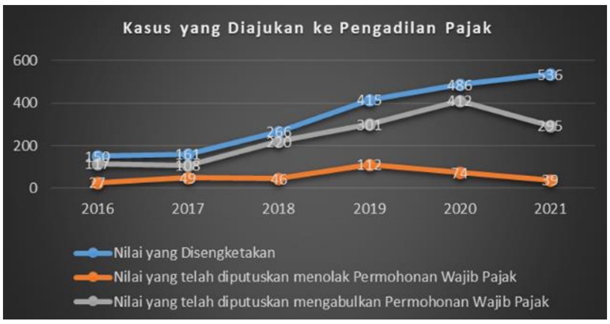

Figure 1. Tax Avoidance Case
Source: BPKP

Transfer pricing is one of the many methods that can be used to avoid taxes. Data on transfer pricing cases from year to year can be seen in Figure 1.2 above.

Transfer pricing allows companies to increase profit margins while reducing tax liabilities (Nurrahmi & Rahayu, 2020). In AFP (www.cnnindonesia.com) it is known that in December 2017, Gucci was involved in the phenomenon of tax avoidance. The public prosecutor accused Gucci of tax fraud, according to local newspaper La Stampa, this is because Gucci reported sales in Italy were diverted to Switzerland, a country with preferential tax laws. Gucci should have reported sales in Italy. Michael Agustinus in (www.kumparan.com) said that this is why Gucci can save 1.3 billion euros, or 1.5 billion US dollars, or IDR 22.5 trillion, in local taxes. Research on the topic of transfer pricing and tax avoidance shows conflicting results. Previous studies by (Hendi & Handianto, 2021) on non-banking and other financial sector companies listed on the IDX from 2015 to 2019, explained that tax avoidance is influenced by transfer pricing. The results of research (Iriyadi et al., 2024) on 35 multinational manufacturing companies listed on the IDX from 2016 to 2020 also provide similar results, namely transfer prices have a significant effect on tax avoidance, although there are differences in the company sector. According to research (Lutfia & Pratomo, 2018) also concluded that as many as 103 manufacturing companies listed on the IDX have values above the average and carry out transfer pricing schemes. This means that manufacturing companies listed on the IDX use transfer pricing to avoid taxes.

However, this is different from the results of research (Christy et al., 2022), conducted on mining companies in the energy and raw materials sub-sectors listed on the IDX during the period 2018 to 2020, which said that transfer pricing has a negative effect on tax avoidance. Another different opinion was also expressed in research (Irawan et al., 2020) with a sample of 63 manufacturing companies listed on the IDX for the period 2014 to 2017 which said that transfer pricing had a negative effect on tax avoidance. This is due to the existence of regulations that must be obeyed by companies as corporate taxpayers related to transfer pricing practices.

Tax avoidance cases carried out are inseparable from the existence of political relations between government authorities and business officials, the existence of political relations is inseparable from tax avoidance cases. According to (Faccio, 2010) and (Wicaksono, 2017) If the president director or controlling shareholder is also a member of parliament or government, king or president of a country, or leader or member of a political party, then the company is said to have a political relationship. This is in line with what we know from Political Power Theory which states that large companies will look for loopholes to reduce their tax obligations (Fatharani, 2012). Pranoto & Widagdo (2016) state that political connections are now commonplace in Indonesia. From an accounting point of view, (Chaney et al., 2011) examined the quality of accounting information for politically connected companies in 19 countries and found that the quality of earnings reported by companies with significant political connections is lower than those reported by companies without political connections.

The results of studies on political connections and tax avoidance show different opinions. Political connections affect tax avoidance, according to research conducted by (Imanuella & Damayanti, 2022) on 66 manufacturing companies listed on the IDX between 2015 and 2019 and between 2016 and 2018 by (Fajri, 2019). It is further explained that tax avoidance is more common in companies that have strong political connections (Fajri, 2019). Research by Nuswantara et al. (2023) found that companies with higher political connections have an impact on increasing board size and financial distress. In contrast to the results of the research described, (Hartantio & Trisnawati, 2021) did not find a correlation between political connections and tax avoidance in their research conducted on manufacturing companies in the goods and consumption industry sector from 2012 to 2018. Apsari & Supadmi's (2018) research provides evidence to support this, for the simple reason that corporate tax avoidance efforts will not be affected by the level of political connections owned by the owner. This is due to the fact that, although the company benefits from its close relationship with the government, it must also consider the consequences of this relationship in the long run. Reduced public trust can cause losses for the company, the long-term effect of which is a negative corporate image. Similarly, research conducted by (Hijriani et al., 2014) indicates that political connections do not affect tax avoidance based on the gaap ETR and Current ETR proxies.

Inconsistent literature results can affect research results, so adding moderating variables can help research get consistent results. The moderating variable chosen is profitability. Evidence from research that shows is research (Rahman & Astuti, 2022) that profitability can moderate the effect of tax avoidance on firm value and research (Sari, 2021) says profitability has an influence on tax avoidance. It is further explained that the company's tendency to avoid paying taxes can be influenced by the large and small factors of assets owned by the company and net income. This is because the high tax burden is directly proportional to the high level of profit.

Literature Review

Agency Theory

In connection with the agency relationship, it is explained that the company is an agreement between two people, the owner of financial resources (principal) and the manager of these resources (agent). The relationship between company management and owners, who act as principals, can be better understood through the lens of agency theory. Agency theory is based on three fundamental assumptions about human nature; first, that humans are inherently self-interested;

second, that humans have limited ability to plan ahead (bounded rationality); and third, that humans are risk averse. Managers as agents, being human, tend to behave opportunistically, prioritizing their own interests, according to these fundamental beliefs about human nature (Sartori, 2010). A situation known as information asymmetry can occur when there is an uneven balance of information (Permatasari et al., 2019). Managers may be tempted to increase the company's profitability and net income in the short term at the expense of long-term tax avoidance efforts. As a result, unethical tax strategies such as unfair transfer pricing or utilizing legal loopholes may arise.

Tax Avoidance

Tax avoidance is a tax planning action that aims to reduce taxes directly (Hanlon & Heitzman, 2010). When someone does tax avoidance, they do not break any laws, instead, they ensure that they pay as little tax as possible by utilizing legal loopholes (A & Zain, 2007). Tax avoidance can be measured using 12 proxies (Hanlon & Heitzman, 2010) namely GAAP ETR, Current ETR, Cash ETR, Long-run Cash ETR, ETR Differential, DTAX, Total BTD, Temporary BTD, Abnormal BTD, Unrecognized Tax Benefits, Tax Shelter Activity, Marginal Tax Rate. According to (Dyreng et al., 2008) CETR is good to use because the CETR value is not affected by changes in estimates such as tax shelters.

Transfer Pricing

According to (Garrison et al., 2008), transfer pricing occurs when one division of a company charges below market price to another division within the same company for the same product or service. The practice of shifting profits from a high-tax country to another one with lower taxes is known as transfer pricing, and is widely believed to be unethical (Muhajirin et al., 2021). Transfer pricing can be measured by Related Party Transaction (RPT) dummy or proxy. Research conducted by (Cledy & Amin, 2020) uses transfer pricing measurement using a dummy, value 1 is given if there is a special relationship transaction and value 0 is given if there is no special relationship transaction. Meanwhile, research conducted by (Nuradila & Wibowo, 2018) uses RPT measurement by comparing total related party receivables and total receivables. In this study using RTP proxies, namely the value of related party receivables and total receivables. The value of related party receivables is used because related party transactions and transfer pricing include special relationships between the parties involved.

Political Connections

Relationships held with influential people in politics are referred to as “political connections” (Imanuella & Damayanti, 2022). According to (Wicaksono,

2017) political connections refer to the special relationship that companies have with political parties or the government in an effort to facilitate company operations and minimize tax detection. The board of directors has an important role in the company, including determining the direction of policy and resource strategies, conducting supervision, and minimizing fraudulent behavior. Based on Law No. 40 of 2007 concerning Limited Liability Companies Article 1, the Board of Directors is a corporate organ that is authorized and fully responsible for the management of the Company for the benefit of the Company, in accordance with the aims and objectives of the Company and represents the Company, both inside and outside the court in accordance with the provisions of the articles of association. Based on this, this study uses the board of directors as a determination of political connections in the company, defined as a board of directors that has the presence of politicians, government officials, or former officials who have a relationship with political parties.

Profitability

Profitability can be a measure of a company's success. Profitability is used as a ratio to measure the company's ability to generate surplus or profit from all its assets, based on the company's total assets, liabilities and capital. Profitability ratios are divided into 3 (three) based on the company's financial position report. The three ratios are used to evaluate the competence and effectiveness of a company in generating profits or profits by using ROA for total assets, ROI for total investment, and ROE for total equity or funding sources. One way to measure a company's potential to generate profits is through profitability ratios (Kasmir, 2016). ROE or Return on Equity profitability ratio, used in this study to measure the contribution of capital in generating net income (Hery, 2015). Return on Equity is calculated by the company using equity and net income. The profitability of the company as seen from the point of view of shareholders, a high Return on equity (ROE) indicates that shareholders have a high probability of benefiting from investment in the company. The efficiency of a company in converting its shareholders' money into profit is measured by Return on Equity (ROE). Thus, capital has an influence on the profit margin of a company (D. A. Puspita & Putra, 2021).

RESEARCH METHOD

This research uses a quantitative approach with secondary data sourced from the financial statements of multinational manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2022 period. The study population consisted of multinational companies, with samples selected through purposive sampling based on certain criteria, resulting in 330 companies. The variables studied include transfer pricing, political connections, tax avoidance, and profitability. Data were analyzed using SPSS through descriptive statistics, classical assumption tests, and multiple linear regression analysis, with the aim of evaluating the relationship between these variables as well as hypothesis testing using the F, R^2, and T tests. The study also applied Moderated Regression Analysis (MRA) to evaluate the interaction of moderator variables.

RESULTS AND DISCUSSION

RESULTS

Table 1. Statistik Deskriptif

	N	Min	Max	Mean	Std. Deviation
Transfer Pricing	272	,000	,991	,22752	,286852
Political Connections	272	0	1	,04	,197
Tax Avoidance	272	-,077	,854	,26282	,139185
Profitabilitas	272	-,068	,287	,11237	,064522
Valid N (listwise)	272				

Source: SPSS output, processed by the author

Based on the results of the descriptive statistics above, it is known that the Transfer Pricing variable (X1) as measured by related party receivables and trade receivables produces a minimum value of 0.000, a maximum value of 0.991, an average of 0.22752, and a standard deviation of 0.286852. This shows that the average value of the transfer pricing variable of 22% can be said to be low, with an average value smaller than the standard deviation value, meaning that there is a deviation in the transfer pricing data against the average value. However, it can still be used as a representation of the overall data because the difference is not too far from the standard deviation.

The Political Connection variable (X2) is measured using a dummy variable. The minimum value on this variable is 0, the maximum value is 1, the average is 0.04, and the standard deviation is 0.197. It can be seen that the average sample company indicated political connections of 4%, this can be said to be low and means that the average sample company does not have political connections that may be utilized by the company to obtain tax breaks.

The Tax Avoidance (Y) variable measured using the CETR calculation shows that the minimum value is -0.077, the maximum value is 0.854, the average is 0.26282, and the standard deviation is 0.139185. It can be seen that the average tax avoidance of 26% can be said to be low. If the lower the CETR value proves that the greater the company's tax avoidance, this is because the tax payments made by the company mean that it is still low, only 26% of all sample data.

It can be seen in the Profitability variable (Z) measured using the calculation of ROE (Return On Equity) shows the minimum value is -0.068, the maximum value is 0.287, the average is 0.11237, the standard deviation is 0.064522. This shows that the company's average profitability of 11% is low, it can be said that the company has not been successful in managing capital resources.

Table 2. Monte Carlo test.

	Unstandardized Residual
N	272
Monte Carlo Sig. (2-tailed)	,209

Source: SPSS output, processed by the author

The significance value is 0.209, which is more than 0.05, as shown by the 3rd Monte Carlo Kolmogorov-Smirnov exact statistical test. The results show that the data is normally distributed.

Table 3. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	0,321	0,103	0,093	0,132562	2,123

Source: SPSS output, processed by the author

Durbin-Watson (DW) in the summary model where the data is said to be free of autocorrelation if the value du < dw < 4-du then there is no autocorrelation or there is negative autocorrelation. We can see that the results of the autocorrelation test in table 3 show a Durbin Watson value of 2.123. This value is between the du value of 1.815 and the 4-du value or 2.185 so it is concluded that the research data does not have autocorrelation symptoms.

Table 4. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Transfer pricing	0.989	1,012
2	Coneksi policy	0,975	1,026
3	Tax Avoidance	0,975	1,026

Source: SPSS output, processed by the author

Based on the results above, the Profitability (Z), Transfer Pricing (X1), and Political Connection (X2) variables do not show symptoms of multicollinearity or correlation with each other.

Table 5. Heteroscedasticity Test

		Transfer Pricing	Political Connection	Profitability
Unstandardized Residual	Sig. (2-tailed)	0,380	0,488	0,483
	N	272	272	272

Source: SPSS output, processed by the author

Transfer Pricing (X1), Political Connection (X2), and Profitability (Z) variables all have significant values greater than 0.05, in accordance with the results of the heteroscedasticity test in table 5 It can be interpreted that the data is free of heteroscedasticity.

Table 6. F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,259	2	0,130	6,980	0,001[b]
	Residual	4,991	269	0,019		
	Total	5,250	271			

a. Dependent Variable: Tax Avoidance
b. Predictors: (Constant), Political Connection, Transfer Pricing

Source: SPSS output, processed by the author

The calculated F value is 6.980 with F sig. 0.001, in accordance with the test findings in table 6 It means that Transfer Pricing (X1) and Political Connection (X2) together have a positive influence on Tax Avoidance (Y).

Table 7. Determination Coefficient Test

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	0,222[a]	0,049	0,042	0,136211

Predictors: (Constant), Transfer Pricing, Political Connection
Dependent Variable: Tax Avoidance

Source: SPSS output, processed by the author

Based on the table above, the R^2 value for the independent variables is 0.049. This indicates that the Transfer Pricing and Political Connection variables contribute 4.9% to Tax Avoidance. The remaining 95.1% of the variation in tax avoidance is explained by other variables not included in this research model.

Table 8. T Statistical Test

Model		Unstandardized Coeficients		Standardized Coeficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,371	0,021		17,731	0,000
	Transfer Pricing	-0,223	0,058	-0,459	-3,809	0,000
	Political Connections	0,014	0,088	0,019	0,154	0,877

a. Dependent Variable: Tax Avoidance

Source: SPSS output, processed by the author

The results show that the significance value is 0.000 or <0.05 and the regression coefficient value of -0.106 in the T statistical test in table 4.9 shows that the Transfer Pricing variable has a negative effect on CETR, the higher the transfer pricing, the lower the CETR, if the low CETR value indicates that tax avoidance is higher. Therefore, the first hypothesis is supported.

With a significance level of 0.637 (higher than 0.05), the regression coefficient of the Political Connection variable is -0.020. So it can be concluded that political connections have no effect on Tax Avoidance. This means that the second hypothesis is not supported.

Table 8. MRA Test

	Unstandardized Coeficients		Standardized Coeficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,371	0,021		17,731	0,000
Transfer Pricing	-0,223	0,058	-0,459	-3,809	0,000
Political Connections	0,014	0,088	0,019	0,154	0,877
Profitabilitas	-0,747	0,161	-0,346	-4,627	0,000
X1M	1,038	0,417	0,328	2,493	0,013
X2M	-0,803	1,117	-0,089	-0,719	0,473
R		0,354[a]	F count		7.630
R^2		0,125	F Significance		0,000[b]

a. Dependent Variable: Tax Avoidance

Source: SPSS output, processed by the author

Based on the table, the following results were obtained:

The interaction variable of transfer pricing and profitability has a significance value of 0.013, this value is less than 0.05, meaning that the profitability variable is able to moderate the relationship of transfer pricing to tax avoidance. The regression coefficient value of transfer pricing and profitability interaction (X1*M) is positive, meaning that profitability variable can strengthen the relationship between transfer pricing variable and tax avoidance. So it is concluded that the third hypothesis is supported. While the results of the interaction variable of political connections and profitability have a significance value of 0.473, this value is more than 0.05, meaning that the profitability variable is not able to moderate the relationship between political connections and tax avoidance. So it is concluded that the fourth hypothesis is not supported.

Discussion

Effect of Transfer Pricing on Tax Avoidance

The calculation result of partial hypothesis test (T test) shows that transfer pricing variable has significance level less than 0.05 and regression coefficient -0.223. This negative result explains that the higher the transfer pricing, the lower the CETR. If the CETR value is lower, it proves that corporate tax payments are lower and tax avoidance is higher. Then it means that H1 is supported. By shifting their income to companies in countries with lower tax rates, companies can optimize their tax structure and reduce their tax burden.

Previous research by Christy et al., 2022 and Irawan et al., 2020 is in line with the results of this study. The findings of this study suggest that taxpayers who have an interest in related transactions should prepare transfer pricing documents in accordance with the guidelines issued by the Minister of Finance of the Republic of Indonesia (Number 213/PMK.03/2016). Article 2 paragraph 2c of the Ministerial Regulation Number 213/PMK.03/2016 states that taxpayers are required to prepare transfer pricing documents when conducting affiliated transactions with affiliated parties in countries with lower tax rates than Indonesia. Sanctions will be imposed on taxpayers who do not complete the transfer pricing documentation properly. This is in line with the agency theory, when the agent as the company management seeks to increase the company's profits as much as possible which is actually for his personal interests. This can occur due to the lack of effective supervision by the principals, thus company managers can find loopholes to practice tax avoidance. Transfer pricing itself has been regulated in detail in the OECD guidelines, which provide international principles and standards to ensure that transactions between companies in multinational groups are carried out at fair prices and in accordance with market conditions, thereby reducing the risk of unethical tax practices. The companies in this research sample are proven to conduct transfer pricing to actively reduce the amount of tax that must be borne by the company.

Effect of Political Connection on Tax Avoidance

The results of the partial hypothesis test (T-test) show that the political connection variable has a regression coefficient of 0.014 and a significance level greater than 0.05. This confirms that political connections have no effect on tax avoidance, meaning that H2 is not supported. If company executives have political connections, it will not affect the company's tax avoidance strategy. Previous research that has shown that political connections do not affect tax avoidance is (Imanuella & Damayanti, 2022). Companies with strong political connections will better maintain the reputation and integrity of the tax system. This connection can motivate companies to comply with tax regulations and reduce tax avoidance practices.

Previous research that supports the results of this study is by (Annisa, 2017), (Hijriani et al., 2014), and (Apsari & Supadmi, 2018) which resulted in political connections having no effect on tax avoidance with the same proxy, namely CETR, on a sample of manufacturing companies listed on the IDX. If the company's board of directors has political connections, it will not affect their tax avoidance strategy. This is because companies think about the long-term effects.

In line with agency theory where the agent or management tries to increase company profits and company sustainability, but the long-term impacts that affect the sustainability of the company, namely investor confidence, public trust, and company profits must also be considered. Research by (Purnomo et al., 2021) explains that the Board of Directors has no effect on financial performance as measured by ROE, this can happen because in research (Yuliyanti & Cahyonowati, 2023) it is also said that the greater the number of the Board of Directors does not guarantee that company operations can run effectively. The greater the number of the Board of Directors will make it difficult to make decisions and create many conflicts.

The Effect of Transfer Pricing on Tax Avoidance with Profitability as Moderation

The results of the MRA hypothesis test calculation show that the interaction variable of transfer pricing and profitability has a significance value of 0.013, this value is less than 0.05, meaning that the profitability variable is able to moderate the relationship between transfer pricing to tax avoidance. The interaction variable between transfer pricing and profitability (X1*M) on tax avoidance has a positive significant regression coefficient, indicating that profitability can moderate the relationship between transfer pricing and tax avoidance. Companies with large profits tend to use transfer pricing tactics more often to avoid paying taxes. Transfer pricing practices allow companies to move their income to foreign companies with lower tax rates. The increase in corporate profitability associated with transfer pricing is favorable for companies located in low-tax countries, while companies in high-tax countries report lower income. In agency theory, the agent wants to minimize tax liabilities so that the agent will be rewarded with unaffected performance even though the company's income decreases due to tax burden.

Research by Sari (2021) is in line with the findings of this study that tax avoidance can be influenced by profitability. Corporate tax liabilities grow proportionally with return on equity (ROE), profitable companies often engage in tax planning strategies including transfer pricing to affiliated companies to reduce selling prices and also company profits. The existence of transfer pricing as a policy in determining the transfer price of a transaction to a related party is often used by multinational companies to transfer profits to avoid taxation from the government.

The Effect of Political Connection on Tax Avoidance with Profitability as Moderation

Political connections have no effect on tax avoidance with profitability as moderation, this is based on the results of the significance value of the interaction variable of political connections and profitability in the partial hypothesis test (T test) which is 0.473 (more than 0.05). The results of the regression coefficient (β) for the moderation variable (Profitability) and the regression coefficient (β) for the interaction between political connections and profitability (X2*M) both have no effect. This indicates that the profitability variable has no significant effect in strengthening or weakening the relationship between political connections and tax avoidance.

The results of research (Apsari & Supadmi, 2018) and (Hijriani et al., 2014) provide evidence that a company's political connections have no effect on tax avoidance. Companies that have political connections may feel safer from legal risks or strict supervision. This can reduce the effect of profitability on corporate decisions regarding tax avoidance, because company officials may focus more on how to take advantage of their political connections rather than how to optimize profits by avoiding taxes. The public has greater trust in boards of directors that have strong ties to certain political or government officials to uphold the company's commitment to following all applicable legal requirements. Research by (Purnomo et al., 2021) explains that the Board of Directors has no effect on financial performance as measured by ROE, this can confirm that the proxy for political connections using the board of directors as a reference is not appropriate because the board of directors has no effect on financial performance. Affirmed in research (Yuliyanti & Cahyonowati, 2023) it is said that the greater the number of the Board of Directors does not guarantee that the company's operations can run effectively.

CONCLUSIONS

The purpose of this research is to analyze the effect of transfer pricing and political connection on tax avoidance with profitability as moderating variable. After the analysis, the following can be concluded in this study: 1. Transfer pricing has a positive effect on tax avoidance. This result shows that if the higher the company does transfer pricing, the lower the CETR value, if the CETR value is low, it means that tax avoidance is higher because the company's tax payments are lower. By shifting their income to companies in countries with lower tax rates, companies can optimize their tax structure and reduce their tax burden with the right transfer pricing plan. 2. Political connections have no effect on tax avoidance. This result shows that even though companies have political connections with certain political or government officials, company officials tend to uphold the company's commitment to follow all applicable legal requirements. This connection can motivate companies to comply with tax regulations and reduce tax avoidance practices. 3. Profitability is able to moderate the relationship between transfer pricing and tax avoidance. This result shows that when the profitability of the company increases, the occurrence of transfer pricing practices for tax avoidance also increases. Corporate tax liabilities grow proportionally with return on equity (ROE), profitable companies often engage in tax planning strategies including transfer pricing to affiliated companies to reduce selling prices and also corporate profits. 4. Profitability is not able to moderate the relationship of political connections to tax avoidance. This shows that even though the company has high profitability, company officials who have political connections with various branches of government or political parties tend to be confident in the company's compliance with government regulations. Political connections may give companies access to tax policies or incentives, but tax avoidance involves complex strategies and often requires careful tax planning. It is not uncommon that companies may choose to comply with tax regulations and use legitimate tax incentives rather than take risks with riskier tax avoidance strategies.

From the discussion and conclusions obtained, the authors provide the following suggestions: 1. The object of study for the study of tax avoidance should be expanded to include all samples of companies listed on the Indonesia Stock Exchange (IDX), this is because this research only focuses on the manufacturing sector so that the research results are only limited to that sector. 2. This research was conducted within a certain period, so the results of this study are only limited to that period. Extending the study time is suggested to future researchers to see how consistently companies use the strategy category and how it affects tax avoidance. 3. The independent and moderating variables of this study were only able to influence tax avoidance by 12.5%, this shows that the other 87.5% is influenced by other factors not included in this study. So further researchers are expected to be able to pay attention to other factors that might affect the relationship such as company value, company size, leverage, and Sales Growth. 4. Adding indicators that can be useful for future research on political connections and tax avoidance such as a history of work in government on directors, commissioners, boards of directors, and audit committees, and any relationship with political parties. Because in this study only used the board of directors as a reference for political connections.

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