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

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ABSTRACT
Tax avoidance is an effort taken to reduce tax liabilities and maximize after-tax income that is carried out legally and safely for taxpayers because it does not conflict with tax provisions. The purpose of this study is to analyze the effect of transfer pricing, political connections, on tax avoidance with profitability as a moderating variable in multinational companies in the manufacturing sector listed on the Indonesia Stock Exchange in 2018-2022. The data obtained in this study come from the annual reports of multinational companies in the manufacturing sector listed on the Indonesia Stock Exchange in 2018-2022. The data analysis technique used in this study was purposive sampling and obtained 66 companies with a research period of 5 years, namely 2018-2022 so that 330 samples were obtained. The analysis method used in this research is multiple linear regression analysis and MRA. The results of this study indicate that the transfer pricing variable has a negative effect on tax avoidance but the transfer pricing variable has a positive effect on tax avoidance with moderating profitability, while political connections have no effect on tax avoidance even with moderating profitability.
KEYWORDS
Tax Avoidance, Transfer Pricing, Political Connections, Profitability

INTRODUCTION

The success of a country's development is determined by the amount of state revenue. Most of the state budget comes from taxes. Evidence of this can be seen from the fact that tax revenues continue to account for most of the state budget, with an average of more than 75% (Kartiko, 2020). The term "tax" refers to a legal requirement that obliges companies to pay a portion of their profits to the government, rather than receiving any direct benefit from it (Prastiwi & Walidah, 2020).

Before the COVID-19 pandemic, tax revenue increased by an average of 7.4 percent per year, as confirmed in the Ministry of Finance's 2022 report. On the other hand, the social constraints caused by the COVID-19 pandemic in 2020 weighed on the economy worldwide and domestically. Tax performance declined by 16.9 percent in 2020 as a result of social distancing policies and incentive programs. With positive growth of 20.4% in 2021, tax performance was able to recover (Ministry of Finance, 2022). The development of tax revenue can be seen from the figure below.

PERPAJAKAN INDONESIA

	2018	2019	2020	2021	2022
Target Penerimaan Pajak	1618,1	1786,4	1404,5	1444,5	1784
Realisasi Penerimaan Pajak	1518,7	1546,1	1285,1	1547,8	1924,9

Figure 1. 1 Tax Revenue
Source: Bank Indonesia, Ministry of Finance, BPS

Since 2021, it has been seen that the realization of tax revenue can exceed the target. One of the general policies in achieving the target is to increase taxpayers' knowledge of their tax obligations and facilitate their compliance (Panjaitan & Fitri, 2019). 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, (2023) Among all economic categories, the manufacturing industry should still pay the most taxes. From January to June 2023, a total of 970.20 trillion Rupiah was collected in taxes, with the industrial sector accounting for 27.4 percent of the total. The manufacturing sector's contribution to tax revenue has diminished compared to the pre-pandemic state, according to (www.kompas.id). On the other hand, 28.7 percent of tax revenue in the first half of 2019 came from the industrial sector. Previously, in the first semester of 2018, the contribution from the manufacturing industry 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 want to lower their tax liability as much as possible because it will affect their profits. This is due to the fact that a company can shape itself to pay the least amount of tax if it generates a large profit. Tax minimization is the goal here (Nasution et al., 2022). Therefore, according to Maulida (2023), the company's ability to manage its capital effectively is indicated by profitability performance assessed using ROE (Return On Equity). This allows shareholders and other capital owners to see how much profit they are making on their investment. ROE, or return on equity, is a measure of a company's financial

health. This ratio assesses the efficiency of a business in converting its current assets into profit (Hutajulu & Hutabarat, 2020).

Some people try to save money on taxes by avoiding or evading paying taxes (Puspita & Febrianti, 2018). Tax avoidance is defined by Pohan (2013) as a method of tax avoidance that does not violate laws or regulations and is therefore safe for taxpayers to do. Tax avoidance is currently not a crime, although it often receives negative attention because of its bad connotation or is considered to have no patriotism (Sari, 2014).

According to the Secretary General of the Indonesian Forum for Budget Transparency (FITRA), tax evasion cases in Indonesia are of great concern, as stated by Himawan (2017) and Syadeli (2021). An estimated 110 trillion Indonesian ringgit is lost annually due to tax evasion. The following is a historical breakdown of the types of cases heard by the Tax Court.

Figure 1.2 Tax Avoidance Case
Source: BPKP

Transfer pricing from year to year, as shown in Figure 1.2, allows companies to increase their profit margins while lowering their tax liabilities (Nurrahmi & Rahayu, 2020). For tax purposes, businesses can take advantage of the fact that regulations in each country are unique (Hendi & Handianto, 2021).

According to Adhi Maulana, (www.liputan6.com) The phenomenon of transfer pricing abroad often occurs, the first of which occurred in early November 2017 when allegations emerged that Apple Inc. had moved its corporate income to Jersey to avoid tax. To note, international companies are not subject to Jersey's zero percent corporate tax rate. Despite earning $44.7 billion outside the US in 2017, Apple only paid $1.65 billion in taxes - less than 4% of its total revenue. EU officials have demanded that tech giant Apple pay nearly $15 billion in unpaid taxes. In AFP (www.cnnindonesia.com) Also in December 2017, Gucci was implicated in the phenomenon of tax evasion. Public prosecutors accused Gucci of tax fraud, according to local daily La Stampa, because the luxury fashion house reported sales in Italy but actually made profits in Switzerland, a country with preferential tax laws. Indeed, Gucci should have reported sales in Italy. Michael Agustinus said that this is why Gucci was able to save 1.3 billion euros, or 1.5 billion US dollars, in local taxes, (www.kumparan.com).

In addition, PT Adaro Energy Tbk allegedly engaged in tax evasion by shifting responsibility to a Singapore company called Coaltrade Services International, according to a new report by Global Witness (www.globalwitness.org). This initiative is estimated to have taken place between 2009 and 2017.

Research on the topic of transfer pricing and tax avoidance shows conflicting results. Previous studies (Hendi & Handianto, 2021) Tax avoidance is exacerbated by transfer costs, derived from the analysis of financial and non-bank sector companies listed on the IDX from 2015 to 2019. Iriyadi et al. (2024) found similar results among 35 multinational manufacturers listed on the IDX business from 2016 to 2020, with some variations in the corporate sector. Lutfia and Pratomo (2018) found that 103 industrial businesses listed on the IDX used transfer pricing strategies and had above-average valuations. Industrial companies listed in Indonesia use transfer pricing to avoid taxes.

Despite claims to the contrary made by researchers such as Christy et al. (2022) and Irawan et al. (2020), transfer pricing greatly inhibits tax evasion strategies by businesses. organizations are required to follow certain standards when it comes to transfer pricing tactics. These laws are based on notions of fairness and customary business practices, and organizations that wish to apply these techniques must meet or comply with these requirements. Companies will find it increasingly difficult to engage in transfer pricing to avoid taxes due to the implementation of this law. Political ties, or "political relationships" between government authorities and business officials, are integral to tax avoidance cases (Christy et al., 2022). If the president or controlling shareholder is also a member of parliament or government, a king or president of a country, or a leader or member of a political party, then the corporation is said to be politically connected (Faccio, 2010; Wicaksono, 2017). This is in line with what we know from Political Power Theory which states that corporations to reduce their tax obligations, large companies will look for loopholes (Fatharani, 2012).

Pranoto and Widagdo (2016) state that establishing political ties is now commonplace in Indonesia. From an accounting point of view, we tested the reliability of financial reports from businesses associated with political individuals in 19 countries and found that reported profits were much more accurate (Chaney et al., 2011). to businesses that opted out of such partnerships. They base their reasoning on the belief that politically connected businesses are less likely to comply with investor demands for more transparent financial reporting.   In other words, connected firms can benefit from their political connections so that they do not face significant risks for disclosing low-quality accounting information to the public.

Political ties have an impact on tax avoidance, according to research conducted between 2015 and 2019 by Imanuella & Damayanti (2022) and 66 industrial companies listed on the IDX between 2016 and 2018 by Fajri (2019). Tax avoidance is more common in companies that have strong political ties (Fajri, 2019). Nuswantara et al. (2023) found that larger boards of directors and financial distress are associated with more political connections, thus reinforcing this idea.

Contrary to what is expected, Hartantio and Trisnawati (2021) found no correlation between political relations and tax avoidance in their study of consumer product manufacturers and industries from 2012 to 2018. Opsari and Supadmi (2018) provide evidence to support this. For a simple reason, corporate tax avoidance efforts will not be affected by the level of political connections held by the owners. This is due to the fact that, while 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, which in turn can lead to losses, is a long-term effect of a negative corporate image. Similarly, research conducted by Hijriani et al. (2014) indicates that the gaap ETR and Current ETR proxies do not affect tax evasion based on political relations.

Inconsistent research results may be influenced by inconsistent literature; therefore, moderating factors can be used to ensure consistent results in research. Profitability is the moderating variable chosen. Evidence from studies showing that profitability can affect tax avoidance includes research by Rahman and Astuti (2022) and Sari (2021), both of which found that profitability can mitigate the impact of tax avoidance on firm value. The explanation further says 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 a high income tax burden is directly proportional to a high level of profit.

Based on the description above, the author takes the title "The Effect of Transfer Pricing and Political Connection on Tax Avoidance with Profitability as Moderating Variable".

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.

RESULT AND DISCUSSION

Research Results
1. Descriptive Statistics
Descriptive analysis of this study provides information about the sample, such as the mean, minimum, and maximum values, as well as the standard deviation. The data sample in this study amounted to 330 people. Then, after conducting the outlier test, 38 extreme data were found that had to be eliminated from the study, leaving 292 samples that could be analyzed further. After the first outlier test, it turned out that there were still 20 extreme data that had to be eliminated again from the study, so that the remaining 272 Following the results of descriptive statistical testing:

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Table 4.1 Descriptive Statistics

	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
Profitability	272	-,068	,287	,11237	,064522
Valid N (listwise)	272				

Source: SPSS output, processed by the author

Transfer Pricing (X1), which is assessed based on related party receivables and trade receivables, has a range of values between 0.000 to 0.991, an average of 0.22752, and a standard deviation of 0.286852, according to the descriptive data above. Since the mean value is smaller than the standard deviation, it can be said that the transfer pricing data deviates from the mean, which indicates that the mean value of 22% is low. However, the difference is not too large with the standard deviation, so it can still be used to describe the entire data set. Therefore, there are more trade receivables from unaffiliated parties than from related parties for this company.

Everyone knows that dummy variables are used to measure the Political Connection variable (X2). Here, 1 and 0 are the values used by the dummy variable. An organization receives a score of 1 if there is evidence of political ties, such as the board of directors having served in various political capacities, or if there is evidence of ties to the military, current or former government officials, or party politics; an organization without such evidence scores 0. On a scale of 0 to 1, this variable has a mean value of 0.04 and a standard deviation of 0.197. It is clear that 4% of the sampled companies have political affiliations, which can be said to be low and means that the average sampled company does not have political connections that may be utilized by the company to obtain tax breaks.

Table 4.1 displays the results of the CETR calculation for the Tax Avoidance variable (Y). The range of values is -0.077 to 0.854, with an average of 0.26282 and a standard deviation of 0.139185. It is clear that the average level of tax avoidance is low, which is 26%. Companies increasingly avoid paying taxes when the CETR value is low; this is because the tax payment of 26% of the sample data is still quite low.

The Profitability variable (Z) determined through the calculation of Return On Equity (ROE) has a standard deviation of 0.064522 and a range of -0.068 to 0.287 with an average of 0.11237. Since the average profitability is only 11%, it can be concluded that the corporation has not managed its capital resources successfully.

2. Classical Assumption Test
a. Normality Test

Scientists in this work use the 95% confidence level Kolmogorov-Smirnov (K-S) Monte Carlo exact test. To ensure that the residual values follow a normal

distribution, a normality test is used. Residual values are considered normal if the significance level is greater than 0.05. The data does not follow a normal distribution, as shown in Table 4.2, where the normality test results are statistically significant (p 0.000, less than 0.05).

Table 4.2 1st Monte Carlo Test

	Unstandardized Residual
N	330
Monte Carlo Sig. (2-tailed)	,000

Source: SPSS output, processed by the author

Taking action to refine the data by removing outlier data or extreme data is essential based on the findings of the normality test, and managing it so that the data can be distributed in an orderly manner. The figure below shows that the variables Political Relations (X2), Tax Avoidance (Y), and Profitability (Z) have some data points that are significantly outside the normal distribution.
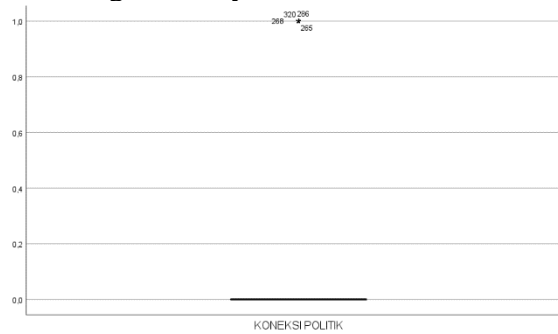

Figure 4.1 Extreme Data of Political Connection Variable
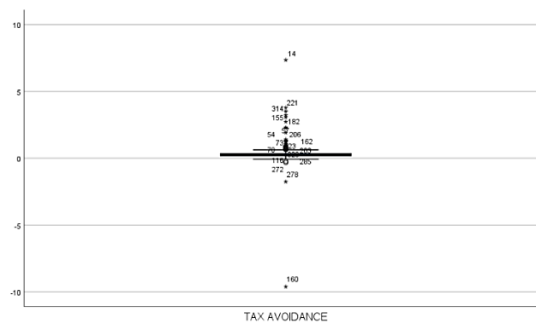SPSS output, processed by the author

Figure 4.2 Extreme Data of *Tax* Avoidance Variable
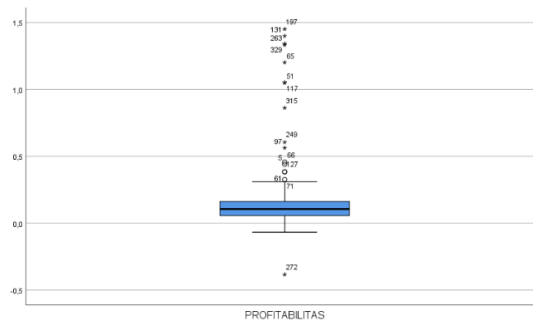SPSS output, processed by the author

Figure 4.3 Extreme Data of Profitability Variable
SPSS output, processed by the author

After eliminating 38 extreme data, the data was tested again with the normality test. Here are the results of the second normality test.

Table 4.3 2nd Monte Carlo Test

	Unstandardized Residual
N	292
Monte Carlo Sig. (2-tailed)	,000

Source: SPSS output, processed by the author

Based on table 4.3, it is found that the normality test results produce a significance value of 0.000 or below 0.05, which means that the data is not normal. Furthermore, eliminating outlier data or extreme data as a treatment so that the data can be normally distributed. Some extreme data is found in the Political Connection (X2), *Tax Avoidance* (Y), and Profitability (Z) variables which are outside the normal distribution limits, as can be seen in the figure below.
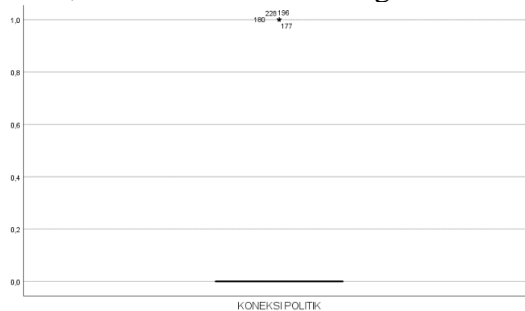

Figure 4.4 Extreme Data of Political Connection Variable
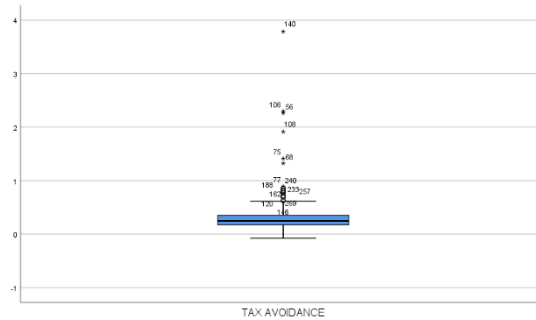SPSS output, processed by the author

Figure 4.5 Extreme Data of *Tax* Avoidance Variable
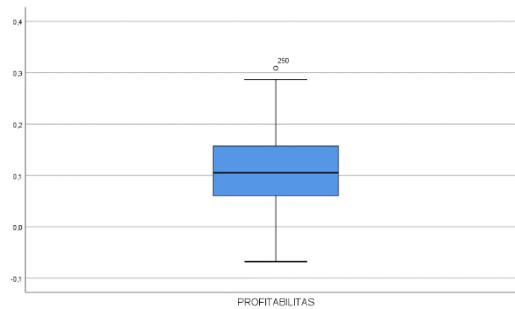SPSS output, processed by the author

Figure 4.6 Extreme Data of Profitability Variable
SPSS output, processed by the author

After the outlier test, 20 extreme data were found. Then the data included in the outlier data category needs to be eliminated, after data improvement. Here are the results of the third normality test.

Table 4.4 3rd 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 statistics test. The results show that the data follows a normal distribution.

b. Autocorrelation Test

The presence or absence of autocorrelation was assessed in this study using the Durbin-Watson test, which is an integral component of the test. Table 4.5 below shows the results of the study's autocorrelation test.

Table 4.5 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

The purpose of the autocorrelation test is to determine whether there is a relationship between the residuals of an observation and other data in the regression model. To determine if the data is free of autocorrelation, we test the model summary Durbin-Watson (DW) value. If there is no or with negative autocorrelation, the du value is smaller than dw and 4-du. The autocorrelation test resulted in a Durbin-Watson value of 2.123 as shown in Table 4.5. Since this result is within the 4-du range of 1.815 to 2.185, we can conclude that the research data shows no indication of autocorrelation.

3. Multicollinearity Test

In the multicollinearity test, the aim is to determine whether the independent variables in the study have a correlation with the regression model. The presence or absence of multicollinearity in the regression model can be determined by checking the tolerance value and the Variance Inflation Factor (VIF) code. The regression model is considered not to show multicollinearity if the tolerance value is more than 0.10 and the VIF value is less than 10. This is the result of our multicollinearity test.

Table 4.6 Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Transfer Pricing	0.989	1,012
	Political Connections	0,975	1,026
	Tax Avoidance	0,975	1,026

Source: SPSS output, processed by the author

Profitability (Z), Transfer Pricing (X1), and Political Connection (X2) variables do not show symptoms of multicollinearity or correlation with each other, as indicated by VIF values less than 10 and tolerance values greater than 0.10.

4. Heteroscedasticity Test

To determine whether the regression model considers uneven variances, a heteroscedasticity test is performed which compares the residual variances of several data. A workable regression model includes neither homoscedasticity nor heteroscedasticity. This research uses the Spearman Rho test. Heteroscedasticity is not present in the data if the significance level is greater than 0.05.

Table 4.7 Heteroscedasticity Test

		Transfer Pricing	Political Connections	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 Connections (X2), and Profitability (Z) variables all have significant values greater than 0.05, according to the heteroscedasticity test results in table 4.7. As a result, heteroscedasticity is not taken into account in the regression model used in this study.

5. Hypothesis Testing
a. Simultaneous Significance Test (F Test)

The F test is needed to determine whether all independent research variables can affect the dependent variable simultaneously or independently. At a significance level below 0.05, the independent variables can simultaneously influence the dependent variable.

Table 4.8 F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,259	2	0,130	6,980	0,001[b]
	Residuals	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 an F sign of 0.001, in accordance with the test findings in table 4.8. One possible interpretation is that Political Relations (X2) and Transfer Pricing (X1) both have a favorable influence on Tax Avoidance (Y).

b. Determination Coefficient Test

One way to measure the ability of the model (or independent variables) to influence the dependent variable is to use the coefficient of determination test.

Table 4.9 Test Coefficient of Determination

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

a. Predictors: (*Constant*), Transfer Pricing, Political Connection
b. Dependent Variable: Tax Avoidance
Source: SPSS output, processed by the author

The components of political linkage and transfer pricing affect tax avoidance by 4.9%, based on Table 4.10 it is known that the independent variable has an R2 value of 0.049. The remaining 95.1%, other variables are considered but not included in this study.

c. Individual Parameter Significance Test (T Statistical Test)

Thanks to the T-statistic, we can find out how each independent variable affects the dependent variable. For statistical purposes, an impact size lower than 0.05 is enough to warrant further investigation.

Table 4.10 T Statistical Test

Model	Unstandardized Coefficients		Standardized Coeficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0,288	0,011		27,087	0,000
Transfer Pricing	-0,106	0,029	-0,218	-3,665	0,000
Political Connections	-0,020	0,042	-0,028	-0,472	0,637

a. Dependent Variable: Tax Avoidance
Source: SPSS output, processed by the author

The significance value of 0.000 or <0.05 and the regression coefficient value of -0.106 in the T statistical test in table 4.9 indicate that the Transfer Pricing variable negatively affects Tax Avoidance. Therefore, the **initial null hypothesis cannot be accepted.**

With a significance level of 0.637 (higher than 0.05), the regression coefficient of the political connection variable is -0.020. As a result, tax avoidance is completely unrelated. This means **rejecting the second null hypothesis.**

d. Moderated Regression Analysis

Finding out whether the moderating variable will strengthen or weaken the relationship between the independent and dependent variables is the purpose of the MRA test.

Table 4.11 MRA Test

	Unstandardized Coefficients		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
Profitability	-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 table 4.11, the following results are obtained:

 i. The interaction variable of *transfer pricing* and profitability has a significance value of 0.013, this value is less than 0.05, meaning that *transfer pricing* variable affects *tax avoidance* with profitability as moderation. The regression coefficient (â) of moderation variable

(Profitability) is insignificant while the regression coefficient (â) of *transfer pricing* and profitability interaction (X1*M) is significant, 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 interaction variable of political connection and profitability obtained a significance value of 0.473, this result is more than 0.05, so political connection cannot affect *tax avoidance* with profitability as moderation. The results of the regression coefficient (â) of the moderation variable (Profitability) and the regression coefficient (â) of the interaction of political connections and profitability (X2*M) are both insignificant, meaning that the profitability variable cannot strengthen the relationship between the political connection variable and *tax avoidance*. So it is concluded that the **fourth hypothesis** is **not supported**.

ii. The significance value of the f test is 0.000, smaller than 0.05. This means that when *transfer pricing*, political connections, and profitability are tested together, the results are able to influence the dependent variable, namely *tax avoidance*.

iii. The result of the R *Square* value in the MRA test is 0.125, this shows that although other variables account for 87.5% of the variance in tax avoidance, the interaction variable can explain 12.5% of the variation. If an interaction variable has a higher R Square value in the MRA test than the independent variable, then the interaction variable has a stronger influence on the dependent variable (in this case tax avoidance) than the independent variable.

Discussion

Effect of Transfer Pricing on Tax Avoidance

The T test results that calculate the partial hypothesis show that the transfer pricing variable is important, with a regression coefficient of -0.106 and a significance level below 0.05. This explains the negative effect of transfer pricing on tax avoidance so that H1 is not supported. If the higher the company does transfer pricing, the lower the tax avoidance. 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. Previous research by Christy et al. (2022) and Irawan et al. (2020) is consistent with the findings of this study.

The findings of this study suggest that taxpayers who have interests 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 Regulation of the Minister of Finance of the Republic of Indonesia Number 213/PMK.03/2016 states that taxpayers are required to prepare pricing documents when conducting affiliated transactions with affiliated parties in countries with lower income tax rates than Indonesia. transfer. Sanctions will be imposed on taxpayers who do not complete the transfer pricing documentation properly. This is in line with agency theory,

when the agent or company management is able to manage taxes properly, tax avoidance can be avoided. 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 tax avoidance and unfair taxation practices. This proves that the companies in this research sample conduct transfer pricing in accordance with the established procedures.

Effect of Political Connection on Tax Avoidance

The partial hypothesis test results (T-test) show that the political connection variable has a regression coefficient of -0.020 and a significance level greater than 0.05. Since political connection does not affect tax avoidance, this explains why H2 is rejected. If company executives have political ties, it will not affect their tax avoidance strategies. Research has shown that political ties do not affect tax avoidance (Imanuella & Damayanti, 2022), thus supporting the second theory. Businesses with extensive political ties are more likely to maintain the reputation and integrity of the tax system, they may support stricter law enforcement. This may motivate companies to comply with tax regulations and reduce tax avoidance practices.

Research findings stating that political ties affect ETR (Wulandari & Ardhani, 2023) contradict this. When it comes to allowing lower or higher tax rates, there is a unique relationship between the government and businesses that is not regulated in tax regulations. Businesses can benefit from these strong political ties by offering operational conveniences, such as reduced tax penalties, to their customers. Indicators or measurements of tax avoidance have been the subject of different studies. For example, previous studies have used ETR (Effective Tax Rate), sampled unaudited financial statements, and only included profit-making companies in their analysis. Nonetheless, this contradicts the findings of (Annisa, 2017) who found no correlation between political ties and tax avoidance in a group of industrial businesses listed on the IDX using the same proxy, CETR. If corporate executives have political ties, it will not affect their tax avoidance strategies. Due to the long-term effect, it is important to take into account the fact that businesses may gain an advantage by having strong ties with the government. This is similar to the agency theory where the agent or management tries to increase the company's profits and the sustainability of the company, the long-term effects that affect the sustainability of the company are investor confidence, public trust, and company profits.

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

The findings of partial hypothesis testing (T test) show that as a moderator, profitability affects tax avoidance through the interaction variable of transfer pricing and profitability, with a significance level of 0.013 (less than 0.05). Profitability moderation variable does not have a significant regression coefficient ($\square$), but the interaction between transfer pricing and profitability (X1*M) has a

significant regression coefficient ($\square$), thus indicating that profitability can strengthen the relationship between transfer pricing and tax avoidance.

More profitable companies tend to use transfer pricing tactics more often to avoid paying taxes. Transfer pricing practices allow companies to shift their income to foreign companies that may be subject to lower tax rates. An increase in corporate profitability is possible by setting favorable prices for companies located in low-tax countries, while businesses in high-tax countries report lower income. Agents, according to agency theory, will increase business income. In agency theory, agents want to minimize their tax liability so that their performance rewards are not negatively affected when the company's revenue decreases due to tax burden.

Sari (2021) agrees with the findings of this study that tax avoidance can be influenced by profitability. As corporate tax liabilities grow proportionally to return on equity (ROE), profitable businesses often engage in tax planning strategies including setting transfer prices to affiliated businesses to reduce their selling prices and, thus, their profits. This is related to agency theory, which states that agents can make the most of their performance rewards by maximizing corporate profits while minimizing the tax burden on the business.

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

Political ties have no effect on tax avoidance with profitability as a moderator, according to the significance value of 0.473 (more than 0.05) for the interaction variable of political connections and profitability in the calculation of the partial hypothesis test (T test). The lack of statistical significance in the regression coefficients for both the profitability variable ($\square$) and the interaction of political connection and profitability (X2*M) ($\square$) indicates that the profitability variable cannot improve the relationship between tax avoidance and political connection variables. Apsari and Supadmi (2018) provide evidence that the relationship between tax avoidance and political connection variables.

Yes, this. A company's political influence has little effect on its tax avoidance ability, and that's the short explanation. The public has greater confidence in a board of directors with strong ties to a particular political group or government to uphold the company's commitment to follow all relevant legal requirements. Corporate executives do not necessarily instruct their employees to engage in tax avoidance because of their personal or professional relationships with the government; this helps maintain their own and the company's credibility.

CONCLUSIONS

The findings of this study suggest that taxpayers should keep transfer pricing documentation if they engage in related party transactions with related entities located in countries with lower income tax rates compared to Indonesia, i.e. regulations that inhibit tax avoidance. While politically connected companies are less likely to avoid paying their due taxes, they are more likely to support stronger law enforcement and help maintain the good name of the tax system. Based on agency theory, agents can maximize their performance compensation by maximizing corporate profits, which in this case means minimizing the corporate

tax burden. This relationship between transfer pricing and tax avoidance can be strengthened by the profitability variable, which shows that when the profitability of the company increases, the occurrence of transfer pricing practices for tax avoidance also increases. Directors who have close relationships with various branches of government or political parties will undoubtedly be more confident in the company's compliance with government regulations, as long as the profitability variable does not strengthen the relationship between the political relationship variable and tax avoidance.

The author offers the following recommendations based on the debates and conclusions provided earlier: For researchers, a. 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). b. Other academics can compare how different types of businesses avoid paying taxes to draw conclusions. c. Additional researchers can extend the study time to see how consistently companies use the strategy category and how it affects tax avoidance. d. Additional indicators that could be useful for future studies on the relationship between politics and tax avoidance include history of government employment (such as director, commissioner, board, and audit committee) and any relationship with political parties. For the company, Manufacturing companies need to be more careful in making decisions related to tax planning, to avoid administrative sanctions and misunderstandings among investors that can create a negative view of the company.

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