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Drivers of Tax Avoidance: Evidence from Indonesian Mining Companies

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ABSTRACT

This study aims to examine the effects of financial distress, firm size, and transfer pricing on tax avoidance among Mining sector companies on the Indonesia Stock Exchange. Tax avoidance remains a major concern for governments because it reduces potential tax revenues while remaining within legal boundaries. This study employs a quantitative approach using secondary data obtained from the annual reports and financial statements of Indonesian mining sector companies during the 2023–2025 period. The sample was selected using purposive sampling, and the data were analyzed using panel data regression analysis. The findings indicate that financial distress, firm size, and transfer pricing have positive and significant effects on tax avoidance. These results suggest that financially distressed firms tend to engage in tax planning strategies to preserve liquidity, larger firms possess greater capabilities to implement sophisticated tax planning practices, and companies with extensive related-party transactions are more likely to utilize transfer pricing as a mechanism for minimizing tax liabilities. Among the variables examined, transfer pricing emerged as the most influential determinant of tax avoidance. This study contributes to the literature by providing empirical evidence on the determinants of tax avoidance in the context of emerging economies, particularly Indonesia

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INTRODUCTION

Because it lowers prospective tax collections that governments depend on to fund public services and economic development, tax avoidance continues to be a major problem in both established and emerging nations. Aggressive tax planning techniques have drawn more attention from regulators, investors, and other stakeholders, despite the fact that tax avoidance is typically seen as a legitimate tactic for reducing tax obligations by taking advantage of loopholes in tax laws. One of the main sources of governmental funding in Indonesia is taxation, which makes a significant contribution to the country's budget. Nonetheless, Indonesia's tax percentage has continuously lagged behind the average of a number of comparable nations, suggesting ongoing difficulties in maximizing tax revenue. Because publicly traded corporations have more freedom in managing their financial reporting and tax planning techniques, this scenario raises worries about corporate tax compliance (Arora, 2025).

Within the framework of agency theory, managers may engage in tax avoidance activities to maximize shareholders' wealth by reducing corporate tax expenses, while simultaneously pursuing personal incentives associated with financial performance targets (Riskiani et al., 2024). Consequently, understanding the determinants of tax avoidance has become increasingly important to provide empirical evidence for policymakers in designing effective tax regulations and corporate governance mechanisms aimed at enhancing tax compliance.

Financial distress has been identified as one of the internal factors that potentially influences corporate tax avoidance behavior. Companies experiencing financial difficulties often face substantial pressure to maintain liquidity, improve cash flows, and ensure business continuity. Under these circumstances, tax avoidance may be viewed as a strategic mechanism to preserve cash resources by reducing tax payments (Ariff et al., 2023).

However, there is still conflicting empirical data about the connection between tax evasion and financial hardship. Financial distress has a beneficial impact on tax avoidance, according to Matitaputty & Ramadhan's (2023) research, indicating that financially strapped businesses typically step up their tax planning attempts to ease cash flow constraints. Similarly, Putri et al. (2024) reported that firms facing financial distress are more likely to engage in tax avoidance practices as part of their survival strategies. In contrast, Dhamara & Violita, (2018) and Kalbuana et al. (2023) documented that financial distress does not significantly influence tax avoidance, indicating that distressed firms may avoid aggressive tax strategies due to heightened scrutiny from regulators and concerns regarding reputational risks.

These inconsistent findings indicate the existence of a research gap concerning the role of financial distress in shaping corporate tax behavior. Furthermore, most previous studies have focused on specific industrial sectors with relatively limited observation periods, thereby restricting the generalizability of their findings. Therefore, By analyzing the impact of financial crisis on tax evasion using a larger sample of Indonesian mining companies, this study expands on previous research. This strategy is anticipated to improve knowledge of business tax behavior in developing nations and offer more thorough data on the factors that contribute to tax evasion in Indonesia.

Firm size is another important determinant that may explain variations in corporate tax avoidance practices. Larger firms generally possess more complex organizational structures, greater economic resources, and better access to professional tax expertise, enabling them to implement sophisticated tax planning strategies (Adzra & Kurniawati, 2025; Zaenuddin & Dyarini, 2023). From the perspective of political cost theory, large companies are subject to greater public scrutiny and regulatory oversight, which may discourage aggressive tax avoidance practices to protect their reputation and legitimacy. Conversely, the political power theory suggests that large firms have stronger bargaining positions and more resources to exploit loopholes within tax regulations, thereby increasing their ability to minimize tax burdens (Rosadiya et al., 2022).

Prior empirical studies have produced mixed findings regarding the relationship between firm size and tax avoidance. Oktaviano et al. (2024) found that firm size significantly influences tax avoidance, indicating that larger firms tend to engage more actively in tax planning activities. Similarly, several international studies have documented that large corporations possess greater capabilities to undertake tax management strategies due to their extensive financial and human resources (Nabieu et al., 2021). However, other studies have reported insignificant or even negative relationships, suggesting that large firms tend to avoid aggressive tax practices because of reputational concerns and heightened monitoring by tax authorities and stakeholders.

These inconsistent findings reveal a continuing debate concerning the role of firm size in shaping corporate tax behavior, particularly in emerging markets such as Indonesia. Moreover, previous studies have predominantly focused on specific sectors, limiting the external validity of their findings. Therefore, this study extends the existing literature by investigating whether firm size serves as a significant driver of tax avoidance across Indonesian listed companies, thereby providing broader evidence regarding the influence of organizational characteristics on corporate tax strategies

Transfer pricing has also become one of the most debated issues in international taxation due to its potential use as a mechanism for shifting profits across jurisdictions with different tax rates. Multinational enterprises frequently conduct transactions with related parties, including the transfer of goods, services, intangible assets, and financing arrangements. Although transfer pricing is a legitimate business practice governed by the arm's length principle, concerns arise when transfer pricing arrangements are designed primarily to reduce overall tax liabilities through profit shifting to low-tax jurisdictions (Illahi et al., 2023).

In Indonesia, transfer pricing practices have attracted increasing attention from tax authorities as part of efforts to strengthen the tax base and combat Base Erosion and Profit Shifting (BEPS). Previous studies examining the relationship between transfer pricing and tax avoidance have generated inconclusive results. Hidayah & Puspita, (2024) found that transfer pricing positively affects tax avoidance, indicating that firms may utilize related-party transactions as a tax planning mechanism. Conversely, Handayani (2025) reported that transfer pricing does not significantly influence tax avoidance, suggesting that the implementation of transfer pricing regulations and increased tax scrutiny may constrain aggressive tax planning activities. The inconsistency of these findings indicates that empirical evidence regarding the effectiveness of transfer pricing as a tax avoidance strategy remains inconclusive, particularly within the Indonesian context.

LITERATURE REVIEW

Agency Theory

The contractual relationship between principals (shareholders) and agents (management), where both sides are presumed to behave in their own self-interest, is explained by agency theory, which was first presented by Jensen & Meckling in 1976. Due to information asymmetry, the division of ownership and control may lead to agency conflicts, enabling managers to make choices that prioritize their own utility over the interests of shareholders. In the taxation context, managers may engage in tax avoidance activities to reduce corporate tax expenses and improve after-tax earnings, which can subsequently enhance financial performance and managerial compensation linked to accounting outcomes. However, aggressive tax avoidance may also expose firms to regulatory sanctions, reputational risks, and increased monitoring by tax authorities. Therefore, agency theory provides a fundamental framework for understanding why corporate managers may adopt tax planning strategies and how various organizational factors influence tax avoidance behavior.

Agency theory is particularly relevant in explaining the relationship between financial distress and tax avoidance. Firms experiencing financial difficulties often face substantial pressure to improve liquidity and maintain operational continuity. Under such circumstances, managers may utilize tax avoidance strategies to preserve cash flows and reduce financial burdens, thereby aligning their actions with shareholders' interests in maintaining firm value. Similarly, transfer pricing practices may also be explained through agency theory, as managers may use related-party transactions to minimize tax obligations and maximize corporate profits. Thus, agency theory serves as the primary theoretical foundation for understanding managerial incentives underlying tax avoidance decisions

Political Cost Theory and Political Power Theory

Political Cost Theory, which is a component of Positive Accounting Theory, posits that large firms are more likely to attract public attention, regulatory scrutiny, and political pressure because of their economic significance and visibility. To minimize these political costs, large corporations may avoid aggressive tax strategies that could damage their reputation and increase the likelihood of government intervention. From this perspective, larger firms are expected to demonstrate lower levels of tax avoidance to maintain legitimacy among stakeholders (Watts & Zimmerman, 1978).

Conversely, Political Power Theory suggests that large firms possess substantial resources, expertise, and bargaining power that enable them to influence regulatory environments and exploit complexities within tax regulations. Larger companies generally have access to sophisticated tax advisors and advanced tax planning mechanisms, allowing them to implement effective tax minimization strategies. Consequently, firm size may increase a company's ability to engage in tax avoidance activities.

The coexistence of these two competing perspectives contributes to the inconsistent empirical findings regarding the relationship between firm size and tax avoidance. Therefore, examining firm size within the Indonesian context provides an opportunity to determine whether political cost considerations or political power advantages dominate corporate tax behavior among listed companies.

Hypothesis Development

A. Financial Distress and Tax Avoidance

Financial distress reflects a condition in which a company experiences difficulties in fulfilling its financial obligations due to declining financial performance and liquidity constraints. According to Positive Accounting Theory Watts & Zimmerman, (1978) managers are motivated to select accounting policies and strategies that maximize firm value and mitigate contractual pressures arising from debt agreements and financial instability. The debt covenant hypothesis further suggests that firms facing financial difficulties have incentives to adopt policies that improve financial conditions and preserve cash flows. One strategy that may be employed is tax avoidance, which reduces cash outflows related to tax payments.

Agency theory also provides an explanation for the relationship between financial distress and tax avoidance. Under financial pressure, managers may engage in tax planning strategies to align with shareholders' interests by maintaining liquidity and ensuring business continuity. Reducing tax expenses through legal tax planning can provide additional internal resources needed to sustain operations during periods of financial difficulty. Therefore, firms experiencing financial distress are expected to exhibit a greater tendency to undertake tax avoidance activities (Lestari et al., 2025).

Several empirical studies support this argument. Ismanto & Abdurachman (2024) found that financial distress positively affects tax avoidance, indicating that financially constrained firms tend to intensify tax planning efforts to preserve cash resources. Similarly, Ariff et al. (2023) documented that companies experiencing financial distress are more likely to engage in tax avoidance practices to alleviate financial pressures. However, other studies have reported insignificant relationships, suggesting that distressed firms may avoid aggressive tax strategies due to increased scrutiny from creditors, regulators, and investors (Matitaputty & Ramadhan, 2023). Despite these inconsistent findings, this study argues that financial distress increases managerial incentives to minimize tax burdens in order to improve liquidity positions.

Consequently, the following is the formulation of the first hypothesis:
H1: Tax evasion is positively impacted by financial hardship.

Tax Avoidance and Firm Size

Firm size is commonly associated with the availability of resources, organizational complexity, and managerial capabilities that may influence corporate tax behavior. Political Power Theory suggests that large firms possess greater bargaining power, access to professional tax expertise, and more sophisticated tax planning mechanisms that enable them to reduce tax liabilities effectively. Larger companies are also more likely to operate across multiple business segments and jurisdictions, providing additional opportunities for tax planning activities (Oktaviano et al., 2024).

Conversely, Political Cost Theory argues that larger firms attract greater attention from regulators, investors, and the public due to their economic significance. As a consequence, large corporations may avoid aggressive tax avoidance practices to maintain their reputation and legitimacy and to minimize potential political costs associated with regulatory interventions (Paulus et al., 2025). These competing theoretical perspectives explain the mixed empirical evidence regarding the relationship between firm size and tax avoidance.

Previous studies have reported inconsistent findings Mukarramah & Nugroho, (2025); Rosadiya et al. (2022) found that firm size positively influences tax avoidance, indicating that larger firms possess greater capabilities to implement tax planning strategies. Similarly, Adzra & Kurniawati, (2025) suggested that company size significantly affects effective tax rates due to differences in tax planning opportunities. In contrast, several studies reported that larger firms tend to exhibit lower levels of tax avoidance because they are subject to greater public scrutiny and regulatory oversight. Given the increasing complexity of business operations among Indonesian listed companies and their access to tax expertise, this study argues that the advantages associated with organizational resources are more likely to facilitate tax avoidance activities.

Therefore, the second hypothesis is formulated as follows:

H2: Firm size has a positive effect on tax avoidance.

Transfer Pricing and Tax Avoidance

The pricing of transactions involving products, services, intangible assets, or finance arrangements between related businesses within multinational corporate groups is referred to as transfer pricing. To guarantee that transfer prices accurately reflect market conditions, related-party transactions should adhere to the arm's length concept, as per the OECD Transfer Pricing Guidelines (2022) (Mukhtaruddin et al., 2025). Nonetheless, multinational corporations are encouraged to strategically distribute earnings through transfer pricing agreements in order to reduce total tax obligations due to variations in tax rates between jurisdictions.

Agency theory suggests that managers are motivated to maximize shareholder wealth by reducing tax expenses through legal tax planning strategies. Transfer pricing can serve as a mechanism for shifting profits from high-tax jurisdictions to lower-tax jurisdictions, thereby enhancing after-tax profitability (Tamam & Tarmidi, 2025). Consequently, firms engaging in extensive related-party transactions may have greater opportunities to undertake tax avoidance practices.

Empirical evidence generally supports the association between transfer pricing and tax avoidance. Imannuel & Tarmidi, (2025) and Paulus et al. (2025) found that transfer pricing positively affects tax avoidance, indicating that related-party transactions are frequently utilized as tax planning tools. Likewise, Mukarramah & Nugroho, (2025) emphasized that transfer mispricing remains one of the primary channels through which multinational corporations reduce their global tax burdens. Nevertheless, some studies have reported insignificant effects, arguing that strengthened transfer pricing regulations and enhanced tax authority monitoring limit opportunities for aggressive tax planning. Despite these differing findings, transfer pricing continues to be recognized as an important mechanism associated with corporate tax avoidance behavior.

Therefore, the third hypothesis is formulated as follows:
H3: Transfer pricing has a positive effect on tax avoidance.

METHODOLOGY

Research Design

This study employed a quantitative research approach using explanatory research design to examine the influence of financial distress, firm size, and transfer pricing on tax avoidance among Indonesian listed companies. Quantitative methods were selected because they facilitate objective measurement of the relationships among variables and allow hypothesis testing through statistical analysis. The study utilized secondary data derived from publicly available annual reports and financial statements of Mining sector companies listed on the Indonesia Stock Exchange (IDX).

The research adopted a causal-comparative approach aimed at investigating whether financial distress, firm size, and transfer pricing serve as significant drivers of corporate tax avoidance. Panel data analysis was employed because it combines cross-sectional and time-series observations, thereby providing more comprehensive information and increasing the efficiency of statistical estimates.

Population and Sample

Companies in the mining industry that were listed on the Indonesia Stock Exchange (IDX) between 2023 and 2025 made up the study's population. Purposive sampling was used to choose the sample in order to make sure that the businesses fulfilled certain requirements pertinent to the study's goals. Up to 60 observation data points were collected.

Data Analysis Techniques

With the aid of EViews 12, panel data regression analysis was used to analyze the data. In order to identify the most suitable estimation model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), the analysis started with descriptive statistics to characterize the features of the research variables. This was followed by panel data model selection using the Chow, Hausman, and Lagrange Multiplier tests. Panel regression analysis was then used to evaluate the hypothesis.

RESULTS

Descriptive Statistics Analysis

The features of the research variables, such as tax avoidance, financial distress, firm size, and transfer pricing, were described using descriptive statistics. Table 1 displays the findings of the descriptive statistical analysis.

Table 1. Descriptive Statistics

	Observations	*Mean*	*Maximum*	*Minimum*	*Std. Dev.*
Tax Avoidance	60	0.2287	0.7863	-0.1025	0.2262
Financial Distress	60	5.8188	23.8262	-0.5025	4.0538
Firm Size	60	20.4211	29.152	14.3261	3.3973
Transfer Pricing	60	0,2540	0.9778	0,0000	0.3

Source: Data processed by Eviews 12, 2026

The results indicate that the average value of tax avoidance was 0.2287 with a standard deviation of 0.2262, suggesting a relatively moderate level of tax avoidance among Indonesian listed companies. The standard deviation being slightly lower than the mean value indicates that the distribution of tax avoidance data was relatively homogeneous. The minimum value of tax avoidance was -0.1025, while the maximum value was 0.7863, reflecting considerable variation in corporate tax planning practices among the sampled firms.

Financial distress had a mean value of 5.8188 and a standard deviation of 4.0538. Since the mean value exceeded the standard deviation, the data distribution can be considered relatively stable. The financial distress scores ranged from -0.5025 to 23.8262, indicating substantial differences in the financial conditions of the companies observed. Meanwhile, firm size exhibited an average value of 20.4211 with a standard deviation of 3.3973, suggesting that the sample included companies with varying scales of operations, although the dispersion remained relatively low. The minimum and maximum values of firm size were 14.3261 and 29.1520, respectively.

The descriptive statistics indicate that the firm size variable has a mean value of 20.4211 and a standard deviation of 3.3973. Since the standard deviation is lower than the mean, the firm size data can be considered relatively homogeneous. The minimum and maximum values of 14.3261 and 29.1520, respectively, suggest that the sample includes companies with varying scales of operations. Additionally, the skewness value of 0.7781 indicates a moderately positive skewness, while the kurtosis value of 3.8142 suggests a leptokurtic distribution. Overall, these findings imply that the sampled firms exhibit sufficient variation in size to support further analysis of the relationship between firm size and tax avoidance.

Transfer pricing had an average value of 0.2540 and a standard deviation of 0.3000. The standard deviation exceeding the mean value indicates relatively high variability in related-party transaction activities among the sample companies. The transfer pricing variable ranged from 0.0000 to 0.9778, suggesting that while some firms did not engage in significant related-party transactions, others reported a substantial proportion of such transactions. Overall, the descriptive statistics demonstrate that the research data exhibit sufficient variation to support further panel data regression analysis.

Panel Data Regression Analysis Method

Three tests were used in this work to choose the best model for processing and evaluating research data: the Chow test, the Hausman test, and the Lagrange multipler test.

1. Chow Test Model

Table 2. Chow Test

Redundant Fixed Effects Tests

Equation : FEM

Test cross-section fixed effects

Effects Test	*Statistic*	*d.f.*	*Prob.*
Cross-section F	1.634887	(19,37)	0.0985
Cross-section Chi-square	36.57082	19	0.009

Source: Data processed by Eviews 12, 2026

The Chow test was performed to determine whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) was more appropriate for estimating the panel data. The test results showed that the probability value of Cross-section F was 0.0985, which exceeded the significance level of 0.05 (0.0985 > 0.05). Therefore, the null hypothesis (H_0) stating that the Common Effect Model is more appropriate cannot be rejected.

This finding indicates that there were no significant individual effects across cross-sectional units (companies) that required the use of fixed effects estimation. In other words, the differences among companies in the sample were not substantial enough to justify incorporating individual-specific intercepts into the regression model. Consequently, the Common Effect Model was considered more suitable than the Fixed Effect Model for estimating the relationship between financial distress, firm size, transfer pricing, and tax avoidance. Although the Cross-section Chi-square probability value was below 0.05, the decision in this study was based on the Cross-section F statistic, which is commonly used when the panel data dimensions are relatively balanced

2. Lagrange Multiplier (LM) Test Interpretation

Table 3. LM Test

	Test Hypothesis		
	Cross-section	*Time*	*Both*
	1.591.387	8.0327	9.624088
Breusch-Pagan	-0.2071	-0.0046	-0.0019

Source: Data processed by Eviews 12, 2026

The Lagrange Multiplier (LM) test developed by Breusch and Pagan was employed to determine whether the Random Effect Model (REM) or Common Effect Model (CEM) was more suitable for panel data estimation. The results showed that the probability value of the Breusch-Pagan Cross-section test was 0.2071, which exceeded the significance level of 0.05 (0.2071 > 0.05). Therefore, the null hypothesis (H_0), stating that the Common Effect Model is more appropriate, could not be rejected.

This finding indicates that there was insufficient evidence to support the presence of significant random effects across companies. In other words, the panel structure of the data did not contribute additional explanatory power beyond that captured by the pooled regression approach. Consequently, the Common Effect Model was considered more appropriate than the Random Effect Model for estimating the relationship among the variables under investigation.

Hypothesis Test Results

Table 4. Hypothesis Testing

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	-1575.725	1851.527	-0.851041	0.3984
Financial Distress	0.013688	0.006731	2.033625	0.0467
Ukuran Perusahaan	0.017570	0.008142	2.158067	0.0352
Transfer Pricing	0.205355	0.090961	2.257613	0.0279

The results of the hypothesis test show that tax evasion is positively and significantly impacted by financial difficulties. A regression coefficient of 0.013688, a t-statistic value of 2.033625, and a probability value of 0.0467—all of which are below the significance level of 0.05—support this conclusion. As a result, H1 is supported, indicating that businesses that are more financially distressed typically participate in more tax evasion.

The results further reveal that firm size has a positive and significant effect on tax avoidance. The regression coefficient for firm size is 0.017570, with a t-statistic of 2.158067 and a probability value of 0.0352, which is below the 5% significance level. Accordingly, H2 is accepted, indicating that larger companies are more likely to engage in tax avoidance practices compared to smaller firms Regarding transfer pricing, the results show a positive and significant relationship with tax avoidance. The transfer pricing variable has a regression coefficient of 0.205355, a t-statistic value of 2.257613, and a probability value of 0.0279, which is lower than 0.05. Thus, H3 is supported, indicating that companies with higher levels of related-party transactions tend to engage in greater tax avoidance activities.

DISCUSSION

Financial Distress's Impact on Tax Avoidance

From a practical perspective, firms experiencing financial distress prioritize maintaining operational continuity and avoiding financial deterioration. Tax payments represent a significant cash outflow; therefore, reducing tax expenses through legal tax planning strategies becomes an attractive option for management. Under conditions of financial pressure, managers tend to focus on short-term survival strategies aimed at improving liquidity positions and ensuring business sustainability. Consequently, tax avoidance may be viewed not merely as an opportunistic action but also as a strategic response to financial constraints.

This finding is consistent with Positive Accounting Theory, particularly the Debt Covenant Hypothesis proposed by Watts & Zimmerman (1978). The theory suggests that managers of firms facing financial difficulties are incentivized to adopt accounting and financial strategies that improve financial performance and reduce the likelihood of violating debt agreements. By minimizing tax expenses, companies can retain greater internal funds to support operational activities and debt repayments. Furthermore, Agency Theory explains that managers act in the interests of shareholders by implementing strategies that maximize firm value, including reducing tax burdens to improve after-tax cash flows.

The results of this study are in line with previous empirical evidence. Putri et al. (2024) found that financially distressed firms tend to intensify tax avoidance activities to preserve liquidity. Kalbuana et al. (2023) documented that financial constraints encourage companies to engage in more aggressive tax planning practices. Similarly, Matitaputty & Ramadhan (2023) found that financial distress positively influences tax avoidance among Indonesian firms. Ismanto & Abdurachman (2024) reported that firms experiencing financial difficulties are more likely to adopt tax-saving strategies to improve their financial position. Additionally, Ariff et al. (2023) concluded that financial instability increases managerial incentives to undertake tax avoidance activities.

Overall, these findings indicate that financial distress serves as an important determinant of tax avoidance. Companies under financial pressure tend to perceive tax avoidance as a mechanism to maintain liquidity and support business continuity. Therefore, tax authorities should pay greater attention to financially distressed firms, as such conditions may increase the likelihood of aggressive tax planning practices

The Effect of Firm Size on Tax Avoidance

Logically, larger companies tend to conduct more complex business transactions and operate across multiple segments and geographical areas. Such complexity provides greater opportunities for tax planning and increases the ability of firms to identify and utilize legal provisions within tax regulations. In addition, large firms often employ professional tax consultants and maintain dedicated tax departments that continuously evaluate strategies to optimize tax efficiency. Consequently, larger firms possess greater capacity to implement sophisticated tax planning mechanisms compared to smaller firms with limited resources.

These findings support Political Power Theory, which argues that large corporations possess substantial economic power and resources that enable them to exploit regulatory complexities and influence their tax environments. Larger firms are more capable of investing in tax expertise and developing efficient tax management systems that reduce their overall tax burden. Although Political Cost Theory suggests that larger firms may avoid aggressive tax practices due to reputational concerns and regulatory scrutiny, the findings of this study indicate that the benefits derived from superior tax planning capabilities outweigh potential political costs.

The results are consistent with prior studies. Rosadiya et al. (2022)found that larger firms exhibit greater opportunities for tax planning due to their organizational complexity. Oktrivina et al. (2022) reported that firms with substantial market power tend to engage in higher levels of tax avoidance. also found that firm characteristics, including size, significantly influence tax avoidance behavior. Similarly, Oktaviano et al. (2024) documented that firm size positively affects tax avoidance among Indonesian listed companies. Paulus et al. (2025) further demonstrated that large firms are more likely to engage in tax avoidance because they possess greater access to tax expertise and planning resources.

These findings imply that tax authorities should enhance monitoring mechanisms for large corporations, particularly those with complex organizational structures and substantial economic resources, as such firms may have greater opportunities to undertake sophisticated tax avoidance strategies.

The Effect of Transfer Pricing on Tax Avoidance

From a logical standpoint, multinational enterprises operating across multiple jurisdictions often encounter differences in tax rates among countries. These differences create incentives for firms to allocate profits strategically through transfer pricing arrangements to jurisdictions with lower tax rates. Although transfer pricing is a legitimate business practice when conducted in accordance with the arm's length principle, firms may exploit the flexibility inherent in determining transfer prices to reduce overall tax liabilities. Therefore, companies with extensive related-party transactions may possess greater opportunities to engage in tax avoidance activities.

This finding supports Agency Theory, which suggests that managers seek to maximize shareholder wealth by reducing corporate costs, including tax expenses. Tax savings generated through transfer pricing arrangements may improve after-tax profitability and increase firm value. Furthermore, the OECD Transfer Pricing Guidelines (2022) recognize that transfer pricing remains one of the primary channels through which multinational enterprises may shift profits internationally when regulatory oversight is insufficient (Vanesha et al., 2025).

The findings are consistent with previous studies. Hidayah & Puspita (2024) identified transfer pricing as a major mechanism used by multinational corporations to minimize global tax burdens. Nguyen & Nguyen (2025) found that multinational firms strategically use transfer pricing to shift profits across jurisdictions. Rosadiya et al. (2022) reported that transfer pricing practices significantly contribute to corporate tax minimization strategies. demonstrated that transfer pricing positively influences tax avoidance among Indonesian companies. Similarly, Illahi et al. (2023) found that firms engaging extensively in related-party transactions tend to exhibit higher levels of tax avoidance.

Given that transfer pricing has the largest regression coefficient among all explanatory variables, the findings suggest that related-party transactions constitute the most influential factor driving tax avoidance practices. Therefore, strengthening transfer pricing regulations, enhancing documentation requirements, and improving the capacity of tax authorities to audit related-party transactions are essential measures to mitigate aggressive tax avoidance practices among multinational corporations.

CONCLUSIONS AND RECOMMENDATIONS

This study looked at how transfer pricing, firm size, and financial difficulty affected Indonesian listed companies' tax evasion. The results show that transfer pricing, firm size, and financial instability all have a positive and significant impact on tax avoidance. These findings suggest that companies with higher levels of related-party transactions, larger organizational sizes, and financial challenges are more likely to employ tax evasion tactics. Transfer pricing was shown to be the most significant factor influencing tax avoidance among the factors analyzed.

The findings contribute to the existing literature by providing empirical evidence supporting Positive Accounting Theory, Political Power Theory, and Agency Theory in explaining corporate tax avoidance behavior in the Indonesian context. Practically, the results suggest that tax authorities should strengthen monitoring efforts, particularly for financially distressed firms, large companies, and firms with significant related-party transactions.

FURTHER STUDY

This study is subject to several limitations, including the use of a limited number of explanatory variables, a focus solely on Indonesian listed companies, and the application of a single proxy to measure tax avoidance. Therefore, future research is encouraged to incorporate additional determinants of tax avoidance, employ alternative measurement proxies, and expand the scope of analysis to different sectors or cross-country settings to provide more comprehensive insights into corporate tax avoidance behavior.

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