

THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS AND CAPITAL INTENSITY ON TAX AGGRESIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

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Abstract

The revenue for the state comes from taxation. However, taxes are seen as a hindrance by businesses because of their potential to cut into profits. This discrepancy has implications for corporations' efforts to engage in tax aggressiveness and may lead to noncompliance on the part of taxpayers. This research looks at how intangible assets, capital intensity, transfer pricing, and foreign ownership all interact with tax aggressiveness. Researched in this study are 108 observations from 2018-2020 culled from the records of 36 manufacturing firms trading on the Indonesia Stock Exchange (IDX). The results indicate that transfer price and intangible assets positively influence tax aggressiveness, while capital intensity does not. It was discovered that foreign ownership amplifies the impact of transfer prices and intangible assets on tax aggressiveness. Additionally, foreign ownership does not enhance the impact of capital intensity on tax aggressiveness.

Keywords: *transfer price, intangible assets, capital intensity, foreign ownership, tax aggressiveness*

1. INTRODUCTION

Tax revenue plays a crucial and strategic role in maintaining government operations and state life. As shown in Table 1 below, despite the increase in accomplishment percentage from 2017 to 2021, revenue collected from taxes has not yet reached projections.

Table 1 Realization of Indonesian Tax Revenue

Year	APBN Target	Incoming Realization	Target (%)
2017	242.66	208.25	85.82
2018	269.36	254.02	94.31
2019	311.55	256.74	82.41
2020	224.53	158.25	70
2021	215.09	164.64	76.54
Average	252.64	208.38	81.91

Source: Ministry of Finance Performance Report (www.kemenkeu.go.id)

In addition, Figure 1 demonstrates that the tax ratio decreased from 2014 to 2017, increased in 2018, and then decreased again in 2021.

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Driya Sudaryono, Etty Murwaningsari

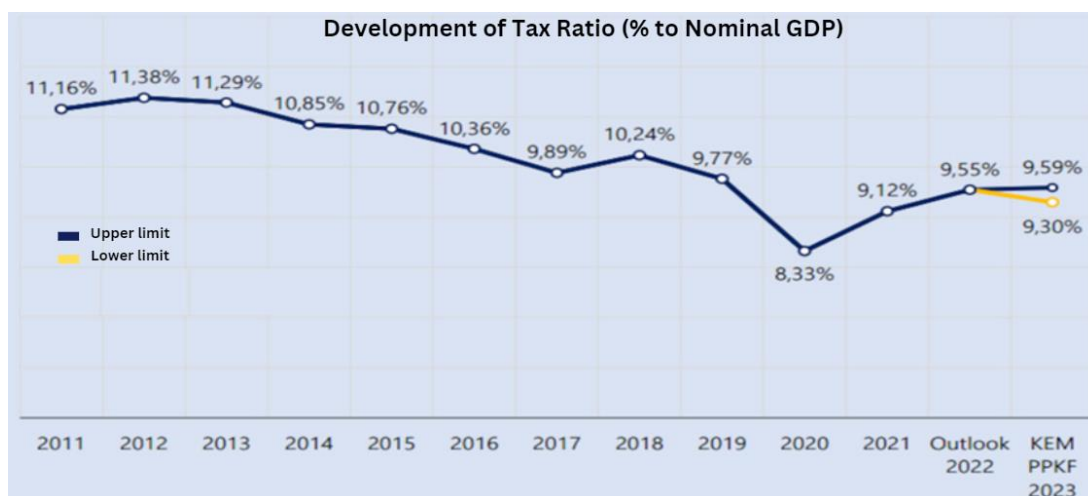


Figure 1 Tax Ratio Development in Indonesia

Source: Directorate General of Taxes and Ministry of Finance

Revenue maximization is a top priority for the Directorate General of Taxes (DGT), so they have been working to increase and streamline as many tax processes as possible extensification activities. Differences in the interests of tax authorities and taxpayers can lead to noncompliance on the part of taxpayers and affect the tax aggressiveness of businesses (Diantari & Ulupui, 2016). Given that the majority of a state's primary revenue comes from taxes, the escalation of tax aggressiveness has become a separate urgency.

The main goal of being tax aggressive is to minimize one's tax liability. According to Li et al. (2016), tax aggressiveness facilitates the redistribution of capital from the government to shareholders by reducing or eliminating tax obligations. According to Lietz (2013), tax aggressiveness is a factor in tax evasion; the weaker regulations support corporate tax imposition, the more aggressive efforts to reduce taxes are made (Sari & Martani, 2010).

Tax aggressiveness employs transfer pricing, which utilizes transactions between related parties to avoid paying taxes by move of earnings to a country with lower tax rates (Lutfia & Pratomo, 2018). The mechanism that gave rise to transfer pricing fosters the growth of multinational companies (Darussalam et al., 2013). From a business perspective, companies typically attempt to minimize costs, through a transfer pricing mechanism, the company can minimize its tax liability (Widyastuti, 2011). The objective of negotiations between the parties is to maximize their respective profits, with the resulting price being a fair market price or an arm's-length price (Green, 2008). Multinational corporations can find ways to minimize their tax obligations thanks to the wide disparities in tax rates between countries; consequently, many countries risk losing revenue due to the transfer of profits to other countries (Arifin, 2014). Several previous studies on transfer pricing have been conducted by Amidu et al. (2019), Lutfia & Pratomo (2018), Panjulusman et al. (2018), and Dharmawan et al. (2017). Similar to Lutfia & Pratomo (2018) and Dharmawan et al. (2017), Amidu et al. (2019) investigated, and found a positive correlation between, transfer pricing and tax avoidance strategies. When it comes to aggressive tax evasion, however, Panjulusman et al. (2018) claim transfer pricing is irrelevant.

The difficulty of assessing and identifying the owner of intangible assets makes this a tax aggressive scheme that can reduce the tax burden. Meanwhile, Indonesian tax regulations do not regulate intangible assets specifically. Articles 10 and 11A of PPh Law No. 36/2008 and UUPPn No. 42/2009 contain numerous provisions governing intangible assets. According to research conducted by Lindsey and Wilson (2015), the presence of intangible assets positively affects the

use of tax haven country locations as an aggressive tax avoidance scheme. Grubert (2003) in Nurhidayati and Fuadillah (2018) states that intangible assets positively affect tax aggressiveness. However, Anouar & Houria (2018) and Puspita et al. (2018) discovered that aggressive tax avoidance was not affected by the presence of intangible assets.

Capital intensity is a metric used to analyze a company's propensity to invest in fixed assets, which typically have a long economic life and incur depreciation costs that eat into profits and maximize tax savings. One way in which businesses can save money is through the annual depreciation of their fixed assets (Rodriguez & Arias, 2012). Therefore, a higher proportion of fixed assets is linked to a lower effective tax rate for the business (ETR). Tax aggressiveness is negatively impacted by the concentration of capital, as discovered by Muzakki & Darsono (2015), because of the differences in accounting and fiscal depreciation methods that lead to positive corrections with implications for additional taxable income and tax payable expenses. The tax aggressiveness is unrelated to the capital intensity of the economy, as found by Nugraha (2015) and Indrajati (2017). *Meanwhile*, Anindyka et al. (2018) discovered which a high concentration of capital has a positive impact on businesses' willingness to take tax risks with fixed assets incur a depreciation expense, which can reduce profit before tax.

Empirical studies show that multi-national corporations pay relatively low taxes in developing countries despite their high profits (Christensen & Murphy, 2004). Research by Salihu et al. (2015) indicates that companies with foreign ownership promote aggressive tax avoidance. In the meantime, research by Soga et al. (2015) found that foreign ownership reduces tax aggressiveness, while research by Purnomo (2016) revealed no link between overseas investment and tax avoidance. It has been discovered that the effect of transfer pricing on tax aggressiveness is tempered by the presence of foreign ownership, as suggested by the research of Salihu et al. (2015). Intangible assets, as found by Nurhidayati and Fuadillah (2018), impact tax haven use favorably, a tax aggressiveness scheme is likely to. Based on the findings of Lindsey and Wilson (2015), it is believed that foreign ownership reduces the tax aggressiveness of intangible assets because U.S. companies with a high proportion of foreign ownership have a strong interest in exploiting tax haven countries.

In this study, author draw from the work of several other researchers, including Dharmawan et al. (2017), Anindyka et al. (2018), Lutfia & Pratomo (2018), Panjalusman et al. (2018), Nurhidayati & Fuadillah (2018), Puspita et al. (2018), Anindyka et al. (2018), Muzakki & Darsono (2015), Pur (2015). This is a novel study because the author modifies the effect of a tax shelter proxy by including foreign ownership. In light of the aforementioned context, this author undertakes research titled "The Influence of Transfer Pricing, Intangible Assets, and Capital Intensity on Tax Aggressiveness with Foreign Ownership as a Moderating Variable." The study's aims are to

(1) display how the presence of foreign ownership moderates the impact of transfer pricing on related variables, intangible assets, and capital intensity and (2) empirically test and demonstrate these relationships.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Theoretical Framework

1. Tax Aggressiveness

Hlain (2012) defines tax aggressiveness as all corporate tax planning activities undertaken to reduce effective tax rates. On the other hand, corporate tax payments have significant societal implications for funding and providing public goods (Lanis & Richardson, 2013). According to Li et al. (2016), As opposed to giving that money to the government, tax aggressiveness can be used to benefit stockholders. In the meantime, Lietz (2013) claims that aggressive tax avoidance includes tax aggressiveness; the weaker the regulations that support corporate tax imposition, the more aggressive efforts are made to reduce taxes.

2. Transfer Pricing

When two affiliated businesses engage in a transaction, the company's transfer pricing

THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS, AND CAPITAL INTENSITY ON TAX AGGRESIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

Driya Sudaryono, Etty Murwaningsari

policy will dictate how the two entities will allocate the costs of the deal (Kurniawan, 2015). In order to maximize profits for shareholders and internal synergy, transfer pricing is legally recognized by most businesses (Schon, 2011). Managerial accountants frequently employ the use of transfer pricing to aid multi-national corporations in increasing profits by allocating costs to individual departments or subsidiaries (Hornngren et al., 2012). Values assigned to the transfer of goods and services between related companies are known as “transfer pricing” (United Nations, 2013). Due to differences in tax rates and administration, To avoid paying taxes in countries with higher rates, some multinational corporations may be tempted to engage in manipulative transfer pricing (Henshall, 2013).

3. Intangible Assets

The Organization for Economic Cooperation and Development (OECD) defines intangible assets as “the right to use industrial property such as patents, trademarks, trade names, designs, and models.” An intangible asset is a non-monetary asset that can be valued but does not exist in physical form (PSAK 19, IAI, 2018).

The main feature of an intangible asset is its ability to be identified; this asset will likely provide economic benefits to the entity in the future; the asset's cost can be reliably measured; and the asset itself does not exist in physical form. According to US Code Section 482, intangible assets include things like There are seven types of intangible assets: (1) patents; (2) copyrights; (3) trademarks; (4) franchises; (5) systems; (6) others with similar characteristics; (7) goodwill; and (8) others with similar characteristics.

As one of the tax aggressiveness schemes that can lessen the financial impact, intangible asset valuation and ownership can be particularly tricky.

4. Capital Intensity

The term “capital intensity” is used to describe the degree to which a business invests in its operations through the purchase of tangible assets and stock on hand (Nugraha & Meiranto, 2015). The annual depreciation of a company's fixed assets results in a tax savings for the business (Rodriguez & Arias, 2012).

5. Foreign Ownership

As per Article 1 point 6 of Law 25/2007, for the purposes of the Republic of Indonesia, “foreign ownership” refers to any form of equity ownership held by a party located outside of Indonesia. Foreign-owned businesses are highly sought after by developing nations that want to modernize their economies quickly. Companies, on the other hand, would benefit from increased opportunities to expand their markets, greater access to resources, reduced labor costs, a more business-friendly regulatory environment, and various incentives. In a structure of concentrated ownership, controlling to maximize one's welfare is accomplished by redistributing wealth from other parties (Claessens et al., 2000). Foreign investment companies in Indonesia are suspected of tax evasion if they have reported losses for five consecutive years and have not paid state taxes (Astuti & Aryani, 2016).

2.2. Conceptual Framework

Multinational corporations can avoid paying taxes in their home countries by getting around differences in taxation between countries through transfer pricing mechanisms. Many nations stand to lose tax revenue as a result of this. The Directorate General of Taxes (DGT) in Indonesia has published PMK 213/PMK.03/2016, which contains the most up-to-date transfer pricing documentation provisions in Indonesia in an effort to increase tax transparency and counteract the widespread use of transfer pricing by multinational corporations to reduce their tax liability. This transfer pricing documentation is not intended for publication but rather for use by tax authorities in testing the expected value or fairness of company transactions through tax compliance monitoring and testing procedures; therefore, financial reports and annual reports are used to identify items in the transfer pricing asset in this study.

In this study, the independent variables are transfer prices, intangible assets, and capital intensity, as a result of tax aggressiveness being the dependent variable. Study of how foreign ownership affects the impact of other factors on the dependent variable, is conducted. The dependent variable is subjected to testing alongside a number of control variables, including leverage, profitability, and company size. This leads to the following research model:

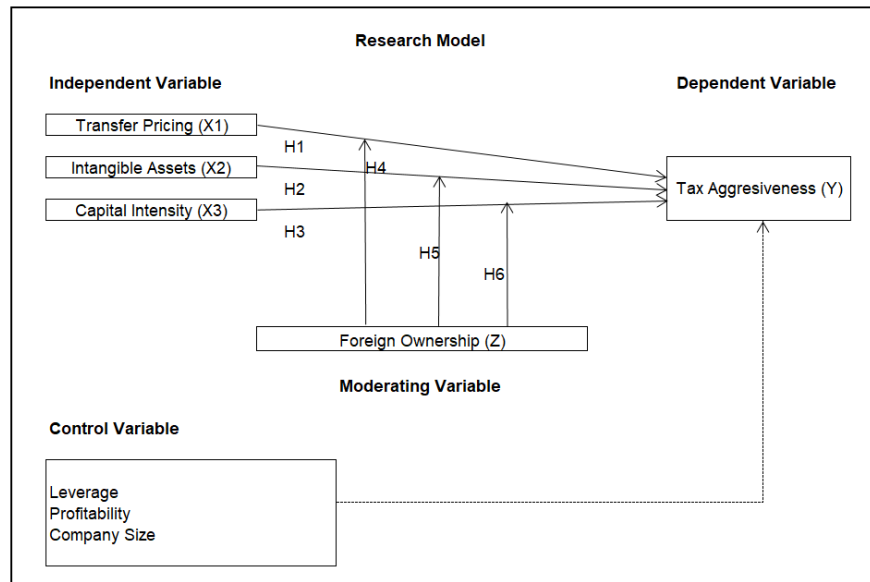


Figure 2 Research Model

2.3. Hypothesis Development

1. The Effect of Transfer Pricing on Tax Aggressiveness

Intercompany transactions are affected by informational inequalities at the global and local management levels, which have an effect on transfer pricing. Multinational companies will be able to implement this condition more easily if they take advantage of differences in tax laws between nations, which induce tax aggressiveness.

Through the transfer pricing mechanism, companies can transfer profits to entities within a group of multinational companies located in low-tax jurisdictions, thereby manipulating revenues by reporting lowered profits and smaller tax burdens. Management takes advantage of this information asymmetry by employing transfer pricing schemes in transactions with related parties, including making it look like exports are losing money by loss-making sale to a foreign subsidiary located in a tax have. The goods are then sold at normal prices from the branch to the end consumer, effectively transferring profits to jurisdictions with low tax rates, where sales should naturally be made directly to the final consumer in terms of economic substance.

According to the findings of Amidu et al. (2019), financial companies avoid more taxes than non-financial companies through transfer price manipulation schemes. Thus, Business tax aggressiveness is enhanced by transfer pricing. Transfer pricing aids in aggressive tax avoidance for companies in Indonesia, as found by Lutfia & Pratomo (2018) and Dharmawan et al. (2017). Tax avoidance by multinational corporations through transfer pricing was uncovered by tracking their effective tax rate. Based on the data presented above, we can form the following hypothesis:

H1: Transfer pricing has a positive effect on tax aggressiveness

2. The Effect of Intangible Assets on Tax Aggressiveness

Distribution of intangible assets among affiliated companies or subsidiaries in countries with favorable tax rates are one way in which managers can accomplish their objectives.

Nurhidayati and Fuadillah (2018) investigated the relationship between variables that affect the transfer/shift of income/profits and the use of tax haven countries. Having intangible assets has

THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS, AND CAPITAL INTENSITY ON TAX AGGRESIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

Driya Sudaryono, Etty Murwaningsari

been linked to a more aggressive approach to taxation, especially when tax haven countries are utilized. The following hypothesis can be made on the basis of this data:

H2: Intangible Assets have a positive effect on tax aggressiveness

3. The Effect of Capital Intensity on Tax Aggressiveness

Agency issues arise when management can engage in tax planning through the capital intensity mechanism, which utilizes periodic depreciation of a company's fixed assets to minimize its tax burden.

Anindyka et al. (2018) examined the variables that influence tax evasion and concluded that a more capital-intensive fiscal stance is preferable. Investing in long-term assets helps a business lower its taxable income. As a result, it is assumed that capital intensity influences tax aggressiveness in a favorable way. The following hypothesis can be made on the basis of this data:

H3: Capital Intensity has a positive effect on tax aggressiveness

4. Foreign Ownership as a Moderator for the Effect of Transfer Pricing on Tax Aggressiveness

According to agency theory, businesses where the ratio of controlling to non-controlling shareholders and management is high are more likely to experience conflicts of interest (Refgia, 2017). Controlling shareholders are entrusted with oversight responsibilities by non-controlling shareholders because they are in a more advantageous position and have greater access to relevant information. Therefore, non-controlling shareholders are at a disadvantage and subject to expropriation when controlling shareholders exercise their power over the company inappropriately (Claessens et al., 2000). One of the policies that can lead to expropriation is the transfer pricing mechanism, in which foreign controlling shareholders conduct transactions between companies under the same control or control at transfer prices that violate the principles of fair business practice to gain personal benefits and harm non-controlling shareholders.

Foreign investment companies in Indonesia are suspected of tax evasion if they have reported losses for five consecutive years and have not paid state taxes (Astuti & Aryani, 2016). Salihu et al. (2015) revealed that indicators of foreign investor interest include foreign ownership ratio, the proportion of a company's stock owned by foreigner, how many non-Americans are on the board of directors and how many countries hold a majority of the company's shares. Both Lutfia & Pratomo (2018) and Dharmawan et al. (2017) found that transfer pricing helps Indonesian businesses avoid taxes aggressively. The following hypothesis is therefore proposed for this investigation:

H4: Foreign ownership strengthens the effect of transfer pricing on tax aggressiveness

5. Foreign Ownership as a Moderator for the Effect of Intangible Assets on Tax Aggressiveness

Global businesses will find it less of a challenge to implement intangible assets, which are notoriously difficult to measure and detect, if they have established partnerships with similarly situated businesses in other countries.

Foreign investment companies in Indonesia are suspected of tax evasion if they have reported losses for five consecutive years and have not paid state taxes (Astuti & Aryani, 2016). Salihu et al. (2015) found a correlation between foreign investors' aggressive tax avoidance strategies and their drive for profit. Nurhidayati and Fuadillah (2018) researched the relationship between variables that affect the transfer/shift of income/profits and the use of tax haven countries. They discovered that intangible assets have a significant positive effect on the use of tax haven countries as one of the tax aggressiveness schemes. Consequently, the following hypothesis is formulated for this study:

H5: Foreign ownership strengthens the effect of intangible assets on tax aggressiveness

6. Foreign Ownership as a Moderator for the Effect of Capital Intensity on Tax Aggressiveness

There are opportunities for multinational companies to increase their access to new markets, utilize resources, reduce labor costs, and receive tax incentives from host countries. By investing in fixed assets, a company can receive tax advantages. Foreign investment companies in Indonesia are suspected of tax evasion if they have reported losses for five consecutive years and have not paid state taxes (Astuti & Aryani, 2016). Multinational companies allegedly invest and maximize the utilization of fixed assets through the mechanism of capital intensity so that a depreciation charge can reduce its tax burden.

Anindyka et al. (2018) found that a higher ratio of capital to output increases tax aggressiveness. Foreign investor interests are positively correlated with aggressive tax avoidance, according to research by Salihu et al. (2015). The following hypothesis is therefore proposed for this investigation:

H6: Foreign ownership strengthens the effect of capital intensity on tax aggressiveness

3. RESEARCH METHOD

The theoretical framework utilized in this study of tax aggressiveness takes into account the dynamic relationship between overseas investment, transfer pricing, intangible assets, and capital intensity. In particular, this study looks at manufacturing firms listed on the IDX of Indonesia's stock market between 2018 and 2020. To test whether or not the hypothesis is correct, we will use a variant of regression analysis called panel data analysis (MRA) to examine cross-sectional and time series data. The best model is selected from the Common Effect, Fixed Effect, and Random Effect models using one of two estimation strategies. In order to decide between the Common Effect model and the fixed effect model, the Chow test was developed. The Hausman test is used to choose between a fixed effect and a random effect model in the second step of panel data regression estimation. In addition, a BLUE (Best Linear Unbiased Estimator) coefficient estimate is generated by applying the classical assumption test to the Common Effect Model.

3.1. Operational Variable

1. Tax Aggressiveness as the Dependent Variable

The Shelter approach is utilized to determine tax aggressiveness (Li et al., 2016). Calculating the shelter value provides an indication of tax aggressiveness; a higher shelter value indicates a higher level of tax aggressiveness. Below is the formula:

$$\text{SHELTER} = 4.86 + 5.20 \times \text{BTD} + 4.08 \times |\text{DAP}| - 1.41 \times \text{LEV} + 0.76 \times \text{AT} + 3.51 \times \text{ROA} + 1.72 \times \text{FOREIGN INCOME} + 2.43 \times \text{R\&D}$$

Description:

BTD = Book tax difference

DAP = Nilai absolute discretionary accruals

LEV = Leverage (total liability/total assets)

AT = Log of total assets

ROA = Return on assets (pre-tax earnings/total assets)

Foreign Income = The indicator variable is 1 for years reporting income from abroad, 0 if there is no income from abroad

R&D = Research and development costs / lagged total assets

The following steps determine the absolute value of Discretionary Accruals (DAP):

1. $TAC_{it} = N_{it} - CFO_{it}$
2. $TAC_{it}/A_{it-1} = \beta_1 (1/A_{it-1}) + \beta_2 (\Delta REV_t / A_{it-1}) + \beta_3 (PPE_t / A_{it-1}) + e$
3. $NDA_{it} = \beta_1 (1/A_{it-1}) + \beta_2 (\Delta REV_t / A_{it-1} - \Delta RECT_t / A_{it-1}) + \beta_3 (PPE_t / A_{it-1})$
4. $DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$
5. $DAP = |DA_{it}|$

THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS, AND CAPITAL INTENSITY ON TAX AGGRESIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

Driya Sudaryono, Etty Murwaningsari

Description :

TACit	= Total Accruals of company i in period t
NIit	= Total Accruals of company i in period t
CFOit	= Cash Flow from Operating Activities of company i in period t
Ait-1	= Total assets of company i in year t-1
ΔREVt	= Changes in company income i from year t-1 to year t
ΔREct	= Change in receivables of company i from year t-1 to year t
PPEt	= Company fixed assets (property, plant and equipment) year t
DAit	= Discretionary Accruals of company i in period t
NDAit	= Non-Discretionary Accruals of company i in period t
DAP	= absolute value of Discretionary Accruals
β1, β2, β3	= absolute value of Discretionary Accruals
e	= error

2. Transfer Pricing as an Independent Variable

To measure transfer pricing, the researcher employs the stand-in for Amidu et al(2019) .'s study. Five indices were developed by Amidu et al. (2019) to serve as stand-ins for gauging the degree of transfer pricing aggression across the sample of companies. The more aggressive (least aggressive) a company's approach to transfer pricing, or the greater the likelihood of manipulation, the higher (lower) the overall transfer pricing score. Some of the factors that make up the transfer pricing index are:

A subsidiary, sister company, or related party of the company is located in the tax haven country; If the company's parent, sister, or subsidiary is located outside the tax haven country, or if the company has any related parties in the tax haven country, then the country is not considered to be a tax haven, even if the company conducts a transaction there during the relevant fiscal year.

Companies that have a parent, subsidiary, sister company, or related party in a country with a lower effective tax rate than tax haven jurisdictions were more likely to do business with that country during the fiscal year under review;

For the accounting period under review, royalties on intangible assets were paid to affiliated companies.

If an index meets these conditions, it receives a score of 1; otherwise, it receives a score of 0. In a total score of 5, an organization's transfer price manipulation is indicated by a score of 1, while no manipulation is indicated by a score of 0. Using the Transfer Pricing Index as a measurement proxy, Amidu et al. (2019) state that:

Transfer Pricing Index = $\frac{\text{The number of items that meet as an indication of transfer pricing}}{\text{Total transfer pricing indicator items}}$

3. Intangible Asset

Intangible assets are valued through the measurement proxy of Ohnuma & Kato (2015):

Intangible Asset = $(\text{Total intangible assets/Sales}) \times 100\%$

4. Capital Intensity

Based on what was established by Rodriguez and Arias (2012), capital intensity is typically measured as the proportion of fixed assets to total assets:

Capital Intensity = $(\text{Total Fixed Assets/Total Assets}) \times 100\%$

5. Foreign Ownership as a Moderating Variable

Foreign ownership is the moderating variable in this study, namely the proportion of outstanding shares owned by foreign investors or investors, namely companies owned by individuals, legal entities, the government, and their parts with foreign status, to the total

outstanding share capital (Farooque et al., 2007). Based on research conducted by Salihu et al. (2015), the following is a proxy for measuring foreign ownership:

$$\text{Foreign Ownership} = (\text{Total Foreign Shares} / \text{Total Shares Outstanding}) \times 100\%$$

6. Control Variable (Control Variable): Leverage, Profitability, Company Size

4. RESULTS AND DISCUSSION

4.1. Research Object Description

The financial reports of manufacturing companies from 2018–2020 are used as a data sample for this study, which is based off data found on the Indonesia Stock Exchange's website (IDX). Thirty-six businesses met the purposive sampling criteria, and the 108 observations they yielded were recorded (36 x 3).

Table 2 Sampling Results

No.	Criteria	Total
1	Manufacturing companies listed on the Indonesia Stock Exchange during the 2018-2020 period	152
2	Manufacturing companies listed on the Indonesia Stock Exchange after 2017	(32)
3	Manufacturing companies that experienced changes in the business sector during the 2018-2020 period	(1)
4	Companies that had negative tax payable during the 2018-2020 period	(7)
5	Companies that suffered losses during the 2016-2018 period	(49)
6	Companies that did not have audited financial statements during the 2018-2020 period	(3)
7	Companies that did not have foreign shareholding during the 2018-2020 period	(24)
	Research Sample	36
	Total observations (sample x 3 years)	108

4.2. Descriptive Statistics

In descriptive statistics, values like the range, median, mode, and standard deviation are used to summarize and classify the information. In the end, processing the data yields the following descriptive statistics:

Table 3. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Taxagre	10.00	10.88	10.2786	1.13731
TP	.00	1.00	.3946	.34607
IA	.00	9.19	1.7079	1.97889
CI	.04	.91	.4930	.20200

Source: Processed Data

The Tax Aggressiveness Variable (taxagre) averages 10.278 and fluctuates by 1.373 on average. A higher AGRES score indicates that using tax avoidance strategies is more likely to occur at this firm.

The Transfer Pricing (TP) variable typically ranges between 0.394 and 0.346 as its values. The greater the TP value proxied on the TP index, the more likely it is that companies have engaged in transfer price manipulation.

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Driya Sudaryono, Etty Murwaningsari

The Intangible Asset (IA) Variable typically ranges from 1.707% to 1.98%. If a company's IA value is high, it indicates that it has considerable sway in driving up sales.

The Capital Intensity (CI) Standard deviation is 0.202, and the mean is 0.493 for this variable. A high CI indicates that the company's fixed assets represent a sizable portion of its total assets.

4.3. Model Selection Test

Table 4 Model Selection Test

Chow Test Model Test	
Test Summary	Prob.
Cross-section Chi-square	0.000
Hauman Test Model Selection Test	
Test Summary	Prob.
Cross-section Random	0.3576
LM Test	
Test Summary	Prob.
Breusch-Pagan	0.000

Source: Processed Data

Using the Fixed Effect Model is appropriate because the chi-square cross-section probability value is $0.000 < 0.05$, which means H_0 is rejected and H_a is accepted. Chow test results were consistent with a fixed effect model, which was further supported by the Hausman test.

Results from the Hausman test processing indicated that H_0 was accepted, and the appropriate model is the Random Effect Model, if the probability value from a random cross section is $0.3576 > 0.05$. If the results of the Hausman test suggest a Random Effect Model, then employ this LM test.

In the likelihood ratio (LM) test with Breusch-Pagan, the Breusch-Pagan probability value was $0.000 < 0.05$, indicating that the Random Effect Model is appropriate.

Table 5 displays the results of the next phase of the regression model testing.

Table 5 Classic Assumption Test

Normality Test with Kolmogorov Smirnov Test		
Normality Test		
N		108
Jarque Berra Test		0.949277
Prob		0.622110
Multicollinearity Test		
Model	Collinearity Statistics	
	Tolerance	VIF
TP	.195	5.131
IA	.936	1.069
CI	.936	1.068
MTP	.013	75.556
MIA	.002	490.957
MCI	.005	201.864
LEV	.928	1.077
SIZE	.933	1.072

ROA	.913	1.096
Heteroscedasticity test with white test		
N		108
Obs*R-square		44.25035
Prob		0.7368

Source: Processed Data

The Jarque Berrea test for normality confirms that the residual distribution is normal and supports Ho acceptance. The test's probability value of 0.622 is greater than 0.05. Normality, a prerequisite for the regression model, has thus been satisfied.

The fact that the VIF for each independent variable is less than 10 indicates that there is no correlation between them, and thus that the multicollinearity assumption of the model is met.

Acceptance of Ho and absence of heteroscedasticity in the resulting model are indicated by a prob value of obs*R square greater than 0.05, as determined by the white test for heteroscedasticity.

The results of testing the classical assumptions above show that the classical assumptions required in the regression model are met, allowing the next test, testing the theoretical hypothesis, to proceed.

Table 6 random effect regression test

$$\text{Model} = \text{taxagre} : \alpha_0 + \sigma_1 \text{TP}_1 + \sigma_2 \text{IA}_2 + \sigma_3 \text{CI}_3 + \sigma_4 \text{MTP}_4 + \sigma_5 \text{MIA}_5 + \sigma_6 \text{MCI}_6 + \sigma_7 \text{LEV}_7 + \sigma_8 \text{SIZE}_8 + \sigma_9 \text{ROA}_9 + \varepsilon$$

Dependent Variable: taxagre

Variable	Direction prediction	B	Std. Error	t	Sig.	Decision
independent variable						
TP	+	.260	.087	2.998	.048	H1 is accepted
IA	+	.016	.007	2.384	.070	H2 is accepted
CI	+	-.067	.068	-.991	.324	H3 is rejected
interaction variable						
MTP	+	.887	.437	2.029	.020	H4 is accepted
MIA	+	.470	0.184	2.557	.012	H5 is accepted
MCI	+	1.057	.796	1.328	.187	H6 is rejected
control variable						
LEV	+	.051	.024	2.073	.047	
SIZE	+	.500	.238	2.099	.032	
ROA	+	.022	.009	2.500	.062	
R Square	0.488					
F	2.049					
sig F	0.04					

Source: Processed Data

Using a regression test, find that there is a positive relationship between transfer pricing and tax aggressiveness (H0), with a regression coefficient of 0.260 at the 0.048 level. If the p-value for the transfer pricing hypothesis is less than 0.05, then the null accepted. The findings of this study indicate that transfer pricing has a positive and statistically significant effect on tax

THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS, AND CAPITAL INTENSITY ON TAX AGGRESSIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

Driya Sudaryono, Etty Murwaningsari

aggressiveness. The results show that there is a positive regression coefficient of 0.016 between intangible assets and tax aggressiveness at the 0.070 with 0.10 level, lending credence to the H2 hypothesis. Statistical analysis shows that the presence of intangible assets increases a firm's tax aggressiveness in a positive way. The results of the test for the fourth hypothesis also show that H3 is not supported, with a negative regression coefficient of 0.067 on the capital intensity variable on tax aggressiveness and a significance level of $0.324 > 0.05$. No statistically significant link between capital intensity and tax aggressiveness was discovered in this study.

When testing H4, H5, and H6, the transfer pricing x foreign ownership (MTP) find that interaction variable has a positive regression coefficient of 0.887% at the 0.020 level. With a p-value below 0.05, the H4 hypothesis is supported. This research established that the link between transfer pricing and tax aggressiveness is strengthened by the presence of foreign ownership. A positive regression coefficient of 0.470 ($p=0.012$) was found when intangible assets were analyzed in conjunction with foreign ownership (MIA). The H5 hypothesis is supported if the p value is less than 0.05. This research provided conclusive evidence that intangible asset tax aggressiveness is bolstered by foreign ownership. There was a positive regression coefficient of 1.057 at the 0.187 level when looked at the relationship between capital intensity and MCI (foreign ownership). There is no evidence to support the H6 hypothesis if the p-value is over 0.05, the hypothesis cannot be accepted. There was no proof discovered in this study that foreign ownership strengthened the link between Capital Intensity and Tax Aggressiveness.

4.4. Discussion of Research Results

The results show that transfer pricing encourages tax aggressiveness. Similar results were found by Amidu et al (2019), Lutfia & Pratomo (2018), and Dharmawan et al. (2017). Most companies in the sample conduct transactions with related parties using transfer pricing schemes. The vast majority of the sampled businesses have affiliates in low-tax or tax-haven jurisdictions, either as their parent companies or as parties to special relationships. Multinational corporations are motivated to use transfer pricing schemes in affiliated transactions due to Indonesia's relatively high corporate tax rate of 25%, such as reducing selling prices, increasing buying prices, or recognizing royalties and management fees based on the principles of fairness and customary business.

The study's findings suggest that intangible assets promote tax aggressiveness. Put another way, the value of intangible assets necessitates a more aggressive tax strategy. Consistent with the findings of Anouar and Houria (2017) and Taylor et al (2015). Companies in Indonesia are becoming more tax-aggressive as a result of holding intangible assets. For the companies in our sample, trademarks make up the vast majority of their intangible assets, so they also influence sales. However, they also result in amortization expenses to reduce the tax burden. Intangible assets are notoriously tricky to value, so transfer pricing schemes are often employed to encourage tax evasion through the use of intangibles. It will likely be challenging to forecast the cash flows from these intangible assets using their exact valuable lives and discount rates.

The study's findings prove that capital intensity does not support tax aggressiveness. In the manufacturing industry, fixed assets have a significant influence on production capacity. This indicates that the greater a company's fixed assets, the greater its production capacity, which in turn affects sales growth. The increased tax bill is a direct result of the company's increased sales revenue. That is to say, capital intensity has no bearing on whether or not a company will engage in tax avoidance strategies. Consistent with the results of Muzakki and Darsono's study (2015).

The moderated regression analysis revealed that foreign ownership bolstered the correlation and tax evasion through transfer pricing, affirming the results of Darussalam et al. (2013) and Widyastuti (2011). The results indicate that foreign shareholders control the majority of sample companies. As majority shareholders, foreign shareholders have control and influence over the company's decisions and policies to obtain a high rate of return on their capital investment. By

shifting profits from their Indonesian subsidiary to a subsidiary in a low-tax jurisdiction under the same control or mastery, foreign shareholders can minimize their tax liabilities.

Similarly, research on foreign ownership can strengthen the link between intangible assets and tax aggressiveness, supporting Dudar et al. (2015) and Lindsey & Wilson's (2015) findings. Based on the study's results, foreign ownership may reduce its tax burden by engaging in tax aggressiveness through intangible assets. Because the intangible assets owned by the sample companies are sufficient and have a significant influence and contribution to sales and profits, foreign shareholders use intangible assets as a tax avoidance tool in this instance. Large amounts of intangible assets, which are difficult to detect and measure, can be used by company management to satisfy the interests of controlling shareholders by transferring from the parent company to a subsidiary or other related parties in low-tax jurisdictions. This will be more easily implemented by multinational corporate groups dominated by foreign shareholdings, as they enable corporations to take advantage of disparities in the tax laws enacted by different nations.

The correlation between capital intensity and tax aggressiveness is not bolstered by foreign ownership. Test results suggest that foreign ownership may lessen a country's tax load because of increases in capital intensity, but the effect is not statistically significant. This results from the characteristics of manufacturing companies that invest a substantial amount in fixed assets used for producing goods. Therefore, the fixed assets utilized by manufacturing companies significantly influence production capacity and sales growth rate, increasing revenue and profit. As a result of the company's high profitability, the tax burden is even more significant. That is, companies cannot use capital intensity to engage in tax aggressiveness.

5. CONCLUSION AND SUGGESTIONS

5.1. Conclusion

The goal of this research was to put a number on how foreign ownership influences the correlation between tax aggressiveness, transfer pricing, intangible assets, and capital intensity. This research looked at the IDX-listed manufacturing companies from 2016-2018. The previous chapter's discussion and experiments show that transfer pricing positively affects tax aggressiveness. This is because differences in tax rates between countries present opportunities for multinational corporations to avoid paying taxes. Similar to monetary assets, intangible assets encourage more vigorous tax planning. One tax aggressiveness scheme that can lessen the financial impact of tax evasion is the evaluation and determination of the intangible asset's owner.

There is a statistically significant correlation between transfer pricing and tax aggressiveness, and foreign ownership amplifies this effect. This is due to the fact that foreign ownership furthers the already existing disparities in tax rates between countries, allowing multinational corporations to avoid paying taxes in some countries. Further, intangible assets have a greater impact on tax aggressiveness when owned by a foreign entity, which increases the difficulty of assessing and identifying the owner of such assets and thus makes it a tax aggressiveness scheme that can reduce the amount of tax owed.

Differences in capital intensity have no bearing on the impact of capital intensity on tax aggressiveness results, and foreign ownership does not bolster this effect.

5.2. Suggestions

The findings of this study are meant to be used as a reference on tax aggressiveness and the factors that influence it for future researchers to use as a basis for carrying out similar research. The author suggests that future research develops additional measurements, particularly for the transfer pricing index, and employs additional independent variables, such as derivative instruments, agency costs, or company value, in addition to the variables used in this study.

THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS, AND CAPITAL INTENSITY ON TAX AGGRESIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

Driya Sudaryono, Etty Murwaningsari

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THE EFFECT OF TRANSFER PRICING, INTANGIBLE ASSETS, AND CAPITAL INTENSITY ON TAX AGGRESIVENESS WITH FOREIGN OWNERSHIP AS A MODERATING VARIABLE

Driya Sudaryono, Ety Murwaningsari

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