

The Effect of Thin Capitalization, Transfer Pricing, and Sales Growth on Tax Avoidance in Companies Listed on the Indonesia Stock Exchange

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Abstract

This study investigates the influence of thin capitalization, transfer pricing, and sales growth on tax avoidance in companies listed on the Indonesia Stock Exchange (IDX), specifically within the food and beverage manufacturing subsector from 2019 to 2023. The research aims to explore how internal financial strategies contribute to tax avoidance behaviors. A quantitative approach was employed using secondary data sourced from published financial statements. A total of 109 valid company-year observations were analyzed after removing 24 outliers from the initial dataset. The variables were tested using multiple linear regression analysis via SPSS, with a significance level set at 5%. The results indicate that thin capitalization has a positive and significant effect on tax avoidance, suggesting that companies leverage debt financing to reduce taxable income. Similarly, transfer pricing practices also show a significant positive relationship, implying the strategic allocation of intra-group transactions to lower tax obligations. Sales growth is found to positively and significantly affect tax avoidance, indicating that growing companies tend to adopt more aggressive tax strategies to maintain post-tax profitability. The adjusted R^2 value of 0.674 suggests that 67.4% of the variation in tax avoidance is explained by the model. These findings support agency theory, which posits that managers act in their own interest, often engaging in tax minimization to enhance financial performance and shareholder value. The study contributes to the understanding of corporate tax behavior in emerging markets and informs policymakers of the need for stricter regulations on intercompany transactions and capital structure management.

1. Introduction

Taxes play a pivotal role in Indonesia's economic development, serving as a primary source of government revenue to finance public services such as healthcare, education, and infrastructure. According to the General Provisions and Tax Procedures Law No. 6 of 1983 (Mardiasmo, 2019), taxes are compulsory contributions mandated by law, imposed on individuals and business entities without direct compensation, and utilized to support national interests and promote public welfare.

Amid evolving and increasingly complex tax regulations, companies are expected to manage their tax obligations effectively in order to optimize net income and enhance shareholder value. One widely adopted strategy is tax planning, which includes legal practices such as tax avoidance. Tax avoidance refers to efforts by companies to reduce their tax liabilities within the boundaries of the law

(Nadila & Silalahi, 2022). While legal, these practices often raise ethical concerns and have attracted increased scrutiny from tax authorities.

Several notable tax avoidance cases in Indonesia demonstrate the methods companies use to legally reduce tax burdens. British American Tobacco (BAT), through its subsidiary PT Bentoel Internasional Investama, was reported to have shifted significant revenues abroad, resulting in an estimated annual tax loss of USD 14 million (Kontan.co.id, 2019). Similarly, PT Coca-Cola Indonesia (CCI) allegedly inflated advertising expenses between 2002 and 2006, leading to an estimated IDR 49.24 billion in lost income tax revenue (Hama, 2020). International technology giants such as Google, Facebook, and Microsoft have also reportedly used aggressive tax strategies, contributing to an estimated USD 2.8 billion

annual loss in tax revenue to Indonesia (Tax Justice Network, 2019).

Beyond these high-profile cases, specific financial strategies such as thin capitalization and transfer pricing are commonly used to facilitate tax avoidance. Thin capitalization involves the use of excessive debt financing to generate interest expenses that reduce taxable income. Meanwhile, transfer pricing refers to the pricing of transactions between entities within the same corporate group in a manner that shifts profits to jurisdictions with lower tax rates (Darussalam & Kristiaji, 2013; Fadillah & Lingga, 2021). Although legal, transfer pricing practices are often manipulated and remain a major focus for tax enforcement globally (Nafiati et al., 2023).

Another determinant of tax avoidance is sales growth. Rapidly growing companies often seek to preserve post-tax profits through aggressive tax planning strategies. Higher revenue levels can correlate with greater incentives and opportunities to engage in tax avoidance, as management is pressured to meet performance targets and maintain investor confidence (Diyastuti & Kholis, 2022; Sinambela & Nur'aini, 2021).

This study focuses on the food and beverage manufacturing subsector in Indonesia, which is characterized by complex cost structures, extensive use of debt financing, significant potential for intra-group transactions, and dynamic sales trends. These features make the sector particularly relevant for exploring the relationship between thin capitalization, transfer pricing, sales growth, and corporate tax avoidance.

2. Literature Review

2.1 Agency Theory

Agency theory, as formulated by Jensen and Meckling (1976) and cited in Habu and Darma (2022), explains the contractual relationship between principals and agents. Principals, typically shareholders, delegate decision-making authority to agents, who are company managers responsible for running the business. This delegation creates a potential

conflict of interest due to differences in goals and information asymmetry between the two parties (Anwar & Saragih, 2021). In the context of tax avoidance, agency theory suggests that shareholders expect management to maximize firm value, which may motivate managers to increase profits while legally minimizing tax liabilities through strategies such as tax avoidance (Salwah & Herianti, 2023).

From this perspective, thin capitalization can be viewed as a deliberate choice to finance the company more through debt than equity, taking advantage of tax-deductible interest expenses, which reduces taxable income (Salwah & Herianti, 2019; Curry & Fikri, 2023). Similarly, transfer pricing policies in multinational corporations are often designed to shift profits to low-tax jurisdictions, reducing overall tax expenses in line with agency objectives to maximize shareholder wealth (Amelia & Nadi, 2024).

Furthermore, sales growth reflects a company's expanding revenue and profit. Increased profits often lead to higher tax liabilities, which may incentivize companies to engage in tax avoidance to protect their net income (Diyastuti & Kholis, 2022).

2.2 Tax Avoidance

Tax avoidance involves the legal use of tax regulations and loopholes to minimize tax payments, without violating the law (Amelia & Nadi, 2024). According to the Income Tax Law and Regulation No. 169/PMK.03/2015, companies may structure their financing and transactions to reduce taxable income legitimately.

Alessandro and Aneke (2022) describe tax avoidance as an active, legal resistance strategy aimed at lowering tax obligations while maintaining compliance with tax authorities. This is distinct from tax evasion, which constitutes illegal practices such as underreporting income or falsifying records (Salwah & Herianti, 2023). Companies typically attempt to reduce taxes

through legal means first and resort to paying taxes only when these measures fail.

2.3 Thin Capitalization

Thin capitalization refers to the practice of a company financing itself with a relatively high proportion of debt compared to equity (Prayoga et al., 2019). This allows companies to deduct interest expenses from taxable income, thus reducing their overall tax burden (Salwah & Herianti, 2019). In Indonesia, this practice is common and represents a form of tax avoidance. However, it also raises concerns about agency conflicts, as managers may take on high-risk debt financing decisions that do not align with shareholder interests (Amelia & Nadi, 2024).

2.4 Transfer Pricing

Transfer pricing is the pricing of goods, services, or intangibles transferred between related business entities within the same multinational group (Anggraeni et al., 2023). According to Regulation No. PER-32/PJ/2011 Article 1 Section 8 by the Directorate General of Taxes, transfer pricing is subject to rules to ensure that prices reflect an arm's length standard. Corporations often use transfer pricing to shift profits to subsidiaries located in countries with lower tax rates, thereby minimizing their global tax liabilities (Nurrahmi & Rahayu, 2020; Hidayat et al., 2019). This practice is legitimate if conducted within regulations, but misuse leads to tax avoidance and loss of tax revenue for higher-tax jurisdictions.

2.5 Sales Growth

Sales growth is an indicator of a company's development and is reflected in rising profits shown in financial statements (Sinambela & Nur'aini, 2021). As sales and profits increase, the company's tax obligations generally rise as well (Nisa & Hidayat, 2024). Rapid sales growth can motivate companies to engage in tax avoidance activities to maintain higher post-tax earnings and satisfy shareholder expectations (Putri, 2016; Ikhlusal

et al., 2022). Thus, sales growth acts as an external pressure influencing tax planning decisions.

3. Research Methods

This study employs a quantitative research approach, utilizing secondary data as the primary data source. Secondary data refers to data collected indirectly, either through intermediaries or obtained from previously published sources (Sugiyono, 2018). In this research, the secondary data consist of company financial statements obtained from the official Indonesia Stock Exchange (IDX) website.

To describe and summarize the characteristics of the research variables, descriptive statistical analysis is used. This includes calculating measures such as totals, ranges, means, standard deviations, minimums, and maximums. These descriptive statistics provide an overview of the data distribution and variability for each variable studied.

Data processing and analysis are conducted using SPSS for Windows software. The software facilitates effective data handling and enables the researcher to identify patterns, trends, and relationships within the data. The focus of the analysis will be on the descriptive statistics, which serve as a foundation for further inferential analysis if required.

4. Results and Discussion

4.1 Research Results

4.1.1 Descriptive Statistical Test Results

Using key metrics like total, range, standard deviation, minimum, and maximum, descriptive statistics provide a picture of the data. All research variables will have their means, standard deviations, maximums, and minimums checked using statistical analysis in this study. This analysis will be conducted using SPSS for Windows as the tool for testing the data. The study uses 132 samples, but 24 outlier data points were identified, leaving the researcher with 108 valid samples. The descriptive results for each variable, according

to the SPSS for Windows calculations, are presented in table below.

Table 1. Descriptive Statistics Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
<i>Thin Capitalization</i>	109	1.97	174.98	43.6524	40.16233
<i>Transfer Pricing</i>	109	.02	103.85	12.0105	18.73861
<i>Sales Growth</i>	109	.01	88.46	8.5281	12.27775
<i>Tax Avoidance</i>	109	.23	247.15	36.3066	46.54999
Valid N (listwise)	109				

Source : SPSS data processed, 2024

The descriptive statistics that were utilized to establish that 109 samples are the valid data set for processing in this inquiry are shown in Table 1. Detailed justifications of the descriptive statistical findings are provided below:

1. Thin Capitalization: Measured using the Debt to Equity Ratio (DER), the minimum number is 1.97, owned by Tri Banyan Tirta Tbk. in 2023, and the highest number is 174.98, owned by Sawit Sumbermas Sarana Tbk. in 2022, on par with the mean of 43.6524 and a standard deviation of 40.16233.
2. Transfer Pricing: Measured using Related Party Transactions (RPT), the minimal number is 0.02, owned by FAP Agri Tbk. in 2022, and the highest number is 103.85, owned by Mayora Indah Tbk. in 2023, on par with the mean of 12.0105 and a standard deviation of 18.73861.
3. Sales Growth: Measured using the sales growth formula, the minimum number is 0.01, owned by Mayora Indah Tbk. in 2020, and the highest number is 88.46, owned by Astra Agro Lestari Tbk. in 2020, on par with the mean of 8.5281 and a standard deviation of 12.27775.
4. Tax Avoidance: Measured using the Cash Effective Tax Rate (CETR), the minimum

number is 0.23, owned by Tri Banyan Tirta Tbk. in 2023, and the maximum number is 247.15, owned by PP London Sumatra Indonesia Tbk. in 2021, on par with the mean of 36.3066 and a standard deviation of 46.54999.

4.1.2 Classical Assumption Test

This investigation used the classical assumption test to find out whether the data meet the classical assumptions. Because not all data sets lend themselves to regression analysis, this is vital for keeping estimates free of bias. All of the standard assumption tests—autocorrelation, normalcy, multicollinearity, and heteroscedasticity—must be satisfied before regression analysis may be performed.

a. Normality Test

In order to find out whether the dependent and independent variables in the regression model have a normal distribution, the Normality Test is used. The Kolmogorov-Smirnov test may be used to determine normalcy; the decision-making criterion is a significance value greater than 0.05 or 5%. See Table 2 for the findings of the Kolmogorov-Smirnov test for normalcy.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		109
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	1.16792930
Most Extreme Differences	Absolute	.109
	Positive	.092
	Negative	-.109
Test Statistic		.109
Asymp. Sig. (2-tailed)		.053 ^c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source : SPSS data processed, 2024

The significant value of the Kolmogorov-Smirnov number is 0.053, which is more than 0.05, as can be seen from the outcomes of the normalcy test in Table 4.2. It follows that the study's residual data follows a normal distribution.

b. Multicollinearity Test

The Tolerance value and the Variance Inflation Factor (VIF) are two ways to evaluate

the multicollinearity test. This multicollinearity test is designed to check whether the independent variables in a regression model are correlated. The absence of multicollinearity is an indication of a strong regression model. In the absence of multicollinearity, the Tolerance value should be more than 0.10 and the VIF should be less than 10. Table 3 below displays the outcomes of the multicollinearity test.

Tabel 3. Multicollinearity Test

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	<i>Thin Capitalization</i>	.966	1.035
	<i>Transfer Pricing</i>	.961	1.040
	<i>Sales Growth</i>	.937	1.068
a. Dependent Variable: <i>Tax Avoidance</i>			

Source : SPSS data processed, 2024

Table 3 displays the findings of the multicollinearity test. Three of the study's variables—Thin Capitalization, Transfer Pricing, and Sales Growth—had Tolerance values larger than 0.10 and VIF values less than 10. Thus, it is clear that This investigation model does not exhibit any evidence of multicollinearity.

c. Heteroscedasticity Test

The purpose of the heteroscedasticity test is to determine whether the residual variance varies throughout the regression model's observations. It is possible to check for heteroscedasticity using the Glejser test. Heteroscedasticity may be found with this technique. Using the absolute residuals (ABRESID) as a regression, this test takes into account all independent variables. If the p-

number is more than 0.05, we may say that heteroscedasticity is not present. Table 4 below

displays the outcomes of the test for heteroscedasticity.

Tabel 4. Heteroscedasticity Test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.166	.314		3.716	.000
	<i>Thin Capitalization</i>	-.111	.087	-.125	-1.273	.206
	<i>Transfer Pricing</i>	.023	.041	.057	.573	.568
	<i>Sales Growth</i>	-.001	.042	-.003	-.027	.979

a. Dependent Variable: ABRESID

Source : SPSS data processed, 2024

Considering on the outcomes of the heteroscedasticity test in Table 4.4, the significance values for the variables Thin Capitalization (0.206), Transfer Pricing (0.568), and Sales Growth (0.979) are all greater than 0.05. Thus, the regression model does not exhibit any heteroscedasticity issues.

d. Autocorrelation Test

The purpose of the autocorrelation test is to determine whether the disturbance error in period t and period t-1 (the preceding period) in a linear regression model are correlated. The Durbin-Watson (DW) test is used to identify the existence of autocorrelation. There is no autocorrelation if the DW number is between du and $(4 - du)$ (Ghozali, 2006). Below in Table 5 you can see the outcomes of the autocorrelation test.

Tabel 5. Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.716 ^a	.700	.674	1.18450	1.001

a. Predictors: (Constant), *Sales Growth*, *Thin Capitalization*, *Transfer Pricing*

b. Dependent Variable: *Tax Avoidance*

Source : SPSS data processed, 2024

The Durbin-Watson (DW) number is 1.001 at the 5% significance level, with 109 samples and 3 independent variables, according to the findings of the autocorrelation test in Table 4.5 above. du has a value of 1.7446 according to the Durbin-Watson table, while $4 - du$ has a value of 2.2554. It may be inferred that the regression model has an autocorrelation issue since the Durbin-Watson number is between du and $(4 - du)$, namely, $1.7446 > 1.001 < 2.2554$.

Using a run test, we may further verify whether the regression model has autocorrelation or not. The run test checks to see whether the residuals are highly correlated. The residuals are said to be random if they do not correlate with one another. In order to do the run test, we will assume the following:

- H_0 : Significance level > 0.05 , suggesting that the residuals are not predetermined
- Hypothesis 1: The residuals are not random, as the sig number is less than 0.05.

The following are the outcomes of the study's run test.

Tabel 6. Run Test

Runs Test	
	Unstandardized Residual
Test Value ^a	.12326
Cases < Test Value	54
Cases ≥ Test Value	55
Total Cases	109
Number of Runs	49
Z	-1.250
Asymp. Sig. (2-tailed)	.211
a. Median	

Source : SPSS data processed, 2024

Table 4.6 displays that the Asymp Sig. (2-tailed) number is greater than the 5% confidence threshold, which means that H₀ cannot be dismissed. As a result, the data utilized is completely at random. Hence, the regression model is appropriate, and the independent variables do not exhibit any autocorrelation.

Using this analysis, one can find out if the relationship between the dependent and independent variables is positive or negative, and one can also forecast what the dependent variable will be when the values of the independent variables go up or down. You may find a synopsis of the multiple linear regression findings below.

4.1.3 Multiple Linear Regression

Tabel 7. Multiple Linear Regression

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.682	.446		3.774	.000
	<i>Thin Capitalization</i>	.387	.124	.294	3.126	.002
	<i>Transfer Pricing</i>	.260	.058	.097	2.030	.035
	<i>Sales Growth</i>	.280	.059	.130	2.360	.018
a. Dependent Variable: <i>Tax Avoidance</i>						

Source : SPSS data processed, 2024

The multiple linear regression equation may be generated using Table 4.7 in this way:

$$Y = \beta\alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$$

$$Y = 1.682 + 0.387 + 0.260 + 0.280$$

1. The constant coefficient of 1.682 means that when the variables Thin Capitalization, Transfer Pricing, and Sales Growth are at zero (0), the Tax Avoidance will be constant at 1.682.

2. The coefficient of Thin Capitalization is 0.387, the case when Thin Capitalization variable augments by one unit, Tax Avoidance are expected to rise by 0.387. This suggests that each increase in Thin Capitalization will lead to a rise in Tax Avoidance.
3. The coefficient of Transfer Pricing is 0.260, the case when Transfer Pricing variable augments by one unit, Tax Avoidance are

expected to rise by 0.260. This suggests that each increase in Transfer Pricing will lead to a rise in Tax Avoidance.

4. The coefficient of Sales Growth is 0.280, the case when Sales Growth variable augments by one unit, Tax Avoidance are expected to rise by 0.280. This suggests that each increase in Sales Growth will lead to a rise in Tax Avoidance.

4.1.4 Hypothesis Test

a. Partial Significance Test (T-Test)

This partial test uses coefficient testing to use a t-test to partially examine the impact of thin capitalization, transfer pricing, and sales growth on tax avoidance. For the purpose of analyzing the relationship between Thin Capitalization, Transfer Pricing, and Sales Growth and Tax Avoidance, the t-test is used. Table 8 displays the outcomes of the t-test calculations using SPSS.

Tabel 8. T-Test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.682	.446		3.774	.000
	<i>Thin Capitalization</i>	.387	.124	.294	3.126	.002
	<i>Transfer Pricing</i>	.260	.058	.097	2.030	.035
	<i>Sales Growth</i>	.280	.059	.130	2.360	.018

a. Dependent Variable: *Tax Avoidance*

Source : SPSS data processed, 2024

1. Thin Capitalization (X1) has a good and strong influence on Tax Avoidance (Y). The outcome is displayed by the calculated t-value > t-table = 3.126 > 1.982 on the degree of sig. = 0.002 < 0.05, thus hypothesis 1 (H1) is acknowledged and can be experimentally substantiated. The outcome signifies that Thin Capitalization has a good and strong influence on Tax Avoidance.
2. Transfer Pricing (X2) has a good and strong influence on Tax Avoidance (Y). The outcome is displayed by the calculated t-value > t-table = 2.030 > 1.982 on the degree of sig. = 0.035 < 0.05, thus hypothesis 2 (H2) is acknowledged and can be experimentally substantiated. The outcome signifies that Transfer Pricing has a good and strong influence on Tax Avoidance.
3. Sales Growth (X3) has a good and strong influence on Tax Avoidance (Y). The outcome is displayed by the calculated t-value > t-

table = 2.360 > 1.982 on the degree of sig. = 0.018 < 0.05, thus hypothesis 3 (H3) is acknowledged and can be experimentally substantiated. The outcome signifies that Sales Growth has a good and strong influence on Tax Avoidance.

b. Goodness of Fit (F-Test)

The purpose of this test is to identify the significant impact of all independent factors on the dependent variable at the same time. If there is a combined impact on the dependent variable from all of the model's independent variables, the F test will demonstrate it. With a 0.05 threshold of significance, the F test determines how much each independent variable in the regression model affected the dependent variable taken as a whole. Considering on the study, the F Test findings are shown in Table 9 below.

Tabel 9. F-Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.320	3	5.440	3.877	.011 ^b
	Residual	147.318	105	1.403		
	Total	163.638	108			
a. Dependent Variable: <i>Tax Avoidance</i>						
b. Predictors: (Constant), <i>Sales Growth, Thin Capitalization, Transfer Pricing</i>						

Source : SPSS data processed, 2024

The computed F-number is 3.877 and the F-number is $0.011 < 0.05$, as shown in Table 4.9, which displays the outcomes of the data processing. What this suggests is that there is a substantial simultaneous impact on tax avoidance from the factors thin capitalization, transfer pricing, and sales growth at the 5% confidence level.

c. Coefficient of Determination (R^2)

One way to evaluate a model's ability to account for observed differences in its

independent variables is by looking at its Coefficient of Determination (R^2). An R^2 number near to one suggests that the independent factors provide all the information needed to predict the dependent variable, but a small value suggests that the independent variables explain the dependent variables relatively restricted. Since there are more than two independent variables in this study, Adjusted R^2 is the coefficient of determination employed. In Table 10 below, you can see the outcomes of the coefficient of determination test.

Tabel 10. Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.716 ^a	.700	.674	1.18450
a. Predictors: (Constant), <i>Sales Growth, Thin Capitalization, Transfer Pricing</i>				

Source : SPSS data processed, 2024

Considering on the outcomes of the test in Table 4.10, the Adjusted R^2 number is 0.674, which means that 67.4% of the variation in Tax Avoidance can be explained by the variations in the three independent variables: Thin Capitalization, Transfer Pricing, and Sales Growth. The remaining 32.6% ($100\% - 67.4\%$) is explained by other factors outside the research model.

4.2 Research Discussion

a. The Effect of Thin Capitalization on Tax Avoidance

The partial significance test of Thin Capitalization (X_1) on Tax Avoidance (Y) was conducted using the t-test by comparing the t-statistic with the significance level $\alpha = 0.05$.

Based on Table 4.8, the t-statistic value is 3.126, the regression coefficient is 0.387, and the p-value (significance) is 0.002, which is less than α (0.05). Therefore, H_0 is rejected, and H_1 is accepted, indicating that Thin Capitalization has a significant and positive effect on Tax Avoidance.

This finding supports the agency theory framework, where management tends to make decisions that benefit themselves, even if it may disadvantage the principal (shareholders). Management may use thin capitalization strategies to present favorable financial results by exploiting tax regulation gaps. By using a higher proportion of debt relative to equity, companies can reduce taxable income through deductible interest expenses. Although this

form of tax avoidance is legal, it may increase financial risk and potentially lead to conflicts with shareholders who prefer long-term financial stability. Firms engaging in interest payments close to or exceeding thin capitalization thresholds often demonstrate aggressive tax avoidance behavior.

These results are consistent with findings by Kurniawati & Mukti (2023) and Hermi & Petrawati (2023), who also reported a significant positive influence of thin capitalization on tax avoidance.

b. The Effect of Transfer Pricing on Tax Avoidance

The effect of Transfer Pricing (X2) on Tax Avoidance (Y) was tested partially through a t-test at $\alpha = 0.05$. According to Table 4.8, the t-statistic is 2.030, the regression coefficient is 0.260, and the p-value is 0.035, which is less than α (0.05). Hence, H0 is rejected and H2 accepted, showing that transfer pricing has a significant positive effect on tax avoidance.

This finding aligns with agency theory, which posits that management aims to maximize company profits. Transfer pricing enables companies to set prices for intercompany transactions within the same corporate group. Management may manipulate these prices to shift profits to jurisdictions with lower tax rates, thus minimizing the company's overall tax burden. Consequently, aggressive transfer pricing practices tend to increase the level of tax avoidance.

This result is consistent with Luthfiansyah & Kuntadi (2024) and Kurniawan (2024), who also found a significant positive relationship between transfer pricing and tax avoidance.

b. The Effect of Sales Growth on Tax Avoidance

The significance of Sales Growth (X3) on Tax Avoidance (Y) was assessed using a partial t-test at $\alpha = 0.05$. Table 4.8 shows a t-statistic of 2.360, a regression coefficient of 0.280, and a p-value of 0.018, which is below the significance

threshold, leading to the rejection of H0 and acceptance of H3. This indicates a positive and statistically significant relationship between sales growth and tax avoidance.

According to agency theory, increasing sales can motivate top management to engage in tax avoidance to reduce tax liabilities and improve net profit. While principals or shareholders expect transparency and strong performance, growing sales and asset size can create incentives for companies to pursue aggressive tax strategies to maximize profitability.

This conclusion corroborates the studies by Marfiana & Putra (2021) and Maryam et al. (2023), which similarly found a positive and significant effect of sales growth on tax avoidance.

5. Closing

5.1 Conclusion

Based on the research problem, objectives, and data analysis, the following conclusions are drawn:

1. Thin capitalization has a positive and statistically significant effect on tax avoidance. Companies tend to engage in tax avoidance when their interest expenses approach or exceed the limits stipulated by thin capitalization regulations.
2. Transfer pricing also has a positive and statistically significant impact on tax avoidance. Aggressive transfer pricing strategies increase the likelihood of companies engaging in tax avoidance.
3. There is a positive and significant relationship between sales growth and tax avoidance, indicating that companies with accelerating sales growth are more inclined to use tax avoidance strategies to maximize profits.

5.2 Suggestions

Based on the research findings, the following suggestions are proposed:

1. **For Companies:** Companies should carefully monitor and manage thin capitalization,

transfer pricing, and sales growth as these factors significantly influence tax avoidance. Maintaining compliance with tax regulations while optimizing financial strategies is essential to balance profit maximization and legal obligations.

2. **For Future Researchers:** Future studies are encouraged to expand or modify the research model by including additional variables to better capture the factors influencing tax avoidance in different institutional contexts. Considering the R^2 value of 0.674, which indicates that 32.6% of the variation in tax avoidance is explained by factors outside the current model, variables such as profitability and capital intensity could be added to enhance explanatory power.

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