CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

DETERMINANTS OF TRANSFER PRICING AGGRESSIVENESS OF CONSUMER GOODS COMPANIES IN INDONESIA WITH FINANCIAL PERFORMANCE AS A MEDIATING VARIABLE

Volume: 6
Number: 4
Page: 807 - 825

Supriyadi SUPRIYADI[1], Tri WIDYASTUTI[2], Darmansyah DARMANSYAH[3]
[1]State Finance Polytechnic STAN, Indonesia
[2]Bhayangkara University, Greater Jakarta, Indonesia
[3]Pancasila University, Indonesia
Corresponding author: Supriyadi
Email: priesoekarno@gmail.com

Article History:
Received: 2025-05-30
Revised: 2025-06-22
Accepted: 2025-07-17

Abstract:
Transfer Pricing Aggressiveness (TPA) is a strategy by multinational companies to shift profits to low-tax jurisdictions, which poses serious challenges for tax authorities in the context of Base Erosion and Profit Shifting (BEPS). Consumer goods companies in Indonesia are vulnerable to this practice due to characteristics such as leverage, company size, intangible assets, and the effective tax rate. This study aims to analyze the main determinants of TPA and explore the mediating role of financial performance in this relationship. The approach used is a mixed methods approach with an explanatory sequential design. Quantitative data were obtained from 126 financial reports of Indonesian consumer goods companies for the period 2016–2022 and analyzed using SEM-PLS. The results show that financial characteristics significantly influence TPA through financial performance as a mediator. Large and highly leveraged companies tend to manage TPA strategically, while the use of intangible assets is carried out more cautiously due to valuation and oversight risks. Financial performance serves as a signal to stakeholders and a legitimacy tool in the face of regulatory pressure. This research integrates various theoretical perspectives: Agency Theory, Resource-Based View, Institutional Theory, Tax Compliance Theory, and Legitimacy Theory. Qualitative analysis reveals regulatory challenges in Indonesia, particularly in oversight, compliance, and dispute resolution. This research provides empirical and conceptual contributions to understanding TPA strategies in developing countries and supports governance- and data-driven fiscal reforms.

Keywords: Financial Leverage, Firm Size, Intangible Assets, Average Effective Rate, Financial Performance

INTRODUCTION

Transfer pricing is currently a hot topic for discussion in taxation issues in Indonesia (Isthika et al., 2024). Transfer pricing is a crucial topic given the low level of tax compliance and the potential for tax avoidance (Bank, 2016). Transfer pricing has been a contributing factor to low tax revenue and the low tax ratio in recent years (Falbo & Firmansyah, 2018).

According to Fuest et al. (2010), the low tax ratio is caused by profit shifting for tax avoidance purposes. According to the OECD, in its BEPS (Base Erosion and Profit Shifting Project 2013) Action Plan, transfer pricing is the most dominant profit-shifting scheme.

The practice of tax avoidance through TPAs allows multinational corporations to shift profits to low-tax jurisdictions, reducing their tax obligations in their home countries. Multinational corporations (MNCs) conduct over 60% of current global transactions, which constitute transfer pricing practices (Bisnis, September 20, 2019). According to PWC (2013), several schemes are used by companies to avoid taxes through transfer pricing.

CATRA RESEARCH INSTITUTE
ISSN 2720 - 9644 (print)
ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Consumer goods companies are at high risk of this practice because their tax revenue contributes an average of 12% to overall tax revenue. Consumer goods companies are characterized by complex leverage structures, large asset sizes, significant intangible asset holdings, and varying effective tax rates. Transfer pricing practices can also lead to protracted tax disputes and undermine public confidence in the integrity of the tax system.

Consumer goods companies frequently engage in affiliated transactions within their group. Large companies such as PT Unilever Indonesia Tbk, PT Indofood CBP Sukses Makmur Tbk, and PT Mayora Indah Tbk engage in affiliated transactions through transfer pricing sales/purchase transactions, royalty payments, or intra-group management services that do not comply with the customary and arm's length principles (PKKU) as required by law.

Data from the Directorate General of Taxes and the tax courts show a significant spike in the number of transfer pricing disputes, while the tax authority's win rate tends to be low (Prastyawan & Herliansyah, 2023). This fact demonstrates serious challenges in the regulation, oversight, documentation, and verification of the fairness of affiliated transactions.

The following presents tax disputes in Indonesia, including those involving consumer goods companies: Tax Avoidance, Transfer Pricing, and Thin Capitalization.

Source: Directorate of Objections and Appeals, Directorate General of Taxes

Figure 1. Types of Transfer Pricing Disputes in Indonesia

Based on Table 1 and court ruling data, transfer pricing disputes in Indonesia are increasing by 45% annually, with the DGT's win rate still below 40%. This is due to several transfer pricing issues, including: the inadequate implementation of the arm's-length principle (PKKU), the complexity of transfer pricing dispute cases, the lack of comprehensive regulatory guidance, and the availability of comparative data and transfer pricing documentation (Tambunan, 2022).

The root of this situation lies in the imbalance between the sophistication of multinational companies' business schemes and the oversight capacity of tax authorities. Companies have a strong incentive to minimize their tax burden by optimizing their transfer pricing strategies. Limited human resources, a lack of regulatory clarity, and a lack of comprehensive regulations serve as structural barriers for tax authorities in enforcing the arm's-length principle. Differences in interpretation of pricing methods, as well as the suboptimal implementation of PMK No. 172 of 2023, have led to a gap between policy and its ineffective implementation (Hidayat & Petutschnig, 2024).

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

This dissertation research aims to analyze in-depth the factors influencing TPA in consumer goods companies in Indonesia. This study uses a mixed methods approach with quantitative testing using SEM-PLS and qualitative exploration through focus group discussions (FGDs) and in-depth interviews. The primary focus is on how financial leverage, company size, intangible assets, and the effective tax rate influence TPA, and how financial performance acts as a mediating variable in this relationship. This approach is expected to formulate evidence-based and contextual policy recommendations.

Theoretically, this research addresses a research gap in the study of transfer pricing aggressiveness, which has largely focused on the manufacturing and mining sectors. Furthermore, prior research has limited financial performance as a mediating variable in analyzing the relationship between company financial determinants and transfer pricing aggressiveness. This study utilizes an integration of theories, namely Agency Theory as the grand theory, Resource-Based Theory as the middle theory, supported by Institutional Theory and Legitimacy Theory, to understand external pressures on corporate behavior.

This study integrates empirical and normative aspects in analyzing TPA, covering economically and fiscally relevant sectors. By examining consumer goods companies, which are significant contributors to GDP and tax revenue, this study directly contributes to the interdisciplinary understanding of economics, tax accounting, and fiscal governance. This study also utilizes the ROTC indicator as a more sensitive form of the Profit Level Indicator in detecting TPA symptoms, complementing the analytical methods used in previous studies.

The novelty of this study lies in: (1) the selection of the consumer goods sector as a specific study object in Indonesia, which has relatively little comprehensive research in the context of TPA, and (2) the use of financial performance as a mediating variable in a structural model linking leverage, company size, intangible assets, and ETR to TPA. With this approach, this research not only broadens the theoretical basis but also provides an applicable analytical framework for tax authorities, business actors, and policymakers in managing transfer pricing risks and designing more effective tax compliance strategies.

Based on the above descriptions, the research problem identification can be formulated as follows:

1. How do Financial Leverage, Company Size, Intangible Assets, and the Effective Tax Rate influence Transfer Pricing Aggressiveness, and is Financial Performance able to mediate the influence of Financial Leverage, Company Size, Intangible Assets, and the Effective Tax Rate on Transfer Pricing Aggressiveness?
2. Which variables or indicators are most important and can be developed to achieve Financial Performance in Consumer Goods Companies in Indonesia?
3. What strategies do tax authorities and companies implement to mitigate the risk of tax disputes related to Transfer Pricing Aggressiveness?

Theory Description: Agency Theory. Agency theory, also known as agency theory, focuses on the relationship between management and investors. It was first proposed by Berle and Means (1932) for modern corporations and private companies, and later developed by Jensen and Meckling (1976) as a theoretical basis for modern corporate business practices (Gumelar & Norita, 2014).

Adverse selection describes the situation where agents possess more information about the company's condition than outsiders and have information that is not communicated to the principal, thus influencing the principal's decision-making (Malau & Parhusip, 2016).

According to agency theory, aggressive transfer pricing increases the opacity of financial information, thus exposing the principal to higher adverse selection and moral hazard problems

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

(Rusydi, 2019). High benefits for the company characterize this situation, but on the other hand, principals need to consider the long-term impact of tax avoidance practices on the company's cash flow in the form of fines imposed by the tax authorities (Terry et al., 2013). (D. E. Wahyudi et al., 2021) added that the adverse selection problem causes the principal's lack of understanding of the tax information provided by the agent, leading the principal to agree to tax schemes that maximize their profits without considering the risks posed in the future. Agency theory explains the relationship between the owner (principal) and the manager (agent) in managing a company. In the context of taxation, this theory illustrates how managers (agents) have an incentive to reduce tax liabilities to increase short-term profitability, even though this may conflict with the interests of the owner or the tax authorities (Richardson et al., 2013; Desai & Dharmapala, 2006).

Resource-Based Theory. Resource-Based Theory (RBT) was developed by Barney (1991) and focuses on how companies use their internal resources to achieve competitive advantage and improve financial performance. This theory emphasizes that a company's strategic assets, including leverage, company size, intangible assets, and tax structure, can be used to support business decisions, including aggressive transfer pricing (TPA) strategies.

In the context of aggressive transfer pricing, resource-based theory (RBT) is relevant to explaining how companies use their internal resources to influence transfer pricing policies. Companies with strong resources, such as substantial capital, intangible assets, and access to complex tax planning, tend to have more flexibility in implementing aggressive transfer pricing strategies.

In this study, resource-based theory (RBT) is used as the primary theoretical basis to explain how company size, leverage, effective tax rate, and intangible assets influence aggressive transfer pricing, with financial performance as a moderating variable. RBT suggests that companies with greater resources have more flexibility and incentive to implement aggressive transfer pricing strategies.

Tax Compliance Theory. Essentially, tax compliance theory is a theory developed from deterrence theory by Allingham and Sandmo (1972). This theory states that taxpayers are assumed to always maximize the expected utility from tax avoidance practices by weighing the benefits gained from successful tax fraud against the risk of being caught and punished by the tax authorities (Sandmo, 2005).

On the other hand, according to Kiconco et al. (2019), compliance theory explains the condition of individuals in complying with every rule given as a form of responsibility to God by ensuring that the government and taxpayers fulfill all their tax obligations and rights. Thus, taxpayer compliance is behavior based on taxpayer awareness of their tax obligations, based on established regulations.

Signaling Theory. Signaling Theory was developed by Spence (1973) and focuses on how companies send signals to stakeholders such as investors, governments, and society through their business decisions and financial strategies. In the context of Transfer Pricing Aggressiveness (TPA), this theory explains that companies use transfer pricing strategies to send signals about their financial condition and strategic position.

Signaling Theory was developed by Spence (1973) and focuses on how companies send signals to stakeholders such as investors, governments, and society through their business decisions and financial strategies. In the context of Transfer Pricing Aggressiveness (TPA), this theory explains that companies use transfer pricing strategies to send signals about their financial condition and strategic position.

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Large companies are more likely to use aggressive transfer pricing strategies to signal their financial strength and efficient tax strategies (Klassen et al., 2017). A study by Merle et al. (2019) shows that large multinational companies use transfer pricing to demonstrate their operational efficiency and global competitiveness.

Institutional Theory and Legitimacy Theory. In the context of multinational corporate tax practices, institutional pressure plays a significant role. Institutional Theory (DiMaggio & Powell, 1983) explains that companies are subject to regulatory pressures (from the government and tax authorities), normative pressures (from the profession and society), and cognitive pressures (corporate culture and values). When regulatory pressures such as documentation requirements, risk-based audits, and the implementation of BEPS increase, companies will adjust their transfer pricing strategies.

In this study, empirical findings indicate that companies are more cautious in using intangible assets as TPA instruments due to increased scrutiny and VAT regulations on the use of services from outside the customs area and Article 26 Income Tax on royalties.

Legitimacy Theory (Suchman, 1995) states that companies will strive to obtain and maintain social legitimacy from stakeholders through socially and regulatory acceptable reporting strategies. In this context, financial performance serves as a signal of legitimacy, demonstrating that the company meets stakeholder and regulatory expectations. This aligns with the findings of Hanlon & Heitzman (2010) that financial performance can influence a company's tendency to maintain TPA practices within publicly and legally acceptable limits.

Stakeholder Theory. Stakeholder Theory (Freeman, 1984) emphasizes the importance of considering the interests of all stakeholders, not just shareholders. In this study, excessive TPA behavior can damage a company's relationship with stakeholders such as regulators, customers, and the public. Therefore, companies will balance fiscal efficiency and corporate reputation through more prudent tax strategies. The integration of these theoretical foundations related to this TPA research is as follows:

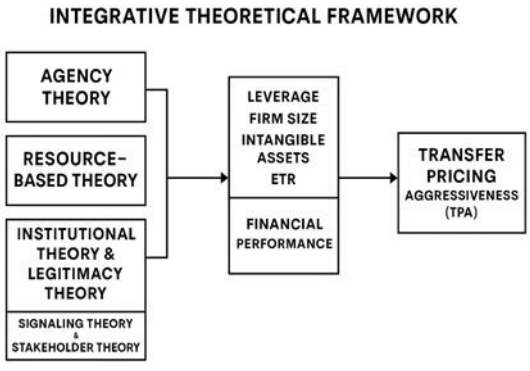

Figure 2. Integration of Theoretical Foundations

Conceptual Description: The Effect of Leverage on Total Assets. Financial leverage can be measured using several approaches, such as comparing total long-term debt to total company assets (Harrington & Smith, 2012; Rodel, 2013). Meanwhile, Badertscher et al. (2009) used the ratio of total debt to total company assets. This differs from Bernard et al. (2006), who used the debt-to-equity ratio.

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Generally, companies with high levels of leverage tend to take advantage of debt's primary characteristic of tax avoidance (Dyreng et al., 2008; Hines, 1996; Rego, 2003). Richardson et al. (2013) stated that leverage is one of the variables influencing companies' transfer pricing decisions.

According to agency theory, high levels of debt can mitigate agency problems between shareholders and creditors. This is because debt issuance is accompanied by an obligation to repay the principal and interest on the loan, thus encouraging companies to improve their performance (Jensen, 1986).

The Effect of Company Size on TPA. The agency theory proposed by Jensen and Meckling (1976) emphasizes management's obligation to act in the interests of shareholders. However, in reality, management tends to act in its interests and profits (Shleifer & Vishny, 1997). In practice, conflicts of interest often arise between management and shareholders. Shleifer and Vishny (1997) explain that management tends to act in its interests and profits, which may differ from those of shareholders. This conflict is known as the agency problem, where management may make decisions that benefit them personally but harm shareholders in the long run. Empirical research shows that more profitable companies tend to be more active in using aggressive transfer pricing strategies. (Cristea & Nguyen, 2016) found that more profitable multinational companies tend to exploit differences in tax rates across countries to reduce their overall tax burden through transfer pricing. Another study (Klassen, 2017) confirmed that corporate profitability is positively related to the tendency to engage in aggressive transfer pricing.

The Influence of Intangible Assets on TPA. According to agency theory (Jensen & Meckling, 1976), corporate management is encouraged to optimize after-tax profits to increase corporate value, which can encourage more aggressive transfer pricing practices using non-existent assets.

Tax Avoidance Theory suggests that businesses typically employ various strategies to reduce their tax liabilities (Slemrod, 2004). One such strategy is altering the transfer price of intangible assets. Because it is difficult to determine an arm 's-length market price for transactions, multinational corporations with a large proportion of intangible assets often engage in more aggressive transfer pricing strategies. A study by Taylor & Richardson (2012) found that multinational companies with a significant proportion of intangible assets are more likely to engage in tax avoidance through transfer pricing than companies with a lower proportion of tangible assets.

The Effect of the Effective Tax Rate on the Taxable Area. Tax rate disparity is one of the factors considered by multinational companies when conducting economic activities in a country, and this leads to differences in global tax strategies compared to local tax strategies (Merle et al., 2019). Hanlon and Heitzman (2010) added that companies' motivation for transfer pricing stems from differences in corporate tax rates across countries. The large tax burden borne by companies encourages them to conduct transactions at lower prices with related companies and shift those profits to countries with lower tax rates to maximize corporate profits (Lestari & Putri, 2017).

The Effect of Leverage on Financial Performance. Rajan and Zingales (1995) found that if a company is able to generate returns greater than the cost of debt, leverage can have a positive impact on financial performance. However, excessive leverage can become a burden and increase financial risk, thus impairing company performance.

Based on theory and empirical evidence, it can be concluded that leverage has a complex effect on financial performance. If the return on assets is greater than the cost of debt, leverage can improve financial performance through the leverage effect. However, excessive leverage can increase financial risk and interest expenses, which can ultimately reduce a company's financial performance. Based on grand theory and previous research, leverage tends to have a positive and significant relationship with a company's financial performance.

ISSN 2720 - 9644 (print)
ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

The Effect of Company Size on Financial Performance. Company size is an important factor influencing financial performance. Large companies have certain characteristics and advantages that can improve financial performance. There are several reasons why company size can affect financial performance.

Large companies typically have better access to resources, both financial and non-financial. For example, they can obtain capital at lower costs, have the ability to attract and retain high-quality employees, and have access to more advanced technology and information. This improved access can improve operational performance, boosting financial performance.

Empirical studies show that company size improves financial performance. Large companies tend to have better financial performance than small companies, according to research conducted by Baumol and Blinder (2018). This research indicates that several important factors explaining this relationship include risk diversification, access to resources, and economies of scale. Based on grand theory and previous research, company size tends to have a positive and significant relationship with a company's financial performance.

The Effect of Intangible Assets on Financial Performance. According to the Resource-Based View (RBV), companies with strong intangible assets have a competitive advantage that can improve financial performance (Barney, 1991). An empirical study conducted by Firmansyah & Yunidar (2020) shows that companies with substantial investments in intangible assets, such as trademarks, patents, and technology, tend to have higher profitability. This is because intangible assets enable companies to improve operational efficiency and strengthen market competitiveness.

Furthermore, research by Merle et al. (2019) found that companies with a higher proportion of intangible assets have larger profit margins because they are able to reduce production costs and improve distribution efficiency. Based on grand theory and previous research, intangible assets tend to have a positive and significant relationship with a company's financial performance.

The Effect of Effective Tax Rate on Financial Performance. Tax Avoidance Theory explains that companies with a high Effective Tax Rate tend to seek strategies to reduce their tax burden, which can impact net income (Hanlon & Heitzman, 2010). A study by Wahyudi et al. (2021) found that companies implementing effective tax management strategies tend to have higher profitability than companies with weak tax planning.

Furthermore, Dinca & Fitriana (2019) stated that companies that successfully manage their Effective Tax Rate through an aggressive tax strategy can increase company value, especially in industries with high tax pressures such as consumer goods. Based on grand theory and previous research, the Effective Tax Rate tends to have a positive and significant relationship with a company's Financial Performance.

The Influence of Financial Performance as a Mediator between Leverage and TPA. According to Agency Theory, companies with high leverage have a greater incentive to implement transfer pricing strategies to optimize interest payments and reduce tax burdens (Richardson et al., 2013). A study by Rahmadhani & Ananda (2022) found that companies with high leverage tend to have higher levels of transfer pricing aggressiveness in an effort to minimize tax burdens and increase cash flow.

Klassen (2017) showed that high profitability provides companies with greater flexibility in structuring transfer pricing to optimize tax benefits. By increasing a company's capacity and willingness to use transfer pricing as a tax-saving strategy, financial performance mediates the effect of leverage on transfer pricing aggressiveness. Empirical research supports the role of financial performance as a mediator in the relationship between transfer pricing aggression and leverage. If managed properly, high leverage can improve financial performance, according to research by Tang

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

and Wang (2019). Consequently, companies become more aggressive in implementing transfer pricing strategies. This study shows that the relationship between leverage and aggressive transfer pricing is strengthened by strong financial performance.

Based on grand theory and previous research, financial performance can mediate the effect of leverage on transfer pricing. The role of financial performance as a mediator can strengthen this relationship.

The Influence of Financial Performance as a Mediator between Company Size and Transfer Pricing. According to Signaling Theory (Spence, 1973), company size can serve as a signal of financial strength and operational stability, influencing a company's tax strategy. A study by Firmansyah & Yunidar (2020) shows that larger companies have better access to international markets, enabling them to implement more aggressive transfer pricing strategies.

A key factor influencing a company's business and financial strategy related to transfer pricing aggressiveness is company size. Larger companies typically have more resources and are better able to implement more complex and aggressive transfer pricing strategies. Financial performance can serve as a mediating variable explaining how company size influences transfer pricing aggressiveness.

Empirical research supports the role of financial performance as a mediating variable in the relationship between Transfer Pricing Aggressiveness and firm size. Li and Hong (2017) found that larger firms more often have better financial performance. Consequently, they are more inclined to employ more aggressive transfer pricing strategies. This study suggests that the relationship between firm size and Transfer Pricing Aggressiveness is strengthened by strong financial performance. Firm financial performance increases with larger firm size, which encourages firms to engage in aggressive transfer pricing strategies. Based on grand theory and previous research, financial performance can mediate the effect of company size on TPA.

The Effect of Financial Performance as a Mediator between Intangible Assets and TPA. Research (Muhammadi, 2016) found that high intangible assets can increase a firm's flexibility in determining transfer pricing strategies, particularly in transactions involving patents and royalties. This is confirmed by Mulya (2022), who found that companies with high intangible assets tend to allocate costs and revenues between entities to optimize tax burdens. Financial performance can strengthen this relationship, as companies with good financial performance have a greater ability to manage their transfer pricing structure (Irawan & Ulinnuha, 2022).

The Influence of Financial Performance as a Mediator between Effective Tax Rate and Tax Avoidance. Based on Tax Avoidance Theory, a high Effective Tax Rate encourages companies to use Transfer Pricing strategies to optimize their tax burden (Hanlon & Heitzman, 2010). A study by Wulandari & Pratiwi (2023) found that companies with a high ETR tend to be more aggressive in Transfer Pricing to reduce their tax base.

However, companies with good Financial Performance are more likely to have the financial capacity to design more complex Transfer Pricing strategies, such as allocating income to jurisdictions with lower tax rates (Ridwan et al., 2023).

The Influence of Financial Performance on Tax Avoidance. Companies that generate good cash flow typically have substantial profits. Through aggressive Transfer Pricing, these profits can encourage businesses to seek better ways to save taxes. Companies can reduce their tax burden by strategically distributing revenue and costs among entities within the corporate group.

Companies with high profits are also better able to fund complex Transfer Pricing arrangements. They can hire experienced tax consultants and utilize advanced technology to identify profitable transfer pricing opportunities.

CATRA RESEARCH INSTITUTE
ISSN 2720 - 9644 (print)
ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Research conducted by Eden (2003) found that businesses with strong financial performance are more likely to engage in aggressive transfer pricing. This study also showed that substantial profits and strong financial capabilities enable businesses to consider tax-saving strategies through transfer pricing. Based on grand theory and previous research, financial performance tends to have a positive and significant relationship with transfer pricing.

Research Framework. This study aims to examine the influence of independent variables, namely financial leverage, company size, intangible assets, and the effective tax rate, on transfer pricing aggressiveness in the consumer goods industry in Indonesia from 2016 to 2022. Therefore, based on its objectives, this research is classified as descriptive research. Arikunto (2013) defines descriptive research as research that aims to analyze a predetermined condition, situation, or other matter, with the results presented in a research report.

Research Hypotheses. Based on the theoretical description above, 13 (thirteen) research hypotheses can be formulated as follows:

1. H1: Leverage has a positive and significant effect on Financial Performance.
2. H2: Company Size has a positive and significant effect on Financial Performance.
3. H3: Intangible Assets have a negative and significant effect on Financial Performance.
4. H4: Effective Tax Rate has a positive and significant effect on Financial Performance.
5. H5: Leverage has a positive and significant effect on Transfer Pricing Aggressiveness.
6. H6: Company Size has a positive and significant effect on Transfer Pricing Aggressiveness.
7. H7: Intangible Assets has a negative and significant effect on Transfer Pricing Aggressiveness.
8. H8: Effective Tax Rate has a positive and significant effect on Transfer Pricing Aggressiveness.
9. H9: Financial Performance has a positive and significant effect on Transfer Pricing Aggressiveness.
10. H10: Financial performance mediates the effect of leverage on transfer pricing aggressiveness.
11. H11: Financial performance mediates the effect of company size on transfer pricing aggressiveness.
12. H12: Financial performance mediates the effect of intangible assets on transfer pricing aggressiveness.
13. H13: Financial performance mediates the effect of effective tax rate on transfer pricing aggressiveness.

METHODS

Research Design. The object of this research is consumer goods companies, which are public companies in Indonesia. These companies were selected because they have contributed the largest tax revenue to the Directorate General of Taxes over the past six years, from 2016 to 2022.

In this study, the research population used is all consumer goods companies in Indonesia available and processed in the Orbis BvD from 2016 to 2022. The selection of consumer goods companies was based on the industry's contribution to GDP and tax revenue, as well as industry stability during the COVID-19 pandemic in 2020-2022. This data selection is expected to provide unbiased research results. The research years 2016 to 2022 were selected based on the availability of sample data on the Orbis BvD website and consideration of tax policies related to transfer pricing in the countries studied. This is because there were no significant changes in tax regulations regarding transfer pricing in Indonesia during the 2016-2022 period.

The objective of this research is to analyze and develop the influence of financial leverage, company size, intangible assets, and effective tax rate on transfer pricing aggressiveness, with financial performance as a moderating variable. Furthermore, this research aims to understand how

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

and why these factors interact and influence the transfer pricing strategies used by multinational companies in the consumer goods sector and the tax authorities in Indonesia.

The company sample was selected from the research population based on the availability of data necessary to test the influence of various variables in this study. In determining the research sample, the author used a purposive sampling method. Purposive sampling is a method for determining research data samples based on several specific considerations chosen by the researcher to ensure more representative data (Sugiyono, 2017).

This research employed a mixed-methods approach, combining quantitative and qualitative analysis. Mixed methods can be defined as research in which researchers collect and analyze data, integrate findings, and draw conclusions using both qualitative and quantitative approaches within a single study (Creswell & Clark, 2017).

This mixed-methods research design encompasses both quantitative and qualitative approaches, as follows:

1. Quantitative Approach. Descriptive statistical analysis of financial data from multinational consumer goods companies was obtained from the Orbis BvD database for the period 2016-2022.
2. Qualitative Approach. In-depth interviews with practitioners and experts in the field of Transfer Pricing, tax auditors, tax consultants, and tax judges were conducted to gain additional insights and verify the quantitative data.

This study used Structural Equation Modeling Partial Least Squares (SEM-PLS) to analyze and develop the determinants of TPA, using the variables Financial Leverage, Company Size, Intangible Assets, and Effective Tax Rate on Transfer Pricing Aggressiveness, with Financial Performance as a moderating variable.

Research Variables. The research variables used in this study include:

1. X1: Leverage. The ratio of debt to equity.
2. X2: Company Size. The size of the company is based on total assets.
3. X3: Intangible Assets. The size of intangible assets.
4. X4: Effective Tax Rate. The size of the tax burden.
5. Y: Financial Performance. The company's financial performance is based on return on assets.
6. Z: Transfer Pricing Aggressiveness. The company's aggressiveness in setting transfer prices.

Population and Sample. A population is a group of individuals with similar characteristics (Creswell, 2014). In this study, the population used was all consumer goods companies in Indonesia that were available and processed in Orbis BvD from 2016 to 2022. The selection of consumer goods companies was based on the industry's contribution to GDP and tax revenue, as well as industry stability during the COVID-19 pandemic in 2020-2022. This data selection is expected to provide unbiased research results.

The company sample was selected from the research population based on the availability of data needed to test the influence of various variables in this study. In determining the research sample, the author used a purposive sampling method. Purposive sampling is a method for determining research data samples based on certain considerations chosen by the researcher to ensure more representative research data (Sugiyono, 2017). Population members who do not meet the requirements will be rejected as part of the research sample.

Data Collection Techniques. Data were collected through two main methods: secondary data and primary data. The data collection techniques used in this study were:

CATRA RESEARCH INSTITUTE
ISSN 2720 - 9644 (print)
ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Literature Review. Literature review was used to support the theory used and as a reference and comparison source for the findings obtained. This technique was also used to supplement the data for analyzing the problem being studied.

Questionnaire. In this study, the researcher used an electronic questionnaire (g-form) presented with a series of questions and alternative answers, where respondents selected the number that best corresponded to their assessment. In addition, respondents also provided their opinions on the questions or statements presented. This questionnaire consisted of questions related to tax dispute cases involving transfer pricing in Indonesia, addressed to practitioners, tax consultants, students, and taxpayers.

In-Depth Interviews and Focus Group Discussions. In-depth interviews are a data collection technique used by researchers to obtain information verbally through face-to-face questioning with a number of informants who can provide information related to the research problem. They also confirm the research findings and solicit in-depth explanations regarding issues identified in the transfer pricing aggressiveness research.

Data Analysis Techniques. This study analyzed secondary data sourced from BvD Orbis using Structural Equation Modeling Partial Least Squares (SEM-PLS). SEM-PLS was used to analyze and develop the determinants of TPA, using financial leverage, company size, intangible assets, and effective tax rate as moderating variables for Transfer Pricing Aggressiveness. Financial Performance served as a moderating variable.

In this study, a mixed methods approach was chosen because the research question required an evaluation of two complementary aspects to answer the research questions. The conditions, characteristics, and status quo of consumer goods companies were needed to enrich the FGD discussions, which would be conducted with the actual conditions of consumer goods companies. To clarify this, an instrument was needed that could evaluate the determinants of transfer pricing aggressiveness from the perspectives of policymakers, DGT employees, tax consultants/practitioners, and academics.

RESULT AND DISCUSSION

Research Data Description. Structural Equation Modeling (SEM) is a statistical approach used to analyze relationships between complex latent variables. One SEM method that is increasingly popular in finance and tax research is Partial Least Squares-Structural Equation Modeling (PLS-SEM), which is implemented in the SMART PLS software. In this dissertation research, SMART PLS was used to:

1. Analyze the relationship between leverage, company size, intangible assets, and the effective tax rate on transfer pricing aggressiveness.
2. Test the role of financial performance as a mediator in the causal relationship between financial factors and transfer pricing aggressiveness.
3. Analyze the structural model and test hypotheses using path coefficients and significance values.
4. Evaluate the quality of the model through validity tests (AVE, cross-loading), reliability (Cronbach's alpha, composite reliability), and goodness of fit (GoF).

Hypothesis Testing. Based on the statistical calculations, the results of the direct and indirect effect hypothesis tests were obtained. The following are the results of the direct effect hypothesis test:

1. Variable X1 (Leverage) has a positive and significant effect on variable Y1 (Financial Performance), with a T-statistic greater than the critical value (6.030 > 1.960) and p-values less than

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

α (0.000 < 0.050). A positive coefficient indicates that increasing Leverage can significantly improve Financial Performance.

2. Variable X2 (Company Size) has a positive and significant effect on variable Y1 (Financial Performance), with a T-statistic greater than the critical value (9.470 > 1.960) and p-values less than α (0.000 < 0.050). A positive coefficient indicates that increasing Company Size can significantly improve Financial Performance.

3. Variable X3 (Intangible Assets) has a negative and significant effect on variable Y1 (Financial Performance), with a T-statistic greater than the critical value (10.709 > 1.960), and p-values less than α (0.000 < 0.050). The negative coefficient indicates that increasing Intangible Assets can significantly reduce Financial Performance.

4. Variable X4 (Effective Tax Rate) has a positive and significant effect on variable Y1 (Financial Performance), with a T-statistic greater than the critical value (5.216 > 1.960), and p-values less than α (0.000 < 0.050). The positive coefficient indicates that increasing the Effective Tax Rate can significantly improve Financial Performance.

5. Variable X1 (Leverage) has a positive and significant effect on variable Y2 (Transfer Pricing Aggressiveness), with a T-statistic greater than the critical value (3.007 > 1.96), and p-values smaller than α (0.003 < 0.050). The positive coefficient indicates that increasing Leverage can significantly increase Transfer Pricing Aggressiveness.

6. Variable X2 (Company Size) has a positive and significant effect on variable Y2 (Transfer Pricing Aggressiveness), with a T-statistic greater than the critical value (2.876 > 1.96), and p-values smaller than α (0.005 < 0.050). The positive coefficient indicates that increasing Leverage can significantly increase Transfer Pricing Aggressiveness.

7. Variable X3 (Intangible Assets) has a negative and significant effect on variable Y2 (Transfer Pricing Aggressiveness), with a T-statistic greater than the critical value (3.674 > 1.96), and p-values smaller than α (0.000 < 0.050). The negative coefficient indicates that an increase in Intangible Assets can significantly reduce Transfer Pricing Aggressiveness.

8. Variable X4 (Effective Tax Rate) has a positive and significant effect on variable Y2 (Transfer Pricing Aggressiveness), with a T-statistic greater than the critical value (2.841 > 1.96), and p-values smaller than α (0.005 < 0.050). The positive coefficient indicates that an increase in the Effective Tax Rate can significantly increase Transfer Pricing Aggressiveness.

9. Variable Y1 (Financial Performance) has a positive and significant influence on variable Y2 (Transfer Pricing Aggressiveness), with a T-statistic value greater than the critical value (4.930 > 1.96), and p-values smaller than α (0.000 < 0.050). A positive coefficient indicates that increasing Financial Performance can significantly increase Transfer Pricing Aggressiveness.

In addition, there are also indirect influences, including:

10. The indirect effect of variable X1 (Leverage) on variable Y2 (Transfer Pricing Aggressiveness) through variable Y1 (Financial Performance) is significant, with a T-statistic greater than the critical value (3.637 > 1.96), and p-values less than α (0.000 < 0.050). The Financial Performance variable mediates the effect of Leverage on Transfer Pricing Aggressiveness (including partial mediation because the direct effect of X1 on Y is significant).

11. The indirect effect of variable X2 (Company Size) on variable Y2 (Transfer Pricing Aggressiveness) through variable Y1 (Financial Performance) is significant, with a T-statistic greater than the critical value (4.214 > 1.96), and p-values less than α (0.000 < 0.050). The Financial Performance variable mediates the effect of Company Size on Transfer Pricing Aggressiveness (including partial mediation because the direct effect of X2 on Y is significant).

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
KSI
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

12. The indirect effect of variable X3 (Intangible Assets) on variable Y2 (Transfer Pricing Aggressiveness) through variable Y1 (Financial Performance) is significant, with a T-statistic greater than the critical value (4.793 > 1.96), and p-values smaller than α (0.000 < 0.050). The Financial Performance variable mediates the effect of Intangible Assets on Transfer Pricing Aggressiveness (including partial mediation because the direct effect of X3 on Y is significant).

13. The indirect effect between variable X4 (Effective Tax Rate) on variable Y2 (Transfer Pricing Aggressiveness) through variable Y1 (Financial Performance) is significant, with T-statistic values greater than the critical value (3.064 > 1.96), and p-values smaller than α (0.002 < 0.050). The Financial Performance variable mediates the effect of Effective Tax Rate on Transfer Pricing Aggressiveness (including partial mediation because the direct effect of X2 on Y is significant).

The Effect of Financial Leverage, Company Size, Intangible Assets, and Effective Tax Rate on Transfer Pricing Aggressiveness, Moderated by Financial Performance. Statistical test results indicate that Financial Leverage, Company Size, and Effective Tax Rate have a positive and significant effect on Transfer Pricing Aggressiveness, while Intangible Assets have a negative effect. Furthermore, Financial Performance is proven to mediate the relationship between these independent variables and Transfer Pricing Aggressiveness.

The integration of the SEM-PLS results and the NVivo analysis shows consistency in the main theme: transfer pricing decisions are influenced by internal strategic capacity and external pressures. However, there is tension between the interests of the tax authorities and the corporation, as demonstrated by the differing perceptions of DGT informants and tax consultants.

The results indicate that Financial Leverage has a positive and significant effect on Transfer Pricing Aggressiveness (TPA) with a T-statistic of 1.988 and a p-value of 0.047. These findings indicate that companies with high leverage tend to be more aggressive in their transfer pricing strategies to reduce tax burdens and improve capital structure efficiency.

This finding aligns with Resource-Based Theory, which states that internal resource capacity determines the superiority of corporate strategies, including tax avoidance strategies. Within the context of Agency Theory, large companies face highly complex principal-agent relationships, thus strengthening managers' incentives to maximize post-tax profits, especially if performance-based incentives are implemented.

According to Agency Theory (Jensen & Meckling, 1976), highly leveraged companies have an incentive to allocate earnings to affiliated entities with lower tax rates as a strategy to increase shareholder wealth by reducing effective tax liability (Taylor & Richardson, 2013, Journal of International Accounting Research).

According to the Resource-Based View (RBV) (Barney, 1991), large companies have more resources to develop transfer pricing policies; thus, company size has a positive effect on transfer pricing aggressiveness (Lanis & Richardson, 2012, Accounting & Finance Journal).

Tax Avoidance Theory (Desai & Dharmapala, 2006). Companies with high ETRs tend to use transfer pricing as a tax avoidance strategy, which aligns with the finding that the Effective Tax Rate has a positive effect on Transfer Pricing Aggressiveness.

The effective tax rate (ETR) acts as a trigger for transfer pricing strategies. Companies with high ETRs tend to reduce their tax burden by shifting to lower-income jurisdictions. Within the framework of Tax Compliance Theory, high tax rates increase the motivation for avoidance, especially when audit risk is low.

Interviews with DGT officials revealed that ETRs are often used as risk indicators in CRM systems. Companies with ETRs that deviate from the industry tend to be prioritized for supervision. From an Institutional Theory perspective, regulatory and cognitive pressures from the international

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

tax reporting system (CbCR) force companies to be more conservative in developing transfer pricing policies.

Contrary to previous literature, this study shows that intangible assets are negatively correlated with TPA. The reality on the ground explains this: many consumer goods companies in Indonesia have not explicitly capitalized trademarks, patents, or know-how in their financial statements, thus preventing them from being used as a means of price shifting. An interview-based approach indicates that the valuation and audit risks of intangible assets are quite high, prompting management to exercise greater caution.

These findings confirm that intangible-based profit shifting has not been optimally implemented in Indonesia, unlike the technology or pharmaceutical sectors in developed countries. This is where Legitimacy Theory comes into play: companies avoid using intangibles for TPA to maintain a compliant appearance in the eyes of authorities.

The research findings above are supported by focus group discussions (FGDs) and interviews with practitioners, academics, and tax authorities. Tax practitioners stated that leverage is often used to shift interest expenses to lower-tax jurisdictions. Academics emphasized that large companies have dedicated tax strategy teams, thus possessing greater transfer pricing capabilities. The tax authority (DGT) highlighted that intangible assets in the consumer goods sector do not necessarily contribute to aggressive transfer pricing, as intellectual property rights typically remain with the parent company.

Interviews with tax practitioners revealed that large companies have better documentation systems and are generally better prepared for transfer pricing audits, but they tend to exploit regulatory loopholes to design aggressive transfer pricing policies. The FGDs also noted that oversight of large companies is stricter, leading them to adopt an aggressive yet legal approach in their financial statements.

These findings confirm that transfer pricing strategies depend not only on financial factors but also on the company's structure and applicable tax regulations. With Financial Performance as a mediator, the implication is that companies with high profitability have more flexibility in transfer pricing, as proposed by Signaling Theory (Spence, 1973).

Focus Group Discussions (FGDs) with academics and tax practitioners found that companies with high leverage ratios tend to use intra-group debt instruments as part of their transfer pricing strategy. Therefore, optimizing the monitoring system and providing more accurate, comparable data by the Directorate General of Taxes (DGT) are key factors in reducing the potential for leverage abuse in transfer pricing transactions.

Considering the results of statistical tests, applicable tax regulations, and insights from FGDs and interviews, it can be concluded that financial leverage significantly contributes to transfer pricing aggressiveness in consumer goods companies.

Financial leverage was found to be a key determinant of TPA. Companies with high debt have an incentive to shift interest expenses to subsidiaries in low-tax jurisdictions (thin capitalization). In this regard, Agency Theory highlights the pressure from creditors on management to maintain debt ratio covenants. On the other hand, Signaling Theory explains that management with good financial performance tends to have more freedom to choose transfer pricing strategies without losing investor confidence.

RBV argues that large companies have more resources to develop transfer pricing policies, so company size has a positive effect on transfer pricing aggressiveness (Lanis & Richardson, 2012, Accounting & Finance Journal). Research by Wulandari & Pratiwi (2023) also shows that large

ISSN 2720 - 9644 (print)
ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics

companies are more aggressive in transfer pricing due to their greater number of intra-group transactions.

Furthermore, Tax Avoidance Theory explains that companies with high ETRs tend to use transfer pricing as a tax avoidance strategy. This finding aligns with research showing that the effective tax rate has a positive effect on transfer pricing aggressiveness. A study by Merle et al. (2019) in *Tax Havens and Transfer Pricing Intensity* also shows that the effective tax rate encourages companies to use transfer pricing as a tax strategy.

The research findings were strengthened by focus group discussions (FGDs) and interviews with tax practitioners, academics, and tax authorities. Some key findings include:

a. Tax practitioners stated that leverage is often used to shift interest expenses to lower-tax jurisdictions.
b. Academics emphasized that large companies have dedicated tax strategy teams, thus possessing greater transfer pricing capabilities.
c. The tax authority (DGT) highlighted that intangible assets in the consumer goods sector do not necessarily contribute to transfer pricing aggressiveness because intellectual property rights typically remain with the parent company.

These findings confirm that transfer pricing strategies depend not only on financial factors but also on the company's structure and applicable tax regulations. With financial performance as a mediator, the implication is that companies with high profitability have more flexibility in transfer pricing, as proposed by Signaling Theory (Spence, 1973).

High leverage increases transfer pricing aggressiveness, consistent with agency theory (Jensen & Meckling, 1976) and tax avoidance theory (Hanlon & Heitzman, 2010). Large companies are more likely to engage in aggressive transfer pricing due to their more complex business structures and greater opportunities for tax avoidance (Institutional Theory, DiMaggio & Powell, 1983). Companies with high intangible assets tend to be more cautious in transfer pricing due to valuation difficulties and stricter tax oversight (Resource-Based View, Barney, 1991). High tax rates (ETR) encourage companies to utilize transfer pricing as a tax avoidance strategy (Arm's Length Principle, OECD 2017).

The main contribution of this research is the placement of financial performance as a mediator that strengthens the relationship between financial variables and TPA strategies. This enriches the literature with a new perspective that combines signaling theory and stakeholder theory.

This research also offers policy contributions: leverage-based risk classification and ETR, strengthening CRM systems, integrating TP documents with the CTAS system, and education on intangible valuation. From a long-term perspective, these results encourage the development of synergy across institutions (DGT, OJK, Ministry of Finance) to build a data-driven and governance-based cross-jurisdictional tax compliance system.

Thus, the findings of this research not only answer scientific questions but also contribute to the design of more responsive and sustainable tax policies.

The most important variables or indicators that can be developed to achieve financial performance in consumer goods companies in Indonesia

The results show that financial performance in consumer goods companies is significantly influenced by financial leverage, company size, and the effective tax rate. Based on statistical tests and interviews with tax practitioners, these three factors play a crucial role in determining a company's financial performance.

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Financial Leverage. High financial leverage can improve financial performance because it allows companies to obtain greater capital for business expansion. However, excessive leverage also increases liquidity risk.

Company Size. Larger companies tend to have advantages in operational efficiency, bargaining power with suppliers, and the ability to utilize tax incentives and optimize transfer pricing.

Effective Tax Rate. A lower effective tax rate can increase company profitability, encouraging them to implement more efficient transfer pricing strategies to maximize after-tax profits.

Focus Group Discussions (FGDs) with academics and practitioners found that consumer goods companies with high leverage and large size were more likely to implement transfer pricing-based tax management strategies to improve their financial performance.

Based on quantitative data research, company size has the greatest influence on financial performance, with a t-statistic of 5.876, a p-value of 0.000, and a beta coefficient of 0.274. This is also supported by the Agency Theory perspective (Jensen & Meckling, 1976), which suggests that larger companies have more complex management structures and access to broader financial resources, enabling them to implement more efficient financial and tax strategies.

Meanwhile, the Effective Tax Rate (ETR) also has a positive impact on Financial Performance, which aligns with research by Merle et al. (2019), which found that the Effective Tax Rate negatively impacts Transfer Pricing intensity, as companies with high tax rates are more likely to seek ways to reduce their tax liabilities.

Furthermore, Intangible Assets, although not directly contributing to Financial Performance in this model, play a significant role in Transfer Pricing strategies. Jafri & Mustikasari (2018) found that intangible assets are frequently used in Transfer Pricing strategies through pricing royalties, know-how, trademarks, and patents.

Thus, based on statistical analysis and relevant theory, Company Size is the most influential variable on Financial Performance, followed by Financial Leverage and the Effective Tax Rate.

What Factors: Financial Leverage, Company Size, Intangible Assets, and the Effective Tax Rate Influence Transfer Pricing Aggressiveness?

Based on quantitative data analysis and Focus Group Discussions (FGDs), it was found that several factors within each variable significantly influence Transfer Pricing Aggressiveness. The focus group discussions (FGDs) with officials/employees from the tax authorities identified several issues in handling transfer pricing. These issues relate to regulatory aspects, supervision, audits, and the handling of transfer pricing disputes between the Directorate General of Taxes (DGT) and taxpayers.

Further and comprehensive regulation is needed to ensure fair and transparent implementation of the PKKU (Regional Tax Return) for both the tax authorities and taxpayers. The government needs to prepare regulations explicitly addressing transfer pricing and fair prices in the Tax Law and its implementing regulations. Furthermore, oversight concerns include the mismatch between items 16a/b in the Annual Tax Return and other attachments, such as 1771-VI or 1771-VI, Special Attachments 3A/3B, 3A-1/3B-1 and 3A-2/3B-2, and Special Attachment 8A/8B.

Regarding audits, several factors are identified, including taxpayers' uncooperativeness in transfer pricing audits, too short timeframes, and auditors' use of a weak legal basis. In the aspect of dispute handling, the results of the audits related to affiliated transactions are difficult to maintain, the analysis does not touch on the substance, and the audits related to affiliated transactions are inconsistent from year to year.

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS oneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Strategies for Tax Authorities and Companies in Mitigating Transfer Pricing Disputes. The following are several strategies that the Directorate General of Taxes (DGT), as the tax authority, can implement to mitigate transfer pricing disputes:

a. Improving Transfer Pricing Compliance Risk Management (CRM) Oversight
b. Using Big Data Analytics to Identify Affiliate Transaction Patterns
c. Optimizing Advance Pricing Agreements (APA) and Mutual Agreement Procedures (MAP)
d. Revising Minister of Finance Regulation Number 169/PMK.03/2016 concerning the Debt-to-Equity Ratio (DER)
e. Increasing Transfer Pricing Data Transparency

Furthermore, several strategies that taxpayers can implement to mitigate transfer pricing disputes and improve tax compliance include:

a. Preparing Transparent Transfer Pricing Documentation
b. Utilizing APAs and MAPs to Avoid Tax Disputes
c. Implementing Internal Compliance in Transfer Pricing Strategies
d. Optimizing Business Structure to Comply with Regulations

These strategies are supported by several theories, including grand theory, middle theory, and applied theory, used in this research.

a. Agency Theory explains that companies have an incentive to maximize shareholder profits, including through aggressive transfer pricing strategies.
b. Tax Compliance Theory emphasizes that taxpayer compliance with regulations is a key factor in reducing tax disputes.
c. The OECD Guidelines and the Arm's Length Principle emphasize the importance of fair and well-documented transfer pricing transactions to avoid potential disputes.
d. Evidence from Empirical Studies by Wulandari & Pratiwi (2023, SINTA 1) and Richardson et al. (2013) supports the finding that strict regulations and effective mitigation strategies can reduce transfer pricing aggressiveness and the risk of tax disputes.

CONCLUSION

Based on the problem formulation, hypothesis formulation, and research results described above, the following general conclusions can be drawn:

1. Company Size, Financial Leverage, and Effective Tax Rate have a significant positive effect on Transfer Pricing Aggressiveness, mediated by Financial Performance. Meanwhile, Intangible assets have a significant negative effect on Transfer Pricing Aggressiveness, mediated by Financial Leverage.
2. The most significant variables or indicators that can be developed to achieve Financial Performance in Indonesian Consumer Goods Companies are Company Size, followed by Financial Leverage, and Effective Tax Rate.
3. The strategies implemented by tax authorities and companies to mitigate the risk of tax disputes related to Transfer Pricing Aggressiveness are to create comprehensive Transfer Pricing regulations and guidelines, revise the Minister of Finance Regulation on Debt Equity Ratio, supervision of business group taxpayers, provision of comparative data by tax authorities and ease of Transfer Pricing Documentation through applications integrated with the Core Tax System, Optimization of APA (Advance Pricing Agreement) & MAP (Mutual Agreement Procedure), Utilization of Technology & Big Data in supervision, examination and handling of Transfer Pricing disputes.

CATRA RESEARCH INSTITUTE
• ISSN 2720 - 9644 (print)
• ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Based on the research results, discussions, and conclusions of this study, the following are several operational and technical recommendations:

1. For the Tax Authority: The Directorate General of Taxes (DGT) must enhance risk-based supervision and audits of Compliance Risk Management Transfer Pricing (CRMT), focusing on companies with high leverage and foreign ownership. The use of technologies such as Big Data Analytics and Artificial Intelligence (AI) will enhance Transfer Pricing oversight. To provide greater legal certainty for taxpayers and reduce the number of Transfer Pricing disputes in the Tax Court, tax dispute resolution mechanisms such as the Mutual Agreement Procedure (MAP) and Advance Pricing Agreement (APA) should be expanded.
2. For Taxpayers: To reduce the risk of tax corrections and disputes, companies must prepare Transfer Pricing Documentation in accordance with PMK-172/PMK.03/2023. Building an effective tax management framework and considering the use of Advance Pricing Agreements (APAs) to provide legal certainty regarding Transfer Pricing policies are important steps to improve tax risk management. To improve regulatory compliance, the digitalization of the tax reporting system, including the use of artificial intelligence-based CbCR (Credit Bank Indonesia) systems, must be enhanced.
3. For Academics. To gain a broader understanding, academics and practitioners conducting advanced research can examine the factors influencing aggressive transfer pricing in other sectors, such as technology, mining, food and beverages, and pharmaceuticals. In future research, using machine learning and big data analytics to identify aggressive transfer pricing patterns could be a creative approach. Furthermore, transfer pricing certification programs and educational courses are crucial for enhancing the knowledge of tax students and practitioners about international tax policy and compliance strategies.

REFERENCES

Creswell, J. W., & Clark, V. L. P. (2017). *Designing and conducting mixed methods research*. Sage Publications. https://doi.org/10.1257/pol.20130407

Cristea, A. D., & Nguyen, D. X. (2016). Transfer pricing by multinational firms: New evidence from foreign firm ownerships. *American Economic Journal: Economic Policy, 8*(3), 170–202.

Firmansyah, A., & Yunidar, A. (2020). Financial derivatives, financial leverage, intangible assets, and transfer pricing aggressiveness: Evidence from Indonesian companies. *Jurnal Dinamika Akuntansi dan Bisnis, 7*(1), 1–14. https://doi.org/10.24815/jdab.v7i1.15334

Gumelar, E. T., & Norita, N. (2014). Pengaruh corporate governance terhadap perilaku oportunistik manajerial dan kebijakan dividen serta dampaknya terhadap nilai perusahaan (Studi kasus pada perusahaan non-keuangan di Indeks Kompas 100). *Proceedings of Management, 1*(3).

Irawan, F., & Ulinnuha, I. A. (2022). Transfer pricing aggressiveness in Indonesia: Multinationality, tax haven, and intangible assets. *Jurnal Dinamika Akuntansi dan Bisnis, 9*(1), 1–18. https://doi.org/10.24815/jdab.v9i1.23217

Jafri, H. E., & Mustikasari, E. (2018). Pengaruh perencanaan pajak, tunneling incentive dan aset tidak berwujud terhadap perilaku transfer pricing pada perusahaan manufaktur yang memiliki hubungan istimewa yang terdaftar di Bursa Efek Indonesia periode 2014–2016. *Berkala Akuntansi dan Keuangan Indonesia, 3*(2), 63. https://doi.org/10.20473/baki.v3i2.9969

Klassen, K. J. (2017). Transfer pricing: Strategies, practices, and tax minimization. *Contemporary Accounting Research, 34*(1), 455–493. https://doi.org/10.1111/1911-3846.12239

CATRA RESEARCH INSTITUTE
ISSN 2720 - 9644 (print)
ISSN 2721 - 0871 (online)
IJESSS
INTERNATIONAL JOURNAL OF ENVIRONMENTAL, SUSTAINABILITY AND SOCIAL SCIENCE
Indexed By : GARUDA Google doi Crossref ROAD INDEX COPERNICUS Indonesia OneSearch ISJD sinta 4 EBSCO Clarivate Analytics WEB OF SCIENCE

Merle, R., Al-Gamrh, B., & Ahsan, T. (2019). Tax havens and transfer pricing intensity: Evidence from the French CAC-40 listed firms. *Cogent Business & Management, 6*(1), 1647918. https://doi.org/10.1080/23311975.2019.1647918

Mulya, A. S. (2022). Analisis faktor yang memengaruhi keputusan agresivitas transfer pricing. *Studi Akuntansi, Keuangan, dan Manajemen, 2*(1), 71–82. https://doi.org/10.35912/sakman.v2i1.1652

Richardson, G., Taylor, G., & Lanis, R. (2013). Determinants of transfer pricing aggressiveness: Empirical evidence from Australian firms. *Journal of Contemporary Accounting & Economics, 9*(2), 136–150. https://doi.org/10.1016/j.jcae.2013.06.002

Ridwan, M., Arofah, A. D., Putri, A. P. R. Z., & Ilham, U. P. (2023). Analisis faktor-faktor yang mempengaruhi transfer pricing pada perusahaan sektor industri di Indonesia. *Jurnal Ekonomika dan Bisnis.*

Supriyadi, S., Widyastuti, T., & Darmansyah, D. (2024). Determination of financial performance and transfer pricing aggressiveness: Analysis of sales growth, leverage, company size and intangible assets (literature review). *Educoretax, 4*(10), 1194–1209. https://doi.org/10.54957/educoretax.v4i10.1128

Wahyudi, D. E., Sutrisno, T., & Rusydi, M. K. (2021). Determinants of transfer pricing aggressiveness with the moderation of corporate governance in Indonesia and Malaysia. *Journal of Economics, Business, & Accountancy Ventura, 24*(1), 23–33. https://doi.org/10.14414/jebav.v24i1.2536

Wulandari, I., & Pratiwi, A. P. (2023). Pengaruh ukuran perusahaan, sales growth, dan transfer pricing terhadap tax avoidance. *Journal of Islamic Accounting Competency, 3*(2), 57–70. https://doi.org/10.30631/jisacc.v3i2.1368