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TRANSFER PRICING AND COMPANY CHARACTERISTICS IN EXPLAINING TAX AVOIDANCE: EMPIRICAL EVIDENCE IN MANUFACTURING COMPANIES IN THE FOOD AND BEVERAGE SUB-SECTOR

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Abstract

Studi ini meneliti bagaimana penghindaran pajak di antara bisnis manufaktur makanan dan minuman yang terdaftar di Bursa Efek Indonesia antara tahun 2020 - 2024 dipengaruhi oleh transfer pricing dan karakteristik perusahaan, khususnya ukuran perusahaan, leverage, dan profitabilitas. Studi ini menggunakan data sekunder dari laporan keuangan tahunan yang diperoleh dari Bursa Efek Indonesia dan menggunakan metodologi regresi data panel kuantitatif. Pengambilan sampel bertujuan (purposive sampling) digunakan untuk memilih sampel, dan diperoleh 60 observasi. Perangkat lunak EViews 12 digunakan untuk menganalisis data. Hasil menunjukkan bahwa meskipun transfer pricing dan leverage tidak memiliki dampak yang jelas terhadap penghindaran pajak, ukuran perusahaan dan profitabilitas memiliki dampak yang signifikan. Temuan ini menyoroti perlunya peningkatan pengawasan pajak, karena bisnis dengan skala dan profitabilitas yang lebih besar lebih cenderung terlibat dalam penghindaran pajak.

Kata kunci: *Penghindaran pajak, Transfer pricing, ukuran perusahaan, leverage, profitabilitas*

Abstract

This study examines how tax avoidance among food and beverage manufacturing businesses listed on the Indonesia Stock Exchange between 2020 - 2024 is impacted by transfer pricing and company characteristics, particularly company size, leverage, and profitability. The study uses secondary data from annual financial reports obtained from the Indonesia Stock Exchange and employs a quantitative panel data regression methodology. Purposive sampling was used to choose the sample, and 60 observations were obtained. EViews 12 software was used to analyze the data. The results show that while transfer pricing and leverage have no discernible impact on tax avoidance, company size and profitability do. These findings highlight the need for improved tax oversight, as businesses with greater scale and profitability are more likely to engage in tax avoidance.

Keywords: *Tax avoidance, transfer pricing, company size, leverage, profitability.*

1. INTRODUCTION

Taxes are the primary source of state income and are strategically important in funding the administration and development of the government. Corporate tax evasion is one of the many obstacles that the government faces in its attempts to maximize tax collection. The lawful management of tax responsibilities by exploiting tax law gaps to reduce the tax burden is known as tax avoidance (Sikka & Willmott, 2010). This practice is not illegal, but it could significantly reduce state revenue. According to data from the

Republic of Indonesia's Ministry of Finance, the country's tax ratio ranged from 8.33% to 10.38% between 2020 and 2022, which is much lower than the OECD average of about 34%. Tax Base Erosion and Profit Shifting (BEPS) practices result in the loss of 4–10% of corporate tax income globally (OECD, 2023). This situation indicates that tax avoidance is a systemic problem that requires scientific investigation.

In theory, tax avoidance behavior can be explained by agency theory. Jensen & Meckling (1976) claim that conflicts of interest between shareholders (principals) and management (agents) encourage opportunistic conduct due to information asymmetry. According to Armstrong et al. (2015), tax planning tactics are included in a company's financial policy because management is motivated to maximize after-tax profits as a way to achieve performance. Therefore, management choices about tax evasion may be influenced by corporate attributes such as profitability and leverage.

Furthermore, big, lucrative businesses typically experience more political pressure and regulatory supervision, according to Political Cost Theory (Watts & Zimmerman, 1986). Businesses can use accounting and tax tactics to control earnings and tax obligations in order to reduce these political costs. This viewpoint is crucial to the explanation of how business size affects tax evasion. A more thorough conceptual framework for comprehending the factors that influence tax avoidance from the standpoint of both internal incentives and external pressures is offered by the combination of these two theories.

Research on the effect of corporate characteristics and transfer pricing on tax evasion has produced mixed empirical findings. Adiguna & Ritonga (2024) and Laksono & Purnamasari (2025) found that tax evasion is positively associated with profitability. But according to a number of other studies, leverage and transfer pricing don't necessarily have a significant impact, especially under stricter regulations. These conflicting results suggest that the relationship between corporate characteristics and tax avoidance is context-dependent and ambiguous, necessitating further research across different legislative periods and industrial contexts.

The majority of earlier studies have examined the manufacturing sector as a whole without focusing on specific subsectors, leading to conflicting research conclusions. This is true even though the food and beverage subsector accounts for the largest share of the processing industry and is known for its intricate operations, which may involve related-party transactions, including transfer pricing. Additionally, the 2020–2024 timeframe marks an era of economic recovery following the COVID-19 pandemic, accompanied by heightened tax oversight and the adoption of international tax reforms, such as the OECD Two-Pillar Solution. Corporate tax planning practices may be impacted by these regulatory environment changes.

On the basis of this description, a research overview based on empirical data at the industrial subsector level during the most recent regulatory period links the macro phenomena of low tax ratios to possible worldwide tax losses. This study is interesting because it applies Agency Theory and Political Cost Theory together, focuses on the food and beverage manufacturing subsector, and uses the 2020–2024 timeframe to capture the dynamics of contemporary tax policy. Therefore, the purpose of this study is to investigate how transfer pricing, company size, leverage ratio, and profitability affect tax avoidance behavior of food and beverage production companies listed on the Indonesian Stock Exchange.

2. LITERATURE REVIEW

Agency Theory

According to Jensen & Meckling (1976), agency theory explains the contractual arrangement between shareholders, who function as principals, and management, who act as agents, whereby agents are permitted to run the business on behalf of the principals. Management may act opportunistically to maximize its own interests due to the two parties' disparate interests and information asymmetry (Hanlon & Heitzman, 2010). When it comes to taxes, tax avoidance is a type of opportunistic management practice used to lower the tax burden in order to boost the company's post-tax profit (Armstrong et al., 2015). In addition, the Company's internal characteristics play an important role in shaping management decisions regarding tax avoidance. According to Parwati et al. (2025), this suggests that tax evasion is a component of a managerial policy that is influenced by the company's circumstances and traits. Therefore, the transfer pricing policy, as well as company characteristics such as size, leverage, and profitability, can be seen as mechanisms management uses to make tax avoidance decisions.

Political Cost Theory

Watts & Zimmerman (1990) established Positive Accounting Theory, which includes Political Cost Theory. This theory holds that large, profitable firms consistently face greater political challenges, such as regulatory oversight, public scrutiny, and stringent financial regulations. To minimize political costs, businesses may employ accounting or tax strategies to reduce the amount of taxes or profits owed. According to Richardson & Lanis (2007), firm size is associated with its effective tax rate, suggesting that tax strategies are implemented to reduce political power. The Political Cost Theory is used in this study to explain business size and profitability because they are both correlated with the firm's degree of public and regulatory exposure.

The Effect of Transfer Pricing on Tax Avoidance

The pricing of transactions involving products, services, or intangible assets between companies within a business group with a unique relationship is known as transfer pricing. As long as it adheres to the arm's-length principle, this approach is allowed; however, in practice, it is frequently used to shift profits through arrangements involving pricing and transaction volume to lower tax obligations (Sikka & Willmott, 2010). Agency theory states that management is driven to use transfer pricing as a tax-planning strategy in order to lower the company's tax obligations (Hanlon & Heitzman, 2010). The corporate group's overall tax burden can be decreased by transferring profits to connected firms in countries with lower tax rates (Sikka & Willmott, 2010).

According to recent empirical study, tax evasion is positively correlated with the volume of related-party transactions. A study by Pratiwi & Fauzan (2025) in the energy sector of Indonesian manufacturing companies shows that transfer pricing has a significant effect on tax avoidance due to weak oversight of affiliate transactions. Similar findings were also reported by Adiguna & Ritonga (2024) who stated that manufacturing companies with highly related-party transactions tend to shift profits to minimize tax liabilities. But according to Suhermanto & Mardjono (2025), transfer pricing does not always entail tax evasion. In light of this description, the following theory is put forth:

H1: Transfer pricing has a positive effect on tax avoidance.

The Effect of Company Size on Tax Avoidance

A company's size reflects its resources, operational complexity, and economic potential (Oneng et al., 2025). Political Cost Theory suggests that because large businesses

face greater political scrutiny and criticism, they are more motivated to control their tax obligations and profits. More efficient tax preparation is also facilitated by the resources and access to tax experts that large businesses possess.

Company size has a beneficial impact on tax avoidance, according to a recent study by Hervin & Sabaruddin (2025) across industrial firms and the food and beverage subsector. This suggests that big businesses are more adept at taking advantage of tax breaks. Rather, Fitriani & Taqi (2024) discovered that, particularly in cases where corporate governance control is still inadequate, the size of a firm does not necessarily prevent tax avoidance. Meanwhile, because of the intricacy of their company structures, major industrial enterprises are more prone to engage in active tax preparation (Suherman & Murtanto, 2024). These findings lend credence to the notion that corporation size plays a significant role in explaining variations in tax evasion rates. Consequently, the following theories are put forth:
H2: The size of the company has a positive effect on tax avoidance.

The Effect of Leverage on Tax Avoidance

Leverage is a financial measure that indicates the proportion of debt to equity in a company's financing structure. From a tax standpoint, leverage is associated with tax avoidance strategies since loan interest expenses can be subtracted from taxable income, forming a tax shelter (Ernawati et al., 2021). Agency theory states that management can use debt to reduce the company's tax burden (Armstrong et al., 2015).

Results from earlier studies have been inconsistent. According to research by Qomaria & Abbas (2024), Nugroho et al. (2023), and Puspitasari & Munari (2024), Leverage has a positive impact on manufacturing companies' tax avoidance. Masitoh & Kusumah (2025) also reported similar results, stating that businesses with high debt levels are more likely to engage in aggressive tax avoidance tactics. However, when creditor control is successful, leverage can serve as a disciplinary mechanism that actually inhibits tax avoidance, according to (Oktavia et al., 2025). These conflicting results suggest that leverage's impact on tax evasion remains situational and warrants further research, especially in the food and beverage subsector. Consequently, the following theories are put forth:
H3: Leverage has a positive effect on tax avoidance.

The effect of profitability on tax avoidance

Profitability reflects a company's ability to generate profits from its assets. The higher a company's profits, the greater its tax burden.(Ramadhina et al., 2023). According to agency theory, management is motivated to boost after-tax profits in order to fulfill its obligations to shareholders. Therefore, the motivation to participate in tax avoidance increases with a company's profitability (Hervin & Sabaruddin, 2025). Furthermore, profitable businesses typically have more financial resources and greater flexibility to engage in more planned, organized tax planning, including taking advantage of still-permitted tax loopholes. This state promotes profitability, which is often associated with increased tax evasion, particularly in manufacturing firms with complex financial and operational processes.

Recent research by Laksono & Purnamasari (2025) shows that profitability positively affects tax avoidance, as companies seek to maintain profit after tax. These findings are reinforced by (Adiguna & Ritonga, 2024) who assert that the primary factor influencing tax aggression in manufacturing firms is profitability. Furthermore, according to Mukhtaruddin et al. (2024), businesses with high revenues are more likely to employ complex tax evasion techniques, such as related-party transactions.
H4: Profitability has a positive effect on tax avoidance.

3. RESEARCH METHODS

To ascertain the connections and influences among two or more variables, this study employs a quantitative methodology and the associative research method (Sugiono, 2013). This method is employed because the study examines how transfer pricing and firm characteristics, which can be quantified and statistically examined, affect tax avoidance.

Population and Research Sample

The survey was conducted using purposive sampling of all manufacturing companies in the food and beverage sub-sector that were listed on the Indonesia Stock Exchange at the time. which involves selecting samples according to predetermined standards to guarantee that the sample is in line with the goals of the study, is the method employed for sample selection (Sugiono, 2013). The calculation of the number of samples can be seen in the following table:

Table 1 Research Sample

No	Remarks	Quantity
1	Population: Food and Beverage Manufacturing Companies The Sub-Sector Listed between 2020 - 2024 on the IDX	98
2	Sampling based on criteria (Purpossive Sampling)*:*	
3	1. Companies in the food and beverage subsector that are not listed on the IDX in a row between 2020 and 2024.	-69
4	2. Companies that do not have complete data related to research variables	-12
5	3. Companies in the food and beverage subsector that experienced a string of losses in 2020–2021	-5
6	Research Sample (n)	12
7	Total Samples: (12 x 5 years)	60

Source: Processed Secondary Data, 2026

Companies that don't fit the requirements will be disqualified from this study because: 1) Estimation bias may result from insufficient financial statements; 2) Companies that lose money could cause ERT values to be distorted or impossible to calculate; 3) Companies that weren't listed sequentially over the study period could cause panel data to become inconsistent. 12 firms were selected based on these preset standards, yielding 60 research observations in total.

Data Types and Sources

The study's secondary data came from the business's annual financial statements. Information was gathered from each company's financial statements and the Indonesia Stock Exchange's official website (www.idx.co.id). The documentation method, which involves gathering, documenting, and processing data that has been formally published, is used in the data collection methodology (Sugiono, 2013). The use of secondary data is considered relevant because the data has been audited and can be accounted for academically (Darwin et al., 2021).

Research Variables and Operational Definitions

Tax Avoidance

The study's measurement variables are based on earlier empirical studies that looked at tax avoidance using financial proxies. The tax avoidance variable is represented by the Effective Tax Rate (ETR), which is the ratio of tax burden to profit before taxes. Because it shows how well a company performs in terms of taxes, the ETR is frequently utilized in the

literature (Hanlon & Heitzman, 2010). The ETR is a typical measure of tax avoidance, according to Dyreng et al. (2007). Pangaribuan et al. (2021) and Dewinta & Ery (2016) also apply the ETR in the Indonesian context. According to Parwati et al. (2025) a company's level of tax avoidance increases with a lower ETR value. The likelihood that a corporation is engaging in tax evasion increases with a lower ETR. Operationally, tax avoidance is measured using the following formula:

$$ERT = \frac{Tax\ Expenses}{Laba\ Sebelum\ Pajak}$$

Transfer Pricing

In empirical research in Indonesia, the intensity of transfer pricing practices is often proxied by related parties' receivables, as these receivables reflect the volume of credit transactions between affiliated entities. The high proportion of receivables from related parties indicates an intensive transaction relationship, which may be used to regulate prices and revenue recognition periods to avoid tax (Nugroho et al., 2023; Hervin & Sabaruddin, 2025). he use of related parties' receivables as a proxy for transfer pricing is considered more relevant than related party sales, because receivables reflect transactions that have not been realized in cash and may be used to regulate the recognition of income and taxable profits. Therefore, this study measures transfer pricing using the ratio of related parties' receivables to total receivables. Operationally, transfer pricing is formulated as follows:

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

Company Size

Large companies generally have more robust management systems and resources, including access to professional tax consultants, enabling them to manage their tax obligations more efficiently. Research by Nugroho et al. (2023) and Ramadhina et al. (2023) found that company size influences the tax avoidance rate of manufacturing companies. Operationally, the company's size is measured using *natural* total assets, as this metric is considered more stable and helps reduce bias from differences in scale across companies.

$$Firms\ Size = \text{Ln(Total Assets)}$$

Leverage

Leverage is represented by the Debt-to-Equity Ratio (DER), which is calculated by dividing total debt by total equity. DER reflects a company's capital structure and its dependence on external investment. According to Swingly & Sukartha (2015) and Pangaribuan et al. (2021) leverage can impact tax avoidance because debt interest costs can act as a tax shield.

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Profitability

Return on Assets (ROA), which is calculated by dividing net profit by total assets, is a metric used to quantify profitability. The ability of a business to generate income from its assets is reflected in ROA. Higher profit levels might boost companies' incentives to engage in tax planning to retain after-tax earnings, according to research by Kurniasih & Sari (2013) and (Pangaribuan et al., 2021), who utilized ROA as a proxy for profitability in tax avoidance studies.

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

Data Analysis Methods

A data analysis known as panel regression combines time-series and cross-sector data to provide a more comprehensive picture of company performance over time (Baltagi, 2021). In order to choose the best panel regression model, the Chow test is used to identify whether the model is a fixed effect or a common effect, the Hausman test determines whether the model is a fixed effect or a random effect, and the Lagrange multiplier test determines whether the random effects in the model are reasonable. (Wooldridge, 2010). The regression model's compliance with the BLUE assumptions was then assessed using traditional assumption tests, including tests for autocorrelation, heteroscedasticity, and multicollinearity. All data analysis was conducted in EViews, and hypothesis testing was performed at the 5% significance level using partial (t-test) and simultaneous (F-test) tests.

Model regresi data panel yang digunakan dalam penelitian ini dirumuskan sebagai berikut:

$$TA_{it} = \alpha + \beta_1 TP_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \varepsilon_{it}$$

Description:
TA = Tax Avoidance
TP = Transfer Pricing
SIZE = Company Size
LEV = Leverage
ROA = Profitability
ε = Error Term

4. RESULTS AND DISCUSSION

Panel Data Regression Model Selection

The Fixed Effect Model is the panel regression model that was chosen and deemed appropriate for this investigation.

Table 2. Regresi Data Panel Fixed Effect Model

Variabel	Coefficient	Std.Error	t-Statistics	Prob.
C	-1.380413	0.344409	-4.008066	0.0002
X1	0.014574	0.010960	1.329801	0.1904
X2	0.000524	0.000141	3.710613	0.0006
X3	-0.019500	0.023500	-0.829763	0.4112
X4	0.210411	0.095647	2.199875	0.0331

R-squared	0.988780	Mean dependent var	-0.395358
Adjusted R-squared	0.984955	S.D. dependent var	0.591148
S.E. of regression	0.061091	Sum squared resid	0.164212
F-statistic	258.4980	Durbin-Watson stat	1.938521
Pron(F-statistic)	0.000000		

R-squared	0.895654	Mean dependent var	-0.120167
Sum squared resid	0.209266	Durbin-Watson stat	1.798225

Source: Data processed using EViews 12, 2026

Results of Panel Data Regression Equation Analysis

The following is the panel data regression equation generated by the study:

$$Y = -1{,}3804 + 0{,}0146 * X1 + 0{,}0005 * X2 - 0{,}0195 * X3 + 0{,}2104 * X4$$

A constant value of –1.3804 means that the projected tax avoidance value (Y) is –1.3804 if all independent variables (X_1, X_2, X_3, and X_4) are zero. When independent elements are ignored, this constant value represents the fundamentals of tax avoidance.

An increase of one X_1 unit will result in a 0.0146 rise in the Y value, according to the X_1 regression coefficient of 0.0146, assuming that all other variables stay constant. An increase in the X_1 variable tends to enhance the rate of tax avoidance, according to this positive value coefficient.

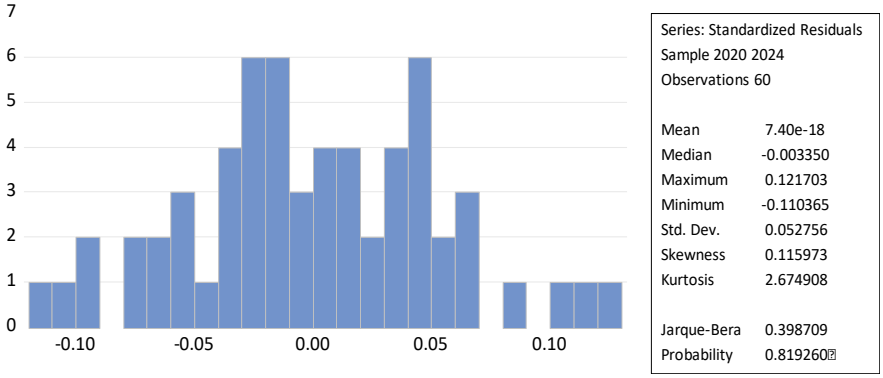
With an X_2 coefficient of 0.0005, the Y value will rise by 0.0005 for every unit increase in X_2, presuming all other variables remain constant. The positive coefficient suggests that an increase in X_2 activity or intensity may lead to a rise in tax avoidance, despite the effect being quite small.

The X3 regression coefficient of -0.0195 indicates that for every unit increase in X3, the Y value will decrease by 0.0195, assuming all other variables stay constant. According to this negative coefficient, the tax avoidance rate decreases as X3 increases.

With an X4 coefficient of 0.2104, the Y value will rise by 0.2104 for every unit increase in X4, if all other variables remain constant. Among the independent factors, this coefficient is the largest, suggesting that X_4 has the biggest impact on tax evasion.

Classic Assumption Test
Normality Test Results

Figure 1. Normality Test Results



Source: Data processed using EViews 12, 2026

The probability value, as seen in the above figure, is 0.819260, meaning that the value is more than 0.05. The study's residual results can be interpreted as normal.

Multicollinearity Test

Table 3. Multicollinearity Test Results

	X1	X2	X3	X4
X1	1.000000	-0.055025	0,060086	-0.276271
X2	-0.055025	1.000000	-0.702108	0.104163
X3	0.060086	-0.702108	1.000000	-0.186601
X4	-0.276271	0.104163	-0.186601	1.000000

Source: Data processed using EViews 12, 2026

Based on Table 3's findings, the model is free of multicollinearity and passes the multicollinearity test because the independent variable coefficients are less than 0.8.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

variabel	Coefficient	Std. Error	T-Satistic	Prob.
C	-0.047527	0.703154	-0.067592	0.9464
X1	0.010443	0.016587	0.629587	0.5322
X2	4.51E-05	0.000292	0.154356	0.8780
X3	-0.029413	0.033384	-0.881062	0.3831
X4	-0.050645	0.154658	-0.327463	0.7449

Source: Data processed using EViews 12, 2026

All of the model's independent variables X1, X2, X3, and X4 had probability values (Prob.) more than >0.05, according to the findings of the heteroscedasticity test. According to these findings, the regression model shows no indications of heteroscedasticity.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Durbin-Watson stat	Criteria
1.938521	1.7274<1.938521<2.5557

Source: Data at by using EViews 12, 2026

Durbin-Watson statistics were used to determine the Durbin-Watson value, which falls between the DU and (4 − DU) values, specifically DU< DW< 4-DU (1.7274<1.938521<2.5557). The absence of autocorrelation, either positive or negative, in the employed regression model is demonstrated by this condition.

Uji Hypothesis

Coefficient of Determination Test (R^2)

The coefficient of determination (R2) is used to assess the regression model's ability to explain the variance in the dependent variable based on the independent variables included in this investigation. Here, in Table 6, can be seen.

Table 6. Determination coefficient test results (R^2)

R-squared	0.988780	Mean dependent var	-0.395358
Adjusted R-squared	**0.984955**	S.D. dependent var	0.591148

Source: Data processed using EViews 12, 2026

The modified coefficient of determination is 0.9849 based on the test findings shown in Table 6. This finding shows that 98.49% of the variance in the dependent variable can be explained by the independent factors in the research model, with the remaining 1.51% being influenced by the variables not in the research model.

Simultaneous Significance Test (F Test)

To ascertain if all of the independent factors in the model collectively had an impact on the dependent variables, the F test was employed. Table 7 displays the test results.

Table 7. F Test Results

R-squared	0.988780	Mean dependent var	-0.395358
Adjusted R-squared	0.984955	S.D. dependent var	0.591148
S.E. of regression	0.061091	Sum squared resid	0.164212
F-statistic	258.4980	Durbin-Watson stat	1.938521
Pron(F-statistic)	0.000000		

Source: Data processed using EViews 12, 2026

According to the test results, the dependent variable is strongly influenced by the independent variable, as indicated by the Prob value (F statistic) of 0.000000, which is below the significance level (<0.05).

Individual Parameter Significance Test (t-test)

A t-test was employed to ascertain each independent variable's impact on the dependent variable. The t-test findings are shown in Table 8 below.

Table 8. Test Results t

Variabel	Coefficient	Std.Error	t-Statistics	Prob.
C	-1.380413	0.344409	-4.008066	0.0002
X1	0.014574	0.010960	1.329801	0.1904
X2	0.000524	0.000141	3.710613	0.0006
X3	-0.019500	0.023500	-0.829763	0.4112
X4	0.210411	0.095647	2.199875	0.0331

Source: Data processed using EViews 12, 2026

The Effect of Transfer Pricing on Tax Avoidance

The transfer price variable (X1) has a p-value of 0.1904 and a coefficient of 0.014574, both of which are below the 0.05 significance level, according to the t-test results. These findings suggest that transfer pricing has no effect on tax evasion. Therefore, there is no empirical evidence to support the claim that transfer pricing influences tax evasion.

The insignificance of transfer pricing effects shows that companies related-party transactions are not used directly to avoid tax. This condition can be explained by increasingly strict tax regulations in Indonesia, especially regarding the implementation of the *arm's length principle* and the obligation to prepare transfer pricing documentation, which limit the company's flexibility in shifting profits for tax purposes. In addition, increasingly intensive fiscal supervision encourages companies to be more careful in conducting affiliate transactions to avoid the risk of sanctions and reputational loss.

The results of this study are in line with the findings Adiguna & Ritonga (2024) and Alexander (2024) which concluded that transfer pricing had no significant effect on tax avoidance for manufacturing companies in Indonesia. Similar findings were reported by Pratiwi & Fauzan (2025) who stated that increased tax compliance and transparency render transfer pricing practices no longer a major determinant in a company's tax avoidance strategy. Thus, these results confirm that, in the context of increasingly stringent regulations, transfer pricing functions primarily as an operational mechanism rather than a tax avoidance instrument.

The Effect of Company Size on Tax Avoidance

The t-test results showed that the p-value for the transfer pricing variable (X1) was 0.1904 and the coefficient was 0.014574, both below the 0.05 significance level. These results indicate that transfer pricing has no effect on tax evasion. Therefore, there is no empirical evidence to suggest that transfer pricing affects tax evasion. Therefore, the notion that a corporation's size affects tax avoidance is supported by actual data. A positive coefficient indicates that larger companies are more likely to evade taxes. Big businesses can better execute tax planning since they typically have more resources, more intricate organizational structures, and access to tax professionals. This circumstance enables big businesses to minimize their tax liability by using tactics that stay within the law.

In addition, large companies tend to conduct business on a large scale and have a high transaction intensity, including transactions that can be used to improve tax efficiency. Although large companies are under stricter fiscal supervision, the complexity of their

business activities actually provides more room for tax management than that of small companies. The results of this study align with those of Rizki & Nugroho (2024), who found that company size positively affects tax avoidance in manufacturing companies. Masitoh & Kusumah (2025) also reported similar results, coming to the conclusion that active tax preparation is more common among large enterprises than small ones. Thus, these results confirm that company size is an important determinant of tax avoidance behavior.

The Effect of Leverage on Tax Avoidance

The p-value for the leverage variable (X3) was 0.4112, and the coefficient was -0.019500; both exceeded the 0.05 significance level of the t-test. These results indicate that there is no significant association between leverage and tax evasion. Therefore, there is no evidence to support the hypothesis that leverage affects tax evasion.

The lack of relevance of leverage's impact suggests that corporate debt usage is not a key determinant of tax evasion. According to the theory, using debt can lower taxes by allowing for interest expenditure deductions. However, the tax advantages of such debt do not seem to be actively utilized for tax avoidance in the context of manufacturing enterprises, especially in the food and beverage sub-sector. This can be caused by companies that prioritize financial stability and the ability to pay long-term liabilities over tax optimization.

In addition, companies with high levels of leverage are generally under stricter scrutiny from creditors and other external parties, so the space for tax avoidance strategies becomes more limited. This condition encourages companies to be more careful in their financial decision-making, including tax planning. The results of this study align with those of Fitriani & Taqi (2024) and Rizki & Nugroho (2024), which found that leverage has no significant effect on tax avoidance among manufacturing companies in Indonesia. Similar findings were also put forward by Masitoh & Kusumah (2025), who concluded that companies with high debt levels do not always evade taxes due to supervisory pressures and compliance obligations under debt agreements. Thus, these results confirm that leverage is not the main determinant in explaining tax avoidance behavior.

The Effect of Profitability on Tax Avoidance

The results of the t-test show that the coefficient for the profitability variable (X4) is 0.210411, with a significance level of 0.0331, below the significance threshold of 0.05. These results suggest that profitability has a significant positive influence on tax evasion. Therefore, the assumption that profitability influences tax evasion is supported by empirical data.

The positive coefficient suggests that a company's propensity to avoid taxes increases with its profitability. The tax burden is higher for high-profit companies, which encourages management to adopt tax planning to reduce their tax liabilities. In this sense, tax avoidance is viewed as a business's legitimate attempt to maximize its profits after taxes. In addition, companies with high profitability generally have more adequate resources, such as access to tax consultants and stronger analytical skills, enabling them to design more effective tax planning strategies. This condition provides companies greater flexibility to exploit tax regulatory loopholes without violating applicable provisions.

This finding is consistent with a recent study by Laksono & Purnamasari (2025), which found that profitability has a positive effect on tax evasion because profitable companies are more likely to reduce their taxable income through tax planning. Similar results were also observed by Adiguna & Ritonga (2024), who discovered that tax dodging techniques among Indonesian manufacturing enterprises are greatly influenced by profitability. According to the two studies, management is more motivated to maximize after-tax profits through tax avoidance tactics that stay within the parameters of tax laws when a company's capacity to

make profits is larger. Thus, these results confirm that profitability is an important factor driving corporate tax avoidance practices.

5. CONCLUSIONS AND SUGGESTIONS

Cunclusions

1. During the 2020–2024 period, transfer pricing had no discernible impact on tax avoidance by manufacturing firms in the food and beverage subsector. This suggests that, particularly in light of stricter tax laws, related party transactions are not directly utilized as the main means of tax evasion.
2. Tax evasion has a significant and beneficial effect on a company's size. Businesses with larger asset bases typically have greater resources and skills for tax planning, enabling them to better control their tax liabilities.
3. Leverage has no discernible impact on tax evasion. This suggests that tax avoidance methods in the subsector under study are not primarily determined by the level of debt used, as indicated by the Debt-to-Equity Ratio (DER).
4. Profitability positively and significantly affects tax avoidance. Businesses are more likely to use tax planning techniques to preserve after-tax profits when their Return on Assets (ROA) is higher

Suggestions

The conclusions of this study cannot be broadly generalized due to the limited range of variables and industry sectors examined. Consequently, it is recommended that future studies expand the research topics to new economic sectors and incorporate other variables, such as institutional ownership and corporate governance. The study's findings suggest that to improve the effectiveness of tax laws, authorities should focus more on the oversight of large, highly profitable businesses.

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