JOGTA
Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
Indexed By : GARUDA Google ISJD EBSCO

THE EFFECT OF TRANSFER PRICING, AUDIT QUALITY, AND PROFITABILITY ON TAX AVOIDANCE IN ENERGY SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Volume: 2
Number: 1
Page: 25- 32

Tabitha D. CORNELLIA[1], Jullie J. SONDAKH[2], Priscilia WEKU[3]
[1,2,3] Faculty of Economics and Business, Sam Ratulangi University, Manado, Sulawesi Utara, Indonesia
Corresponding author: Tabitha Deisy Cornellia
E-mail: tabithadeisy@gmail.com

Article History:
Received: 2023-05-16
Revised: 2023-06-18
Accepted: 2023-07-15

Abstract:
The tax sector is the most significant contributor to state revenue and an essential component of the State Budget. Taxes which are mandatory levies to the state owed by corporate and individual taxpayers, without any benefits that can be shown directly, make taxes a burden for corporate or individual taxpayers. This causes a conflict of interest between the government, which wants substantial tax revenues, and companies, which want small tax payments. Therefore the company takes action to carry out a tax avoidance strategy by minimizing high tax payments. This study aims to determine the effect of transfer pricing, audit quality, and Profitability on tax avoidance in energy sector companies on the Indonesia Stock Exchange for the 2018-2021 period. The data source used in this study is secondary data taken from the official website of the Indonesia Stock Exchange. The sample in this study used the purposive sampling method, and there are 23 sample companies selected from 79 companies. The results showed that transfer pricing had a significant effect on tax avoidance, audit quality did not affect tax avoidance, and Profitability significantly affected tax avoidance.

Keywords: Transfer Pricing, Audit Quality, Profitability, Tax Avoidance
Cite this as: CORNELLIA, T.D., SONDAKH, J.J., WEKU, P. (2023). "The Effect of Transfer Pricing, Audit Quality, and Profitability on Tax Avoidance in Energy Sector Companies Listed on the Indonesia Stock Exchange." Journal of Governance, Taxation, and Auditing, 2 (1), 25- 32.

INTRODUCTION

Indonesia is a developing country still attempting to increase its economic growth. Achieving economic growth certainly requires much money. These costs are expected to be the main component for implementing national development in Indonesia, which aims to fund state expenditure, both routine expenditure and national development expenditure.

With the expenditure for national development, a large amount of revenue is needed to balance the costs that will be incurred. There are three sources of state revenue: tax revenue, non-tax revenue, and grants. Tax revenue is the primary sector that contributes the most significant amount of state revenue and is an essential component in the State Budget.

Due to the importance of taxes as a source of state revenue, the government also makes rules regarding taxation to maximize the potential tax revenue to be received; companies as corporate taxpayers are also not spared from the taxation rules that the government has regulated. However, companies consider taxes as a burden significantly detrimental to their income because it eliminates some profits. The conflict of interest between the government, which wants a lot of tax revenue, and the company, which wants to pay as less tax as possible, has led to the company's action to carry out a tax avoidance strategy.

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING OKSI
Indexed By : GARUDA Google Crossref INDEX COPERNICUS ROAD ISJD Indonesia OneSearch EBSCO

Tax avoidance is one of the methods to avoid taxes carried out by looking for weaknesses in regulations and carried out by taxpayers consciously by not violating the legislation. In practice, tax avoidance can potentially harm state revenue, so the government will find it challenging to maximize state revenue. In this study, several factors can affect tax avoidance: transfer pricing, audit quality, and Profitability.

Transfer pricing between companies often starts with a special relationship between companies, such as moving their tax obligations from countries with high tax rates to countries with low tax rates. Audit quality is the auditor's performance in the audit process carried out by the Public Accounting Firm (KAP) to reveal the fairness of financial statements and prove the integrity of financial statements. Profitability is a significant factor in the tax burden that will be paid by the company, which is described through the company's financial performance that generates profits in asset management, called Return On Asset (ROA).

PT has also used tax avoidance in energy sector companies. Adaro in 2019 by diverting profits through its subsidiary in Singapore, Coaltrade Services International. Energy sector companies sell products and services related to energy extraction and provide vital daily needs of the community. They will get many benefits from their business activities. Companies can also take advantage of regulatory loopholes to conduct tax avoidance. Based on this background, further research will be conducted titled "The Effect of Transfer Pricing, Audit Quality, and Profitability On Tax Avoidance In Energy Sector Companies Listed On The Indonesia Stock Exchange."

METHODS

Type of Research. This research is quantitative research with an associative approach. An associative approach is an approach that aims to determine the relationship between two or more variables, seeking the influence of independent variables, which in this study are transfer pricing, audit quality, and Profitability, on the dependent variable, which in this study is tax avoidance.

Population and Sample. The population in this study were all energy sector companies on the Indonesia Stock Exchange for 2018-2021, totaling 79 companies. The sample in this study amounted to 23 energy sector companies that met the sample criteria for this study.

Sampling Method. In this study, the sampling will be carried out using the Non-Probability Sampling method with a purposive sampling technique. The following are the sampling criteria set out in this study, namely:

1. Energy sector companies listed on the Indonesia Stock Exchange for 2018-2021.
2. Energy sector companies listed on the Indonesia Stock Exchange that publish financial reports for the period 2018-2021.
3. Energy sector companies that have positive profits in the 2018-2021 period.

The following is a table of the sample selection of this study by the above criteria:

Table 1. Sampling Criteria

No.	Samples Criteria	Total
1.	Energy sector companies listed on the Indonesia Stock Exchange for 2018-2021.	79
2.	Energy sector companies listed on the Indonesia Stock Exchange that publish financial reports for the period 2018-2021.	(16)

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING OKSI
Indexed By : GARUDA Google dot Crossref INDEX COPERNICUS ROAD ISJD indonesia OneSearch EBSCO

3.	Energy sector companies that have positive profits in the 2018-2021 period.	(56)
		23
	Total Data	23 x 4 years 92 data

Source: Processed data, 2023.

Operational Definition of Variable. The independent variables in this study are transfer pricing, audit quality, and Profitability. While the dependent variable in this study is tax avoidance which is calculated using the effective tax rate (ETR) formula, namely Income tax expense divided by net income before tax with the following formula:

$$\text{ETR} = \frac{Tax\ Expense}{Net\ Income\ Before\ Tax}$$

Source: Safitri & Muid, 2020

The first independent variable measurement is transfer pricing which is calculated by related parties using the following formula:

$$\text{TP} = \frac{Related\ Receivables}{Total\ Receivables}$$

Source: Roslita, 2020

Audit quality can be measured using dummy variables, with the value of auditors who come from KAP affiliated with the Big Four KAP, then the value is 1, and for Non-Big Four KAP, the value is 0.

The last variable is Profitability which can use ROA to measure the level of Profitability of the company because ROA will show the company's effectiveness in managing assets, and investors will see how effective the company is in managing assets with the following formula:

$$\text{ROA} = \frac{Earning\ After\ Tax\ (EAT)}{Total\ Asset}$$

Source: Henry, 2019

Analysis Method and Process. This study uses secondary data in the form of annual financial reports taken from the official website of the Indonesia Stock Exchange, which are then processed to determine the effect of each variable in this study using IBM SPSS Version 26 software.

RESULT AND DISCUSSION

Descriptive Statistical Test. This study uses descriptive statistical analysis to determine data descriptions such as maximum, minimum, average value, and standard deviation of data from independent variables such as transfer pricing, audit quality, Profitability, and the dependent variable tax avoidance.

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING KSI
Indexed By : GARUDA Google Crossref INDEX COPERNICUS ROAD ISJD Indonesia OneSearch EBSCO

Table 2. Descriptive Statistics (Initial Test)

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	92	.0000	1.0000	.213243	.3018303
Audit Quality	92	0	1	.57	.498
Profitability	92	.0019	.6763	.113832	.1320102
Tax Avoidance	92	.0000	7.8925	.404736	1.0416385
Valid N (listwise)	92				

Source: SPSS processed data, 2023.

The results of the descriptive statistical test for the independent variables and the dependent variable with a total of 92 data show that the average value of transfer pricing is 0.213243 with a standard deviation of 0.3018303. Then the average value of Profitability shows the value of 0.113832 with a standard deviation of 0.1320102. Moreover, the average value of tax avoidance as the independent variable shows a value of 0.404736 with a standard deviation of 1.0416385. This means that the standard deviation value is greater than the average value, indicating that the transfer pricing value of the sample varies or is not well distributed. Then audit quality shows an average value of 0.57 with a standard deviation of 0.498 which means that the standard deviation value is smaller than the average value, indicating that the data of audit quality is well distributed.

To the above indications, the data on the independent variable transfer pricing and Profitability and the dependent variable tax avoidance are poorly distributed. So when the normality test is carried out, the data results do not meet the requirements, or the data needs to be normally distributed. Therefore, the outlier data method removes samples that are not normally distributed. The amount of sample removed is 10, so the sample is reduced to 82, which will be used for subsequent tests. The following are the results of descriptive statistical analysis after outliers.

Table 3. Descriptive Statistics (After outliers)

	N	Minimum	Maximum	Mean	Std. Deviation
Transfer Pricing	82	.0000	1.0000	.149166	.2312577
Audit Quality	82	0	1	.59	.496
Profitability	82	.0086	.6763	.124244	.1358951
Tax Avoidance	82	.0000	.4786	.216249	.1082990
Valid N (listwise)	82				

Source: SPSS processed data, 2023.

After removing 10 data that are not well distributed and conducting descriptive statistical testing again, the results show that the data from transfer pricing and Profitability still need to be well distributed. However, the data has shown good distribution on tax avoidance while audit quality remains well distributed.

Classical Assumption Test. The normality test in this study used the Kolmogorov-Smirnov test of the Asymp. Sig. (2-tailed) from the calculation results of more than 0.05 or 5%, the research data meet the normality assumption. The data only meet the normality assumption if the calculation results are less than 0.05 or 5%.

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING KSI
Indexed By : GARUDA Google Crossref INDEX COPERNICUS ROAD ISJD Indonesia OneSearch EBSCO

Table 4. Normality Test: One-Sample Kolmogorov-Smirnov Test One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		82
Normal Parameters	Mean	.0000000
	Std. Deviation	.10461872
Most Extreme Differences	Absolute	.060
	Positive	.054
	Negative	-.060
Test Statistic		.060
Asymp. Sig. (2-tailed)		.200[c,d]

Source: SPSS processed data, 2023.

The multicollinearity test in this study uses the variance inflation factor (VIF). If the VIF value < 10 and the tolerance value> 0.1, there is no multicollinearity between the independent variables.

Table 5. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Transfer Pricing	.968	1.033
	Audit Quality	.852	1.173
	Profitability	.878	1.139

Source: SPSS processed data, 2023.

The heteroscedasticity test in this study uses the Glejser test, which, if the significance value <0.05, then there is heteroscedasticity in the data. However, the data is free from heteroscedasticity if the significance value is> 0.05.

Table 6. Heteroscedasticity Test: Glejser Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.106	.013		8.222	.000
	Transfer Pricing	.011	.031	.038	.346	.730
	Audit Quality	-.029	.015	-.215	-1.858	.067
	Profitability	-.084	.055	-.174	-1.522	.132

Source: SPSS processed data, 2023.

The autocorrelation test in this study uses the Run Test of the Asymp. Sig. (2-tailed) from the calculation results is more than 0.05 or 5%, then there can be no autocorrelation symptoms. Otherwise, if the value of Asymp. Sig. (2-tailed) from the calculation results is less than 0.05 or 5%, which means that autocorrelation symptoms occur.

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING KSI
Indexed By : GARUDA Google doi Crossref INDEX COPERNICUS ROAD ISJD Indonesia OneSearch EBSCO

Table 7. Autocorrelation Test: Run the Test

	Unstandardized Residual
Test Value	.00549
Cases < Test Value	41
Cases >= Test Value	41
Total Cases	82
Number of Runs	42
Z	.000
Asymp. Sig. (2-tailed)	1.000

Source: SPSS processed data, 2023.

After the data meets the requirements of the classical assumption test, Multiple Linear Regression Analysis is performed. Multiple linear regression analysis in this study was used to determine the presence or absence of the influence of independent variables, namely Transfer pricing, Audit Quality, and Profitability on Tax avoidance.

Table 8. Multiple Linear Regression Analysis
Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.211	.010		22.017	.000
	Transfer Pricing	-.090	.023	-.388	-3.947	.000
	Audit Quality	.007	.011	.068	.648	.519
	Profitability	.117	.041	.296	2.867	.005

Source: SPSS processed data, 2023.

The multiple linear regression value used can be seen in Table 8, column Unstandardized Coefficients with the following equation: Y = 0,211 – 0,090 X1 + 0,007 X2 + 0,117 X3 + e

The constant value is 0.211. This value states that if Transfer pricing, Audit Quality, and Profitability are equal to zero, then the value of Tax avoidance is 0.211, with other factors considered constant. The regression coefficient of transfer pricing is - 0.090. This value explains that transfer pricing has a negative direction on tax avoidance. If there is one unit increase in transfer pricing, tax avoidance will increase by - 0.090 with other factors considered constant. This shows that if the value of transfer pricing increases, tax avoidance will be smaller. The regression coefficient of Audit Quality is 0.007. This value explains that audit quality has a positive direction on tax avoidance. If there is a one-unit increase in audit quality, tax avoidance will increase by 0.007, with other factors considered constant. This shows that if the value of audit quality increases, tax avoidance will be more excellent. The regression coefficient of Profitability is 0.117. This value explains that Profitability has a positive direction on tax avoidance. If there is a one-unit increase in Profitability, tax avoidance will increase by 0.117, with other factors considered constant. This shows that if the value of profitability increases, tax avoidance will be more excellent.

Hypothesis Test. In this study, if the R^2 value = 0, then there is no effect given by the independent variable on the dependent variable. However, if $R^2 = 1$, then there is an effect given by the independent variable on the dependent variable.

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING KSI
Indexed By : GARUDA Google Crossref INDEX COPERNICUS ROAD ISJD Indonesia OneSearch EBSCO

Table 9. Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.520[a]	.270	.242	.04691

Source: SPSS processed data, 2023.

The test results show that the coefficient of determination is 0.242. This value states that transfer pricing, audit quality, and Profitability affect 24.2% of tax avoidance. Meanwhile, 75.8% is affected by other variables not explained in this study.

The t-test is conducted to show how much influence the independent variable individually has on the dependent variable. In this test, if the significance value is less than 0.05 or 5% while t-count>t-table, it is stated that the independent variable affects the dependent variable, but if the significance value is more than 0.05 or 5% while t-count<t-table, it is stated that the independent variable does not affect the dependent variable. Based on Table 8, column sig, and column t, the t-test result is that transfer pricing shows a significance value of 0.000 and a t-count value of 3.947. This can be interpreted that transfer pricing significantly affects tax avoidance, as evidenced by its significance value of 0.000 <0.05 and the value of t-count> t-table, namely 3.947> 1.993. So Ha1 is accepted, and H01 is rejected, meaning transfer pricing significantly affects tax avoidance. Audit quality shows a significance value of 0.519 and a t-count value of 0.648. This can be interpreted that audit quality does not affect tax avoidance, as evidenced by its significance value of 0.0519> 0.05 and the t-count value < t-table, namely 0.648 < 1.993. It can be concluded that H02 is accepted and Ha2 is rejected, meaning that audit quality does not affect tax avoidance. Profitability shows a significance value of 0.005 and a t-count value of 2.867. This can be interpreted that Profitability significantly affects tax avoidance, as evidenced by its significance value of 0.005 <0.05 and the t-count> t-table value of 2.867> 1.993. So Ha3 is accepted, and H03 is rejected, which means that Profitability significantly affects tax avoidance.

Effect of Transfer Pricing on Tax Avoidance. Based on the results of testing using multiple linear regression and hypothesis testing in this study, transfer pricing has a significant effect on tax avoidance and has a negative direction on tax avoidance as measured by the division of related receivables by total receivables. Thus, the first hypothesis that Ha1 is accepted, which states that transfer pricing significantly affects tax avoidance, is accepted, and H01 is rejected. This result also aligns with the theory, which states that if transfer pricing is well supervised, there will be no tax avoidance practices, but if the supervision is not good, tax avoidance practices will occur. This study's results align with Hasyim et al. (2023) conducted in the energy sector for the 2019-2021 period, showing that transfer pricing significantly affects tax avoidance.

Effect of Audit Quality on Tax Avoidance. Based on the results of testing using multiple linear regression and hypothesis testing in this study show that audit quality does not affect tax avoidance because the company's decision to carry out tax avoidance or tax avoidance is only influenced by the decision of the company's internal management so that auditors affiliated with big four or nonbig four public accounting firms as external parties cannot influence these decisions. Thus the second hypothesis, H02, is accepted, which states that audit quality does not affect tax avoidance, and Ha2 is rejected. These results align with research from Monika and Noviari (2022) conducted in the energy sector for the 2015-2019 period, showing that audit quality does not affect tax avoidance.

CATRA RESEARCH INSTITUTE
JOGTA Journal of Governance, Taxation and Auditing
P-ISSN - 2830-6392 (PRINT)
E-ISSN - 2962-2522 (ONLINE)
JOURNAL OF GOVERNANCE, TAXATION AND AUDITING
PUBLISHING OKSI
Indexed By : GARUDA Google Scholar Crossref INDEX COPERNICUS ROAD ISJD Indonesia OneSearch EBSCO

Effect of Profitability on Tax Avoidance. Based on the results of testing using multiple linear regression and hypothesis testing in this study which shows that Profitability has a significant effect on tax avoidance and has a positive direction toward tax avoidance as measured by ROA. Thus, the third hypothesis, Ha3, is accepted, which states that Profitability significantly affects tax avoidance, and H03 is rejected. These results align with the theory that if the company has high profits, this will be followed by a high tax burden. Therefore, the company will plan and decide to take advantage of tax avoidance to minimize the tax burden. This research aligns with research from Pitaloka and Merkusiwati (2019) conducted in the manufacturing sector for the period 2015-2017, with results showing that Profitability significantly affects tax avoidance.

CONCLUSION

Based on the results of research analysis and discussion to determine the effect of the independent variables of transfer pricing, audit quality, and Profitability on the dependent variable of tax avoidance in energy sector companies on the Indonesia Stock Exchange, the following conclusions are obtained:

1. Transfer pricing has a significant effect on tax avoidance. This means that the intensity of the company's related receivables can affect tax avoidance.
2. Audit quality does not affect tax avoidance. Significant and non big Four public accounting firms do not affect tax avoidance.
3. Profitability has a significant effect on tax avoidance. This means that the ROA owned by the company affects tax avoidance.

REFERENCES

Ardianingsih, A. (2021). *Audit Laporan Keuangan.* Jakarta: Bumi Aksara.

Bahri, S. (2020). *Pengantar Akuntansi Berdasarkan SAK ETAP dan IFRS (3 ed.).* Yogyakarta: Andi Offset.

Hery. (2018). Analisis Laporan Keuangan, Integrated and Comprehensive Edition. Grasindo. Jakarta.

Ikatan Akuntan Indonesia. 2022. Modul Pelatihan Pajak Terapan Brevet AB Terpadu. Cetakan 42. Jakarta.

Roslita, E., 2020. Pengaruh Pajak, Profitabilitas, Leverage, Dan Kualitas Audit Terhadap Penetapan Transfer pricing. *ESENSI: Jurnal Manajemen Bisnis, 23*(3), pp. 268-274.

Safitri, K. A. & Muid, D., 2020. Pengaruh Pengungkapan Corporate Social Responsibility, Profitabilitas, Leverage, Capital Intensity Dan Ukuran Perusahaan Terhadap Tax avoidance (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2016-2018). *Diponegoro Journal Of Accounting, 9*(4), pp. 1-11.

https://doi.org/10.23960/jak.v25i1.195

Tampubolon , K. & Farizi, Z. A., 2018. *Transfer pricing Dan Cara Membuat TP DOC.* Yogyakarta: Budi Utama.

Tandiontong, M., 2022. *Kualitas Audit dan Pengukurannya.* Bandung: Alfabeta.

Undang-Undang Republik Indonesia Nomor 28 Tahun 2007