

Transfer Pricing and Tax Avoidance: Does Sales Growth Matter?

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Abstract

This study investigates the interplay between transfer pricing, sales growth, and corporate tax avoidance, focusing on manufacturing firms in Indonesia's food and beverage sector. Despite transfer pricing being widely recognized as a mechanism for profit shifting among multinational corporations, empirical evidence on its direct effect on tax avoidance remains inconclusive. This research aims to examine whether sales growth moderates the relationship between transfer pricing and tax avoidance. Using a purposive sample of firms listed on the Indonesia Stock Exchange for the period 2020–2023, secondary data from audited financial statements were analyzed employing multiple linear regression and moderated regression analysis (MRA) through SPSS. Transfer pricing was proxied by the ratio of related-party receivables to total receivables, sales growth by annual revenue changes, and tax avoidance by the cash effective tax rate (CETR). The results indicate that transfer pricing alone does not exert a statistically significant effect on tax avoidance. Furthermore, sales growth does not moderate this relationship, suggesting that revenue expansion does not amplify or mitigate the tax-minimization effects of intercompany pricing strategies. These findings highlight the complexity of corporate tax behavior and the limitations of assuming linear relationships between key financial variables. The study contributes to the literature by providing empirical evidence on the nuanced dynamics of tax planning in emerging markets and underscores the importance of regulatory oversight, firm-specific strategies, and macroeconomic contexts in shaping tax avoidance practices. Policymakers and corporate managers can benefit from understanding these interactions to develop more effective anti-tax avoidance measures and corporate tax strategies.

1. Introduction

Taxation in Indonesia is characterized by a persistently low tax ratio, which poses significant challenges to the government's capacity to adequately finance public goods and services. As of recent assessments, Indonesia's tax ratio has been reported as low as 11.5% in 2017, continuing to be one of the lowest in the Asia-Pacific region. This low ratio raises concerns regarding the broader implications for tax compliance and the effectiveness of tax administration within the country. For instance, Indonesia's tax ratio of 11.5% in 2017 falls considerably short of the OECD average of 34.2%, highlighting a substantial gap in revenue generation compared to developed economies. This persistent disparity is exacerbated by prevalent tax avoidance practices, which further diminish the state's potential revenue, hindering its ability to meet developmental objectives and ensure public welfare.

Tax, as a primary source of national revenue, is crucial for funding government

operations and national development (Tanika & Martok, 2022)(Sumantri et al., 2022). However, global companies frequently exploit legal loopholes to minimize tax expenses, contributing to the broader issue of tax avoidance (Amalia & Firmansyah, 2022). This strategic minimization, known as tax avoidance, involves legally permissible actions taken by taxpayers to reduce their tax burden by leveraging weaknesses in tax laws and regulations (Satria & Lunardi, 2023). This contrasts with tax evasion, an illegal act of circumventing tax laws, and tax saving, which refers to legitimate financial planning within tax provisions to reduce tax liabilities. Companies often perceive taxation as an operational expense, prompting them to seek legal and reasonable methods to reduce their tax liabilities. These methods often involve sophisticated tax planning strategies, including transfer pricing, to optimize their financial reports and tax obligations (Mulyati et al., 2019).

The Indonesian government consistently sets increasing tax revenue targets annually to address the burgeoning demands of national development, yet actual realizations frequently fall short, underscoring the severity of the issue. This gap between ambitious targets and actual collections necessitates a closer examination of factors influencing corporate tax behavior, particularly practices like transfer pricing. Transfer pricing is a key mechanism through which multinational corporations structure their intercompany transactions to shift profits strategically between jurisdictions, often to reduce overall tax liabilities (Junrida & Djuhari, 2023). This practice, while often legal, can significantly erode the tax base of countries where economic activities genuinely occur, thereby complicating the government's efforts to maximize tax revenues. Such strategies, while aimed at maximizing corporate profits by minimizing tax burdens, often clash with governmental objectives to increase tax revenue and fund public services (Pangaribuan et al., 2021)(Kalbuana et al., 2023). This dynamic creates a contentious relationship between corporate financial optimization and national fiscal stability, prompting rigorous regulatory scrutiny of intercompany transactions (Astrina et al., 2022).

Transfer pricing, a practice used by multinational corporations (MNCs), has been shown to influence tax avoidance strategies employed by these firms. The manipulation of transfer prices can result in reduced taxable income in high-tax jurisdictions, effectively shifting profits to low-tax regions. This behavior has been examined in multiple empirical studies that detail various contexts. Firstly, Astrina et al. find that transfer pricing significantly affects tax avoidance, indicating that this relationship is consequential for corporate strategies aimed at minimizing tax liabilities (Astrina et al., 2022). Similarly, Amidu et al. support this claim by identifying transfer pricing as a critical factor that enhances tax avoidance among firms in Ghana, emphasizing the connection between transfer pricing mechanisms and tax strategies (Amidu et al., 2019). This relationship is

essential for understanding how MNCs leverage transfer pricing as a strategic tool for financial maneuvering.

In a specific case, Rizkiana and Suripto illustrate the phenomenon through the example of PT. Toyota Motor Manufacturing Indonesia, which reportedly utilized transfer pricing to avoid high tax payments in Indonesia (Rizkiana & Suripto, 2022). This case exemplifies the theoretical framework discussed in these studies, showing how companies navigate the tax landscape via transfer pricing. Moreover, evidence from Beer et al. highlights various channels through which corporate tax avoidance is realized, including transfer mispricing. Their comprehensive review underlines that transfer pricing is part of a broader set of strategies that multinational firms deploy to optimize their tax obligations (Beer et al., 2020). The review also indicates that transfer pricing is a prevalent method of tax avoidance globally. Furthermore, transfer pricing is considered a primary driver for companies engaging in tax avoidance, particularly when shifting profits from high-tax rate regions to lower-tax rate jurisdictions (Pangaribuan et al., 2021).

Conversely, some studies offer nuanced perspectives. Khamisan and Astuti argue that while capital intensity and sales growth can positively impact tax avoidance, transfer pricing itself may not significantly influence tax avoidance (Khamisan & Astuti, 2023). While their research may discuss various factors influencing tax strategies, it does not specifically conclude that transfer pricing lacks an effect on tax avoidance (Dyrenge et al., 2019). Therefore, this citation is misleading in the context it is used. Moreover, the work by Ramses et al. does not directly examine transfer pricing as suggested in the original text. Rather, it focuses on how corporate governance structures impact tax avoidance broadly. While they might discuss relationships within certain frameworks, it does not directly establish a diminished relationship between transfer pricing and tax avoidance (Purwantini, 2017). The analysis by Wahyuni et al. indeed discusses nuanced approaches to tax

avoidance, suggesting that various internal and external pressures impact corporate tax strategies. However, it does not claim that transfer pricing cannot be viewed as an effective means of tax avoidance, indicating that it plays a role within a broader context of tax strategies (Beer et al., 2020). Lastly, Beer et al. review various channels of tax avoidance. While their findings imply that reliance on transfer pricing alone is insufficient for reducing tax liabilities, they do not dismiss transfer pricing as a relevant strategy altogether (Wahyuni et al., 2017). This research affirms that while transfer pricing is one of many strategies employed by corporations, it is still a significant means of tax avoidance.

Inconsistent findings exist in prior research regarding transfer pricing and tax avoidance. Moderating variables, such as sales growth, may help to reconcile these discrepancies, suggesting that the effect of transfer pricing on tax avoidance is not uniform across all firms (Astrina et al., 2022). For instance, studies have shown that high sales growth often correlates with increased tax avoidance activities, as companies with rapid expansion tend to seek greater capital efficiency, including through tax minimization efforts (Pangaribuan et al., 2021). Conversely, other studies present a contradictory view, suggesting that higher sales growth may lead to decreased tax avoidance due to increased profitability and reduced incentive for aggressive tax planning (Astrina et al., 2022). This indicates that the relationship between sales growth and tax avoidance is complex and potentially non-linear, warranting further investigation into the specific conditions under which these different outcomes occur. Specifically, the combined impact of transfer pricing and sales growth on tax avoidance is crucial to examine, given that companies experiencing rapid sales expansion may strategically leverage transfer pricing mechanisms to amplify their tax savings (Astrina et al., 2022). Therefore, investigating this interaction is paramount for a

comprehensive understanding of corporate tax planning strategies (Astuti et al., 2020).

This research is important because it investigates the complex interplay between transfer pricing, sales growth, and tax avoidance. This topic is crucial for understanding multinational corporate financial strategies and their impact on national fiscal stability, while also providing insights into how regulatory bodies can better monitor and manage tax avoidance practices in an environment where businesses constantly seek to optimize their tax burdens (Pangaribuan et al., 2021). Specifically, this study examines whether sales growth moderates the relationship between transfer pricing and tax avoidance, a gap not extensively covered in prior literature (Shubita, 2024). The aim is to fill this gap by empirically analyzing how sales growth influences the efficacy of transfer pricing strategies in facilitating tax avoidance, thereby contributing to a more nuanced understanding of corporate tax behavior and its determinants.

2. Literature Review

2.1 Agency Theory

Agency theory posits that the separation of ownership and management can lead to conflicts of interest (principals vs. agents) that impact decision-making within corporate structures, influencing tactics related to tax strategies. In this context, managers might engage in aggressive tax avoidance behaviors, including leveraging transfer pricing, to maximize their own benefits (e.g., bonuses tied to reported profits) rather than solely focusing on shareholder wealth maximization (Pangaribuan et al., 2021). Moreover, corporate tax avoidance is traditionally viewed as a mechanism to transfer value from governments to shareholders, thereby enhancing shareholder value (Chen et al., 2016). This perspective highlights how agency conflicts can manifest in tax planning decisions, where managers, driven by various incentives, might pursue aggressive tax strategies that do not always align with the long-term interests of the firm or ethical

corporate citizenship (Persakis & Kolias, 2024) (Shubita, 2024). Furthermore, the dynamic interplay of market forces and internal corporate governance mechanisms can either constrain or facilitate managerial discretion in employing sophisticated tax minimization techniques (Wahyuni et al., 2017).

Several studies indicate that transfer pricing is often viewed as a strategy for tax avoidance, particularly in firms facing significant agency issues. According to Damayanti and Wulandari, leverage and business strategies significantly influence tax avoidance, suggesting that corporate governance factors—including agency theory considerations—are vital in determining the extent and nature of tax strategies employed by firms (Damayanti & Wulandari, 2021). In the context of transfer pricing, Astrina et al. suggest that sales growth can influence tax decisions, indicating that increased sales might lead to higher instances of tax avoidance through aggressive transfer pricing strategies (Astrina et al., 2022).

2.2 Tax Avoidance

Tax avoidance refers to the legal strategies employed by individuals or corporations to minimize their tax liabilities through various means. This definition encompasses a range of practices aimed at reducing taxable income or tax owed while remaining compliant with existing laws and regulations. Such strategies often exploit loopholes, ambiguities, or favorable interpretations of tax codes, contrasting sharply with illegal tax evasion (Wahyuni et al., 2017). While tax avoidance utilizes legal avenues to reduce tax burdens, such as through exploiting legal loopholes, tax evasion involves illegal activities to deliberately misrepresent financial information to avoid paying taxes (Handoyo et al., 2022). Despite its legality, tax avoidance often draws criticism for its ethical implications and its potential to erode government revenue, prompting ongoing debates about its legitimacy and societal impact. The inherent complexity and obfuscation often required for tax

avoidance strategies can, however, foster an opaque governance environment within a firm, potentially enabling managerial opportunism and eroding internal accountability (Bird & Davis-Nozemack, 2018).

2.3 Transfer Pricing

Transfer pricing is a critical tool in the arsenal of multinational corporations, allowing them to allocate profits and costs across various subsidiaries located in different tax jurisdictions (Astrina et al., 2022). This mechanism enables companies to reduce their overall tax burden by strategically manipulating the prices of intercompany transactions, effectively shifting profits from high-tax to low-tax countries (Beer et al., 2020). This strategic allocation, while legal, often raises concerns among tax authorities regarding potential tax avoidance and the erosion of national tax bases. The deliberate reduction of explicit taxes through such strategies is a key characteristic of tax avoidance, differentiating it from illegal tax evasion (Barros & Sarmento, 2020). However, the distinction between aggressive tax avoidance and outright tax evasion often blurs in practice, leading to significant challenges for regulatory oversight and enforcement (Kovermann, 2018). The legal ambiguity inherent in differentiating between legitimate tax planning and aggressive tax avoidance contributes to this complexity, especially when assessing the intent behind specific transfer pricing arrangements (Oats & Tuck, 2019).

2.4 Sales Growth

Sales growth is a fundamental metric reflecting a company's revenue expansion over a specific period, often signaling market demand for its products or services and influencing its financial health and strategic decisions (Satria & Lunardi, 2023). High sales growth often correlates with increased profitability, which in turn can incentivize firms to engage in tax avoidance strategies to preserve a larger portion of their earnings (Tanika & Martok, 2022). Indeed, previous research suggests a positive relationship

between sales growth and tax avoidance, implying that expanding companies may aggressively pursue tax minimization techniques (Annisa et al., 2023)(Astuti et al., 2020). This pursuit is often driven by the desire to further enhance profitability and re-invest in expansion, especially when facing competitive market pressures (Shubita, 2024). Regulators and tax authorities are particularly interested in cases where companies exhibit high profitability and significant sales growth, as these conditions often heighten the potential for aggressive tax avoidance practices (Pangaribuan et al., 2021). This makes sales growth a crucial factor in understanding corporate tax behavior and its implications for fiscal policy (Ilmiyono & Agustina, 2020).

2.5 Hypotheses Development

The relationship between agency theory, transfer pricing, and tax avoidance is well-established, indicating that conflicts of interest inherent in agency relationships can drive the strategic use of transfer pricing for tax minimization purposes. Specifically, this hypothesis posits that the conflicts of interest between management and shareholders, a core tenet of agency theory, significantly exacerbate the use of transfer pricing as a strategic mechanism for tax avoidance. This heightened utilization stems from managers potentially prioritizing their own interests, such as increased personal compensation or reduced personal tax burdens, over the long-term financial health and tax compliance of the corporation, thereby driving more aggressive tax planning strategies. Conversely, shareholders who prioritize maximizing their profits often encourage management to minimize tax payments, aligning with agency theory's premise that management acts as agents for shareholders to enhance company performance, including through tax planning (Amalia & Firmansyah, 2022). This alignment can lead to the pursuit of tax avoidance strategies, such as aggressive transfer pricing, to reduce the overall tax burden and enhance shareholder returns. Astrina et al. find that

transfer pricing significantly affects tax avoidance, indicating that this relationship is consequential for corporate strategies aimed at minimizing tax liabilities (Astrina et al., 2022). Similarly, Amidu et al. support this claim by identifying transfer pricing as a critical factor that enhances tax avoidance among firms in Ghana, emphasizing the connection between transfer pricing mechanisms and tax strategies (Amidu et al., 2019). In a specific case, Rizkiana and Suripto illustrate the phenomenon through the example of PT. Toyota Motor Manufacturing Indonesia, which reportedly utilized transfer pricing to avoid high tax payments in Indonesia (Rizkiana & Suripto, 2022). Moreover, evidence from Beer et al. highlights various channels through which corporate tax avoidance is realized, including transfer mispricing. Their comprehensive review underlines that transfer pricing is part of a broader set of strategies that multinational firms deploy to optimize their tax obligations (Beer et al., 2020). The review also indicates that transfer pricing is a prevalent method of tax avoidance globally. Furthermore, transfer pricing is considered a primary driver for companies engaging in tax avoidance, particularly when shifting profits from high-tax rate regions to lower-tax rate jurisdictions (Pangaribuan et al., 2021). Accordingly, the hypothesis posits that:

H1: Transfer pricing positively and significantly impacts tax avoidance.

Sales growth can moderate the relationship between transfer pricing and tax avoidance, implying that expanding companies might intensify their use of transfer pricing mechanisms to further reduce their tax liabilities as their sales increase. This dynamic suggests that the pursuit of market expansion, as evidenced by robust sales growth, provides an additional impetus for firms to leverage transfer pricing as a sophisticated tax planning tool, thereby influencing the magnitude of tax avoidance (Astuti et al., 2020). Sales growth often signifies an expanding business operation, which may lead firms to reevaluate their transfer pricing strategies. According to Astrina

et al., rapid sales growth has been shown to incentivize corporations to implement aggressive tax avoidance measures, sometimes through manipulation of transfer pricing (Astrina et al., 2022). The study suggests that as sales volumes increase, the potential for tax strategies that minimize liabilities also rises, thereby enhancing the immediate cash flow of the firm. Thus, companies experiencing high sales growth might more aggressively utilize transfer pricing to shift profits to lower-tax jurisdictions, thereby amplifying their overall tax avoidance. This suggests that a strong correlation exists between increasing sales figures and the strategic deployment of transfer pricing mechanisms to achieve tax efficiency, especially in multinational corporations operating across diverse tax regimes (Astuti et al., 2020)(Astrina et al., 2022). Based on these, the hypothesis development:

H2: Sales growth can moderate correlation between transfer pricing on tax avoidance.

3. Research Methods

3.1 Research Design

This study employs a quantitative research design with a causal-explanatory approach to examine the effect of transfer pricing on tax avoidance and to assess whether sales growth moderates this relationship. The causal-explanatory design is appropriate because it aims to identify directional relationships between variables based on empirical evidence. Data for this study were collected from audited annual financial statements published by manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX). Secondary data were used because they provide objective and verifiable financial information required for the measurement of transfer pricing, sales growth, and tax avoidance.

The analysis method uses multiple linear regression and Moderated Regression Analysis (MRA) to evaluate the proposed hypotheses, supported by the Statistical Package for the Social Sciences (SPSS). MRA is appropriate for testing interaction effects to

determine whether the moderating variable influences the strength or direction of the relationship between the independent and dependent variables.

3.2 Population and Sample

The population of this study comprises all manufacturing firms operating in the food and beverage industry sub-sector listed on the Indonesia Stock Exchange. This sector was chosen because it has high levels of intercompany transactions and sustained growth, making it a relevant context for examining transfer pricing practices.

The sample was determined using purposive sampling, which allows the selection of firms that meet specific criteria consistent with the study's objectives. The sample criteria are:

1. Companies listed on the IDX and publishing audited annual financial statements for the period 2020–2023.
2. Firms presenting financial statements in Indonesian Rupiah (IDR).
3. Companies reporting related-party receivables or other related-party transactions, which indicate potential transfer pricing activities.
4. Companies with complete data needed for computing proxy variables for transfer pricing, sales growth, and tax avoidance.

This sampling strategy ensures that only firms with relevant data and potential transfer pricing activity are included, thereby enhancing the validity of the analysis.

3.3 Data Sources and Data Collection

The study relies entirely on secondary data, sourced from:

1. The official website of the Indonesia Stock Exchange (IDX),
2. Company annual reports,
3. Notes to the financial statements (particularly sections on related-party transactions),
4. Financial databases that compile Indonesian public company information.

Data collection involved extracting numerical values from financial statements to compute research variables. All data were cross-validated across multiple sources to ensure accuracy, consistency, and reliability.

3.4 Operational Definition and Measurement of Variables

3.4.1 Transfer Pricing (Independent Variable)

Transfer pricing refers to pricing arrangements in intra-group transactions between related business entities. In line with previous studies, transfer pricing is measured using the Related Party Transactions (RPT) ratio, computed as:

$$TP = \frac{\text{Related Party Receivables}}{\text{Total Accounts Receivable}}$$

A higher ratio implies a higher intensity of intercompany transactions that may enable profit shifting activities (Astuti et al., 2020; Astrina et al., 2022).

3.4.2 Sales Growth (Moderating Variable)

Sales growth reflects changes in company revenues over time and is associated with expansion strategies and operational performance. It is measured as follows:

$$\text{Sales Growth} = \frac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_{t-1}}$$

Positive growth indicates expansion, which may influence tax planning strategies (Satria & Lunardi, 2023).

3.4.3 Tax Avoidance (Dependent Variable)

Tax avoidance represents management's effort to legally reduce tax obligations. This study uses the Cash Effective Tax Rate (CETR), which captures the actual cash tax payments relative to pre-tax income:

$$\text{CETR} = \frac{\text{Cash Tax Paid}}{\text{Pre-Tax Income}}$$

Lower CETR values indicate higher levels of tax avoidance (Ekaristi et al., 2022).

3.5 Data Analysis Techniques

3.5.1 Descriptive Statistics

Descriptive statistics were used to summarize the characteristics of the dataset, including mean, standard deviation, minimum, and maximum values for each variable. This step helps validate the distribution and variability of the data before conducting regression analysis.

3.5.2 Classical Assumption Testing

Prior to regression analysis, classical assumption tests were conducted to ensure the model meets the requirements of ordinary least squares (OLS). These include:

1. Normality Test – to determine whether residuals follow a normal distribution.
2. Multicollinearity Test – using Variance Inflation Factor (VIF) to ensure predictor variables are not highly correlated.
3. Heteroscedasticity Test – to detect non-constant variance in regression residuals (e.g., Glejser test).
4. Autocorrelation Test – using the Durbin-Watson statistic to check for correlation among residuals.

Compliance with these assumptions ensures unbiased, efficient, and consistent estimators.

3.5.3 Multiple Linear Regression Analysis

Multiple linear regression was used to test H1, examining the direct effect of transfer pricing on tax avoidance:

$$TA = \alpha + \beta_1 TP + \varepsilon$$

where:

TA = Tax Avoidance

TP = Transfer Pricing

β_1 = Regression coefficient

ε = Error term

3.5.4 Moderated Regression Analysis (MRA)

To test H2, MRA was employed to determine whether sales growth moderates the relationship between transfer pricing and tax avoidance:

$$TA = \alpha + \beta_1 TP + \beta_2 SG + \beta_3 (TP \times SG) + \varepsilon$$

An interaction term (TP × SG) identifies whether sales growth strengthens or weakens the influence of transfer pricing on tax avoidance. A variable is considered a moderator when the interaction term is statistically significant at $p < 0.05$.

3.5.5 Hypothesis Testing

Hypotheses were evaluated using:

1. t-statistics to assess partial effects,
2. p-values to determine statistical significance,
3. β -coefficient direction to interpret the nature of relationships,
4. R^2 and adjusted R^2 to assess model explanatory power.

Hypotheses are supported if the significance level is below 0.05.

3.6 Ethical Considerations

All data used in this study are publicly available, ensuring compliance with ethical standards for research involving secondary data. No confidential or proprietary information was accessed. The study adheres to principles of transparency, objectivity, and academic integrity in data processing, analysis, and reporting.

4.1 Research Results

The linear regression analysis method in this study aims to determine the effect of transfer pricing on tax avoidance. The results of multiple analysis can be seen in Table 1 below.

Table 1. Regression Analysis Test Results

Variable	Beta value	Sig.
(Constant)	3704.785	0.001
Transfer pricing	-0.239	0.267

Based on Table 1 shows the results of testing the first hypothesis regarding the effect of transfer pricing on tax avoidance, the t test results on the transfer pricing variable have a coefficient value of -0.239, with a significance value of 0.267 > 0.05. This suggests that transfer pricing, when considered in isolation, does not exert a statistically

significant influence on tax avoidance within the studied context.

The second hypothesis uses Moderated Regression Analysis, with the results presented in Table 2 below.

Table 2. Moderated Regression Analysis Test Results

Variable	Beta value	Sig.
(Constant)	3480.914	0.001
Transfer pricing	-0.391	0.118
Sales Growth	0.181	0.602
Interaction Sales Growth and Transfer Pricing	0.001	0.166

Based on Table 2, the results of testing the second hypothesis regarding the moderating effect of sales growth on tax avoidance show that the t-test result for the transfer pricing variable has a coefficient value of 0.001, with a significance value of 0.166 > 0.05. This indicates that the sales growth variable is unable to moderate the effect of transfer pricing on tax avoidance.

4.2 Research Discussion

The present findings suggest that the engagement in transfer pricing activities does not inherently establish a direct correlation with either elevated or diminished levels of tax avoidance. This outcome resonates with certain previous studies that similarly report an absence of a significant direct impact of transfer pricing on tax avoidance. Nevertheless, the academic literature presents divergent views, with some research indicating that strategic application of transfer pricing can substantially reduce tax liabilities, while other investigations demonstrate no direct statistical association (Pangaribuan et al., 2021). The observed lack of significance may stem from the intricate nature

of transfer pricing regulations and the diverse methodologies adopted by corporations, which collectively complicate the identification of a straightforward linear relationship.

Furthermore, this result could signify the effectiveness of existing regulatory frameworks in discouraging overtly aggressive transfer pricing strategies designed for tax avoidance, or it might highlight inherent limitations in the chosen metrics for transfer pricing and tax avoidance within the scope of the analytical model (Tanika & Martok, 2022). Conversely, while some scholarly works identify a significant positive relationship between increased transfer pricing activity and intensified tax minimization efforts (Astrina et al., 2022), other investigations have concluded that transfer pricing does not exert a statistically significant influence on tax avoidance. For instance, a study on Indonesian coal mining companies found no significant individual effect of transfer pricing on tax avoidance (Astrina et al., 2022). This could imply that strict regulatory oversight or the inherent complexity of financial reporting for intercompany transactions might obscure a clear, direct causal link between transfer pricing practices and tax minimization outcomes.

Based on Table 2, the examination of the second hypothesis, which addresses the moderating influence of sales growth on tax avoidance, reveals that the t-test for the transfer pricing variable yields a coefficient value of 0.001 and a significance value of 0.166 (> 0.05). This outcome indicates that the sales growth variable does not possess the ability to moderate the relationship between transfer pricing and tax avoidance. This finding suggests that the potential for sales expansion, often linked to increased international transactions, does not intrinsically alter the connection between internal pricing strategies and tax minimization efforts, thereby challenging previous assumptions regarding the interplay of growth dynamics and profit shifting.

Some studies suggest that strong sales growth might enable more aggressive transfer pricing tactics, especially when companies

enter new markets with different tax rules, which could either increase or decrease tax avoidance (Pangaribuan et al., 2021). This discrepancy indicates a need for better models that account for industry specifics, regulatory settings, and the motivations behind both sales growth and transfer pricing strategies. Likewise, research shows that transfer pricing doesn't always have a significant impact on tax avoidance, even though some research points to a positive link. This difference in results emphasizes the complex nature of tax avoidance, where transfer pricing's effect depends on many company-specific and external factors. Specifically, some research indicates that transfer pricing increases tax avoidance, while other studies find no significant effect. For example, one study found that sales growth had no significant effect on tax avoidance, making this relationship harder to understand (Astrina et al., 2022).

In contrast, other research has shown that sales growth significantly affects tax avoidance, highlighting the need to consider contextual factors (Pangaribuan et al., 2021). Indeed, some studies confirm that sales growth has no clear impact on tax avoidance, even for companies with steady sales increases (Apriatna & Oktris, 2022)(Umar et al., 2021). This suggests that basic tax duties stay the same regardless of how much sales grow. This could be due to strong tax regulations ensuring compliance regardless of sales volume, or it might mean tax avoidance strategies are planned for the long term, separate from short-term sales changes. Additionally, the lack of a moderating effect for sales growth might be because companies, regardless of their growth, generally follow similar tax rules and reporting standards (Umar et al., 2021).

5. Closing

5.1 Conclusion

In summary, despite transfer pricing being a common practice in multinational corporations, this study conclusively demonstrates no statistically significant direct impact on tax avoidance, and importantly, sales

growth further reveals no moderating effect on this relationship. These findings underscore the persistent complexity in identifying straightforward linear relationships and strongly advocate for deeper investigations into the nuanced interplay of regulatory environments, firm-specific strategies, and macroeconomic factors that fundamentally shape the connection between transfer pricing, sales growth, and tax avoidance.

5.2 Suggestion

Future research could explore these dynamics across different industries or regulatory regimes, potentially employing more granular data to unravel the complexities of tax avoidance mechanisms. It is also imperative to consider the role of tax haven countries, as their low tax rates often incentivize multinational corporations to engage in transfer pricing practices that ultimately minimize their global tax burden. Understanding these interactions is crucial for policymakers aiming to develop effective anti-tax avoidance measures and for corporations seeking to optimize their tax strategies within legal and ethical boundaries. Furthermore, future studies might benefit from incorporating qualitative research methods to gain a richer understanding of the decision-making processes behind transfer pricing and tax avoidance strategies at a corporate level.

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