THE EFFECT OF EARNINGS MANAGEMENT, PROFITABILITY, LEVERAGE AND TRANSFER PRICING ON TAX AVOIDANCE IN THE P3 SECTOR" (PLANTATION, FORESTRY AND MINING) EMPIRICAL STUDY

Imelda*, Selamet Riyadi, Setyani Dwi Lestari
Faculty of Economics and Business, Universitas Budi Luhur, Jakarta, Indonesia
Email: imelda.iqbal@gmail.com*

Abstract

This study aims to analyze the effect of Earnings Management, Profitability, Leverage and Transfer Pricing on tax avoidance. This research was conducted on companies engaged in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017 to 2021. The type of research used in this study was descriptive qualitative, using 22 samples of companies engaged in the P3 sector with a non- probability method. sampling is a purposive sampling technique. The analysis technique used in this research is panel data regression analysis. The results of the analysis show that Earnings Management, Profitability and Transfer Pricing have no significant effect on tax avoidance by companies operating in the P3 sector while leverage has a significant effect on tax avoidance of companies operating in the P3 sector

Keywords: earnings management; leverage; profitability; tax avoidance; ; transfer pricing

INTRODUCTION

Tax is one of the sources of state revenue that has the largest contribution in the 2020 state budget posture, where in 2020 the tax sector contributes 78.9% percent of total revenue. Various tools used in supervisory activities include sectoral taxpayer supervision and transfer pricing. But most taxpayers still consider tax collection a burden that must be avoided because economically taxes reduce taxes. Studies have shown that tax avoidance can reduce company costs and increase shareholder wealth (Hanlon & Heitzman, 2010). Thus, to determine how much tax avoidance action is required, companies need to exchange the marginal benefits of tax management for the marginal costs of doing so (Chen, Chen, Cheng, & Shevlin, 2010). One of the marginal benefits is greater tax savings, while the marginal costs include potential penalties imposed by the tax administration, implementation costs

(time/ effort and transaction costs of implementing tax transactions), and agency costs that inevitably accompany tax avoidance activities.

Tiaras and Wijaya (2015) shows that earnings management has a significant effect on corporate tax avoidance, in line with the findings of (Amidu, Coffie, & Acquah, 2019; Pajriyansyah & Firmansyah, 2017; Suyanto & Supramono, 2012). However, this is different from the research conducted by (Henny, 2019; Syanthi, Sudarma, & Saraswati, 2013) stated that the old management had no significant effect on tax avoidance. Due to the differences in the results of the test of this variable, the authors took this variable to re-confirm the research conducted previously in addition to the indications of earnings management being used as a tool for tax planning because managers try to manage earnings with tax motivation (Scott, 2015).

Profitability is often used as an

indicator and consideration not only used by investors in investing in a company but also the Directorate General of Taxes to supervise taxpayers and estimate the amount of tax payments of a company. Based on research conducted by (Jaffar, Derashid, & Taha, 2021; Kim & Im, 2017) that profitability affects tax avoidance because companies that earn higher profits pay lower tax rates by doing more planning to reduce the tax burden. However, this study is different from the results of research conducted by Sitorus (2020) which states where ROA has no effect on tax avoidance because the level of profit will make management more conservative towards tax management because the risk of cost and time sacrificed is irrelevant to the findings if Tax Complience is carried out. With the differences in research, the author will re-confirm this variable.

Leverage in a business context it means borrowing capital for business purposes so as to obtain optimal ROI (Return on Investment). According to Sjahrial (2009), leverage means the use of assets and sources of funds by companies that have fixed costs (fixed expenses), so that the source of funds comes from loans because loans have interest as a fixed expense with a view to increasing shareholder potential profits. Thus, DER ratio (Debt to Equity Ratio) for the effect of leverage on tax avoidance because DER is used as one of the analytical tools carried out by the fiscus to measure the fairness of the taxpayer's financial statements attached to the Annual SPT report.

Transfer Pricing is a company policy in determining the transfer price of company transactions in the form of goods (tangible and intangible) and services. Transfer pricing is one of Permatasari and Trisnawati (2022) tax planning strategies. Transfer Pricing practices are carried out in two groups of transactions, namely intra-company and inter-company transfer pricing and can be carried out domestically and internationally involving MNC (Multi National Company) and domestic companies.

According to Hansen and Mowen (2007), transfer pricing is a special selling price set in exchange between divisions recording the revenues and costs of a division. Regulations on transfer pricing in general have been regulated through Article 18 of Law No.36 of 2008 concerning income tax wherein Article 18 paragraph (3) of the Income Tax Law states that the Directorate General of Taxes (DGT) has the authority to re-determine the amount of Taxable Income (PKP) for Taxpayers who have special relationships with other taxpayers in accordance with the fairness and normality of business affected by special relationships (arm's length principle).

The existence of conglomerates and group companies makes this practice easy to do because of the special relationship so that the determination of unreasonable transfer prices between companies is easy to do with profit shifting which in the end saves the group's tax payments. Moreover, transfer pricing has an effect on tax avoidance (Richardson, Taylor, & Lanis, 2013; Sari & Ajengtiyas, 2021).

Tax avoidance as an action to reduce tax obligations carefully by using loopholes in the provisions of tax law (Jacob & Schütt, 2020). Tax avoidance practices that are widely used include transfer pricing, the use of debt instruments and earnings management. Given the importance of the role of taxes to finance development, it requires optimal supervision by the Directorate General of Taxes as an institution tasked with securing tax collection according to the targets planned in the APBN.

This study takes a sampling of companies engaged in the P3 sector (Plantation, Forestry and Mining) which are listed on the IDX. The rationale for taking this sampling is because the P3 sector (Plantation, Forestry and Mining) will support tax revenues in 2021 and there has been a boom in commodity prices lately, even though it is still in a state of the COVID-19 pandemic. Based on the description above, it leads to

the importance of revisiting the factors that influence tax avoidance and the purpose of this study is to find some empirical evidence, (1) analyzing the influence of Earnings Management on Tax Avoidance of companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021, (2) analyzing the effect of Profitability on Tax Avoidance of companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021, (3) analyzing the influence of Leverage on Tax Avoidance of companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021, (4) analyzing the effect of Transfer Pricing on Tax Avoidance of companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021, and (5) analyzing the Effect of Earnings Management, Profitability, Leverage and Transfer Pricing on Tax Avoidance of companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021 simultaneously.

METHOD

The approach used in this research is descriptive quantitative by analyzing the data using statistics and then describing the data that has been collected through the interpretation of the data presented. In this study, the authors conducted an analysis of the determinants (Earnings Management, Profitability, Leverage and Transfer Pricing) selected for the problem taken (Tax avoidance) from secondary data collected on the business sector selected by the researcher. ETR (Effective Tax Rate) is used as an indicator to measure tax avoidance in the P3 sector (Plantation, Forestry and Mining).

In this study, the population is companies that do business in the P3 sector which are listed on the IDX. From data collection for companies engaged in this sector, there are 83 companies that have

been listed before and between 2018 and 2021 (Sugiyono, 2019).

The type of data used in this study is panel data which is a combination of cross section data and time series data, where the same cross section unit is measured at different times. Data processing and testing was carried out statistically using the Eviews 12 program. Researchers used secondary data, namely company financial data that was publicly released through the IDX website, namely https://www.idx.co.id/usaha-tercatat/laporan-keuangan- and-annual/ selected from sectors related to P3 (Plantation, Forestry and Mining).

Descriptive Analysis

Descriptive statistics provide an overview or description of a data seen from the average value (mean), standard deviation, maximum, and minimum. In this study, descriptive statistical analysis focused on the maximum, minimum, mean, and standard deviation values.

Verification Analysis

This analysis aims to determine the relationship between two or more variables, or the method used to test the truth of a hypothesis Sugiyono (2019) where in this study hypothesis testing uses panel data regression. Before calculating the panel data regression, first conducted a test in the panel to use the most appropriate model in testing the hypothesis using panel data regression.

Panel Data Test
1. Chow test

The Chow test is used to determine whether the panel data model is regressed with the common effect model or the fixed effect model (Widarjono, 2017). The hypotheses in this test are as follows:
Ho : Common Effect Model
H1 : Fixed Effect Model

Information :
a) If the probability value of Chi-square

Cross-section <0.05; then Ho is rejected

b) If the probability value of Chi-square Cross-section> 0.05; then Ho is accepted

2. Hausman test

The Hausman test is used to determine whether the panel data model is regressed with a fixed effect model or with a random effect model (Widarjono, 2017). The hypotheses in this test are as follows:

Ho : Random Effect Model

H1 : Fixed Effect Model

Information :

a) If the probability value *Cross-section Chi-square*< 0.05 ; then Ho is rejected

b) If the probability value *Cross-section Chi-square*> 0.05 ; then Ho is accepted

3. Langrange Multiplier Test

This test is used to determine whether the panel data model is regressed with the model *common effect*or by model*random effects* (Widarjono, 2017). The hypothesis in this test is as follows:

Ho : Random Effect Model

H1 : Common Effect Model

Information:

a) If the breusch-pagan probability value < 0.05 ; then Ho is rejected

b) If the breusch-pagan probability value > 0.05; then Ho is accepted

Classic assumption test

Classical assumption test is used to assess the presence or absence of bias on the results of the regression analysis that has been carried out. The classical assumption test consists of normality, heteroscedasticity, autocorrelation and multicollinearity tests (Ghozali, 2013).

1. Normality test

Normality test aims to test whether in a regression model, the dependent variable, the independent variable both have a normal distribution or not. Decision making regarding normality is as follows:

a) If $p < 0.05$ then the data distribution is not normal

b) If $p > 0.05$ then the data distribution is normal

2. Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another observation. If the significance probability is above the confidence level 0.05 then it does not contain heteroscedasticity.

3. Autocorrelation Test

The test that is often used to determine whether or not autocorrelation occurs was developed by statisticians Durbin and Watson known as the Durbin Watson (DW) d statistic test. DW test is done by making a hypothesis:

a) Ho : no autocorrelation (r = 0)

b) Ha : there is autocorrelation (r 0).

The basis for decision making is as follows:

a) If DW < DL, then there is a positive autocorrelation

b) If DL < DW < DU, then there is doubt that autocorrelation occurs

c) If DU < DW < 4-DU, then there is no autocorrelation

d) If 4-DU < DW < 4-DL, then there is doubt that autocorrelation occurs

e) If 4-DL < DW, then there is a negative autocorrelation.

Information : DL = lower limit DW
DU = upper limit DW

4. Multicollinearity Test

Multicollinearity Testaims to determine whether the regression model found a correlation between the independent variables (independent). In this study, the VIF value was used to determine whether in the regression model there was a relationship between the independent variables. If there is no independent variable that has a VIF value > 10, then in the regression model there is no multicollinearity problem.

Hypothesis testing

Hypothesis testing was carried out to

prove the effect of the studied variables. The hypothesis tests used were regression analysis test, T test, F test and the coefficient of determination (R2).

1. **Panel Data Regression Equation Effect of Earnings Management (EM) (X1), Profitability (Prof) (X2), Leverage (LEV) (X3) and Transfer Pricing (TP) (X4) on Effective Tax Rate (ETR) (Y)**

   Panel data regression analysis is used to determine how much influence the independent variable has on the dependent variable. The multiple regression equation used is as follows:

   $$ETRit = +\beta1EMit+\beta2Profit +\beta3LEVit+ 4TPit +eit$$

2. **F test**

   The F statistic test or the feasibility test or Goodness of fit is used to determine whether the independent variable simultaneously affects the dependent variable with a 95% confidence level (α = 0.05). Simultaneous research hypotheses as follows:

   H0 : b1...b4 = 0; Profit management (EM) (X1), Profitability (Prof) (X2), *Leverage* (LEV) (X3) and Transfer Pricing (TP) together not significant effect on Effective Tax Rate (ETR) (Y);

   H0 : b1...b4 ≠ 0; Profit management (EM) (X1), Profitability (Prof) (X2),*Leverage* (LEV) (X3) and *Transfer Pricing*(TP) together significant effect on *Effective Tax Rate* (ETR) (Y).

   With the decision-making conditions:
   a) Prob value (F statistic) < 0.05 (significance level 5%), then H0 is rejected, which means that the independent variables have a significant influence on the dependent variable together.
   b) Prob value (F statistic) > 0.05 (significance level 5%), then H0 is accepted which means that the

independent variables have no effect on the dependent variable together.

3. **T test**

   Partial test (t test) was conducted with the intention of partially testing the effect of the independent variables on the dependent variable with the assumption that other variables are considered constant with a 95% confidence level (α = 0.05). The research hypothesis partially is as follows:

   a) H0 : b1 = 0; Profit management (EM) (X1) does not have a significant effect on *Effective Tax Rate* (ETR) (Y);
   H1 : b1≠ 0; Profit management(EM) (X1) significant effect on *Effective Tax Rate* (ETR) (Y).
   b) H0 : b2 = 0; Profitability (Prof) (X2) does not have a significant effect on *Effective Tax Rate* (ETR) (Y);
   H1 : b2 ≠ 0; Profitability (Prof) (X2) significant effect on *Effective Tax Rate* (ETR) (Y).
   c) H0 : b3 = 0; Leverage (LEV) (X3) does not have a significant effect on *Effective Tax Rate* (ETR) (Y);
   H1 : b3 ≠ 0; Leverage (LEV) (X3) significant effect on *Effective Tax Rate* (ETR) (Y).
   d) H0 : b4 = 0; Transfer Pricing (TP) does not have a significant effect on *Effective Tax Rate* (ETR) (Y);
   H1 : b4 ≠ 0; Transfer Pricing (TP) significant effect on *Effective Tax Rate* (ETR) (Y).

   With the decision-making conditions:
   Prob value (t-statistic) < 0.05 (significance level 5%), then H0 is rejected, which means that the independent variable has a significant effect on the dependent variable partially.
   Prob value (t-statistic) > 0.05 (significance level 5%), then H0 is accepted, which means that the independent variable has no effect on the dependent variable partially.

4. **Determination (R2)**

The coefficient of determination is used to measure how far the model's ability to explain variations in the dependent variable is. The value of the coefficient of determination is between zero and one. A small value of R2 means that the ability of the independent variables in explaining the variation of the dependent variable is very limited. R2 is used to determine how much the independent variable is capable of explaining the dependent variable Widarjono (2017) or in other words how much is the ability of the Earnings Management (EM) variable (X1), Profitability (Prof) (X2), Leverage (LEV) (X3) and Transfer Pricing (TP) in explaining the Effective Tax Rate (ETR) (Y).

RESULTS AND DISCUSSION

A. Data Description

In this study, an analysis will be carried out regarding the effect of Earnings Management (DA), Profitability (ROA), Leverage (DER) and Transfer Pricing (TP) on Tax Avoidance (ETR) in companies included in the P3 sector (Plantation, Forestry and Mining) which listed on the IDX in 2017 – 2021. Before analyzing the factors that are thought to have an effect on tax avoidance, they will first be analyzed descriptively.

Table 1
Descriptive statistics

Variables	Mean	Maximum	Minimum	Std. Deviation	N
Tax Avoidance (ETR)	23.47	47.86	1.75	7.47	110
Earnings Management (DA)	-9.63	32.95	-112.26	31.55	110
Profitability (ROA)	11.23	52.02	1.06	10.72	110
Leverage (DER)	89.76	369.07	2.06	79.34	110
Transfer Pricing (TP)	25.56	86.25	0.000	25.91	110

Source: Processed data (2022)

Based on the results in table 1 the amount of data used is 110 data consisting of 22 companies in 2017-2021 with an explanation of the results of descriptive statistics on each variable as follows:

1. Tax Avoidance (ETR)

Tax avoidance or ETR for companies included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021 has an average of 23.47% with a standard deviation of 7.47%. This shows that the average ratio of P3 sector corporate income tax expense to income before tax reaches 23.47%. standard deviation of 7.47% which shows the level of variation in the distribution of data.

The lowest ETR is a company with a SMAR issuer code of 1.75% in 2017 and the highest ETR is a company with an ITMG issuer code of 47.86% in 2020. The average value of the company's ETR during the 2017 - 2019 range is slightly below the effective tax rate that applies according to the provisions, namely 25% and in 2020 - 2021 some companies have an ETR above the effective tax rate of 22%. This is because in 2017 – 2019 some of these companies still have compensation for losses and payment of other liabilities. The Covid-19 pandemic has caused most companies to experience a decrease in tax payments but the payments are still above the effective tax rate in effect.

2. Earnings Management (DA)

Earnings management or DA in companies included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021 has an average of -9.63% with a standard deviation of 31.55%. The lowest earnings management is the company with the issuer code MDKI of -112.261 in 2017 and the highest DA is the company with the issuer code CEKA which is 32.95% in 2021. The most earnings management is negative, namely – 9.63% which means that the average company does not carry out earnings management.

3. Profitability (ROA)

Profitability or ROA of companies included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021 has an average of 11.23% with a standard deviation of 10.72%. This shows that the average profitability of the P3 sector companies is mostly from the sample of companies that perform poorly with a standard deviation of 10.72%. The lowest profitability is the company with the issuer code TKIM of 1.06% in 2027 and the highest profitability is the company with the issuer code BYAN which is 52.02% in 2021 with the ROA calculation.

4. Leverage (DER)

Leverage or DER for companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021 have an average of 89.76% with a standard deviation of 79.34%. This shows that the average leverage of the P3 sector companies is quite high and the ratio of total debt to equity used by the companies is quite high. This indicates that the average companies in the P3 sector use debt instruments to finance their investment and operational activities. The lowest DER is a company with a TOBA issuer code of 2.06% in 2019 and the highest DER is a company with an ITMG issuer code, which is 369.01% in 2020 with the DER calculation.

5. Transfer Pricing (TP)

Transfer Pricing or TP for companies that are included in the P3 sector (Plantation, Forestry and Mining) listed on the IDX in 2017-2021 have an average of 26.56% with a standard deviation of 25.91%. This shows that the use of Receivable Relations instruments in P3 sector companies is relatively small. The lowest transfer pricing is 0.00007%, namely companies with LSIP issuer codes in 2019 and the highest is LSIP at 86.25% in 2021.

B. Panel Data Estimation Model

Panel data regression is a regression model that uses panel data or data pools from a combination of times series data and cross section data. There are several models that can be used to estimate the panel data, namely the common effect model approach, fixed effect model and random effect model (Widarjono, 2017)

1. Common Effect Model

The Common Effect Model approach assumes that the behavior of data between companies is the same at various times (Widarjono, 2017). Combined data is considered to be part of the unity of observations so that in estimating the parameters of this model, we can use OLS (Ordinary Least Square).

Table 2
Common Effect Model

Dependent Variable: ETR
Method: Least Squares Panel
Date: 07/02/22 Time: 22:03
Sample: 2017 2021
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24,42338	1.538215	15.87774	0.0000
DA	0.018040	0.021704	0.831206	0.4077
ROA	-0.006276	0.065828	-0.095333	0.9242
DER	0.020171	0.008962	2.250641	0.0265
TP	-0.094978	0.027714	-3.427057	0.0009

Source: Data processed 2022

2. Fixed effect model

This approach assumes that there are intercept differences within the firm but the same over time. The regression coefficient (slope) remains between companies and time (Widarjono, 2017).

Table 3

Fixed Effect Model

Dependent Variable: ETR
Method: Least Squares Panel
Date: 07/02/22 Time: 22:03
Sample: 2017 2021
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	22.57026	1.800131	12,53812	0.0000
DA	0.020948	0.017972	1.165596	0.2471
ROA	-0.186099	0.090467	-2.057082	0.0428
DER	0.031894	0.012208	2.612660	0.0106
TP	0.012249	0.041652	0.294088	0.7694

Source: Data processed 2022

3. Random Effect Model

This approach is used to estimate the possibility that the disturbance variables will be interconnected between time and individuals (Widarjono, 2017). The use of this model must meet the requirements, namely the number of cross sections must be greater than the number of research variables.

Table 4
Random Effect Model

Dependent Variable: ETR
Method: Panel EGLS (Cross-section random effects)
Date: 07/02/22 Time: 11:27
Sample: 2017 2021
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.69971	1.847346	12.82906	0.0000
DA	0.018838	0.017627	1.068724	0.2876
ROA	-0.074135	0.072953	-1.016199	0.3119
DER	0.024640	0.010077	2.445057	0.0161
TP	-0.053857	0.032017	-1.682115	0.0955

C. Panel Data Regression Model Structure Test

In the panel data regression model to determine the effect of Earnings Management (DA), Profitability (ROA), Leverage (DER) and Transfer Pricing (TP)

on Tax Avoidance (ETR) in companies included in the P3 sector (Plantation, Forestry and Mining) which listed on the Indonesia Stock Exchange in 2017-2021, the best model to be used will first be selected from 3 models, namely the common effect model, fixed effect model and random effect model. The tests used to select the best model are the Chow test, the Lagrange multiplier test and the Hausman test.

1. Chow test

Chow test was conducted to determine the right model between the common effect or fixed effect. Here are the hypotheses on the chow test:
H0: *common effect* is the best model
H1: *Fixed Effect* is the best model
Test statistical analysis results *chow* using a significant level of 5%.

Table 5
Test Chow

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistics	df	Prob.
Cross-section F	4.324746	(21.84)	0.0000
Cross-section Chi-square	80.623195	21	0.0000

In Table 5 the p-value is 0.000 <0.05 so H0 is rejected and H1 is accepted so that it can be seen that the Fixed effect model is the best model to be used as a panel regression model.

2. Lagrange Multiplier Test

The Lagrange Multiplier test is carried out to determine the right model between common effects or random effects. The following is the hypothesis on the lagrange multiplier test:
H0: Common effect is the best model
H1: Random Effect is the best model
Test statistical analysis result slagrange multiplier using a significant level of 5% can be seen in table 6.

Cross-section random	7.497989	4	**0.1118**

Table 6
Lagrange Multiplier

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Hypothesis Test		
	Cross-section	Time	Both
Breusch-Pagan	23,59601	0.065808	23.66182
	(0.0000)	(0.7975)	(0.0000)
Honda	4.857572	0.256531	3.616217
	(0.0000)	(0.3988)	(0.0001)
King-Wu	4.857572	0.256531	2.178143
	(0.0000)	(0.3988)	(0.0147)
Standardized Honda	5.504626	0.809906	0.482538
	(0.0000)	(0.2090)	(0.3147)
Standardized King-Wu	5.504626	0.809906	-0.304448
	(0.0000)	(0.2090)	(0.6196)
Gourieroux, et al.	--	--	23.66182
			(0.0000)

In Table 6 the p-value obtained is 0.000 <0.05 so that H0 is rejected and H1 is accepted, it can be seen that the Random effect model is the best model to be used as a panel regression model.

3. Hausman test

Hausman test is conducted to determine the right model between random effects or fixed effects. Here are the hypotheses on the Hausman test:

H0: Random effects is the best model
H1: Fixed Effect is the best model
Test statistical analysis results hausman using a significant level of 5% can be seen in table 7.

Table 7
Hausman test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.

In Table 7 the p-value obtained is 0.1118 > 0.05 so that H0 is accepted and H1 is rejected, it can be seen that the random effects model is the best model to be used as a panel regression model. Table 4.15 is a summary of the final model used, namely the Random effect model because the majority of the 3 tests chose the Random effect model as the best model.

Table 8
Panel Data Estimation

Determinants of the Estimated Model (ETR)		
Chow test	Lagrange Test	Hausman test
Fixed effect	*Random effects*	*Random effects*
Estimation model used:		
Random effects		

Source: Processed data (2022)

D. Classic assumption test

Classical assumption test is used to determine whether the regression model shows a significant and representative relationship. The classical assumption tests performed were normality, multicollinearity and heteroscedasticity tests.

1. Normality test

The normality test was carried out to determine the distribution of a residual from the regression model of the influence of Earnings Management (DA), Profitability (ROA), Leverage (DER) and Transfer Pricing (TP) on Tax Avoidance (ETR) in companies included in the P3 sector (Plantation, Forestry). and Mining) which are listed on the IDX in 2017 – 2021 have a normal distribution or not. The normality test will use the probability value of Jarque Bera. A data is normally distributed if it has a Sig value > 0.05. Table 4.16 shows that the research data is

normally distributed because it has a value of Sig (0.091) > 0.05.

Table 9
Normality test

Jarque-Bera	Sig	Information
4,778	0.0917	Normal Distribution

Source: Processed data (2022)

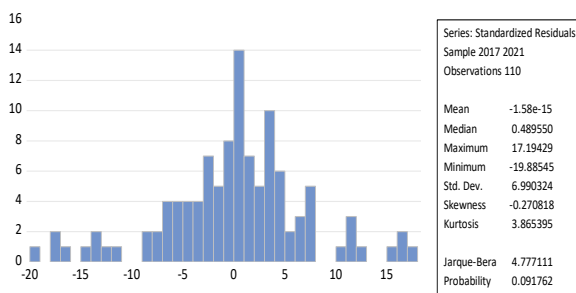|	Series: Standardized Residuals
	Sample 2017 2021
	Observations 110
Mean	-1.58e-15
Median	0.489550
Maximum	17.19429
Minimum	-19.88545
Std. Dev.	6.990324
Skewness	-0.270818
Kurtosis	3.865395
Jarque-Bera	4.777111
Probability	0.091762

Figure 1. Normality Test Histogram Image

2. Multicollinearity Test

The multicollinearity test aims to find out whether there is a correlation (strong relationship) between the independent variables (Independent). A good regression model should not have a correlation between the independent variables or there should be no multicollinearity. How to check the case of multicollinearity is by looking at the VIF value > 10. In table 15 it can be seen that the data does not have a VIF value of more than 10 so that there are no cases of high correlation or multicollinearity between independent variables in the ETR regression model.

Table 10
Multicollinearity Test

Variance Inflation Factors
Date: 07/02/22 Time: 11:37
Sample: 2017 2021
Included observations: 110

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	3.412686	2.662131	NA
DA	0.000311	1.024449	1.001969
ROA	0.005322	1.535757	1.012144
DER	0.000102	1.672406	1.034112
TP	0.001025	1.586498	1.022251

Source: Processed data (2022)

3. Heteroscedasticity Test

Heteroscedasticity test was conducted to determine the existence of deviations from the requirements of classical assumptions in linear regression. To find out whether there is heteroscedasticity, the Glejser test can be carried out, namely by regressing the absolute value of the residual on the independent variable. If the significance probability is above the 0.05 confidence level, it does not contain heteroscedasticity.

Table 11
Heteroscedasticity Test

Dependent Variable: ABSRESSION
Method: Panel EGLS (Cross-section random effects)
Date: 07/04/22 Time: 11:39
Sample: 2017 2021
Periods included: 5
Cross-sections included: 22
Total panel (unbalanced) observations: 109
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.079975	1.190987	4.265347	**0.0000**
DA	0.006517	0.014049	0.463902	**0.6437**
ROA	-0.061366	0.050060	-1.225848	**0.2230**
DER	0.004442	0.006937	0.640259	**0.5234**
TP	0.014841	0.021722	0.683252	**0.4960**

Source: Processed data (2022)

In table 11 the results of the probability value (F-Statistic) on the variables DA, ROA, DER and TP > 0.05 so it can be concluded that the panel data regression model on the ETR variable of the P3 sector companies in 2017-2021 does not have heteroscedasticity symptoms.

4. Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between the confounding error in period t and the error in period t-1. A good regression model is one that is free of autocorrelation. To detect autocorrelation, it can be done through the Durbin-Watson test. DW test is done by making a hypothesis:

Ho : no autocorrelation (r = 0)

Ha : there is autocorrelation (r 0).

The basis for decision making is as follows:

a) If DW < DL, then there is a positive autocorrelation
b) If DL < DW < DU, then there is no doubt that autocorrelation occurs
c) If DU < DW < 4-DU, then there is no autocorrelation
d) If 4- DU < DW < 4-DL, then there is no doubt that autocorrelation occurs
e) If 4-DL<DW, then there is a negative autocorrelation.

Information :

DL = lower limit DW

DU = upper limit DW

DW = Durbin Watson

The following is the result of the autocorrelation calculation using the Durbin Watson value:

Table 12
Durbin Watson Statistical Test

Durbin-Watson stat	Information
1,829	No Autocorrelation

Based on the results of the Durbin Watson test with the amount of data (n) = 110 at a significant level = 5% and k = 5 independent variables, it is obtained that the value of DL = 1.614 and DU = 1.765 According to the provisions of the Durbin Watson test if the Durbin-Watson value is between the values of dU and 4 -dU (1.765 < 1.829 < 2.235), it can be concluded that there is no autocorrelation in the regression model.

E. Panel Data Regression Equation

Panel data regression is a combination of cross section data and time series data, where the same cross section unit is measured at different times. So in other words, panel data is data from the same individuals who are observed over a certain period of time. The following are the results of the estimation of the influence of Earnings Management (EM) (X1), Profitability (Prof) (X2), Leverage (LEV) (X3) and Transfer Pricing (TP) (X4) on the Effective Tax Rate (ETR) (Y) using Random Effect Models:

Table 13
Coefficient of Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	**23.69971**	1.847346	12.82906	0.0000
DA	**0.018838**	0.017627	1.068724	0.2876
ROA	**-0.074135**	0.072953	-1.016199	0.3119
DER	**0.024640**	0.010077	2.445057	0.0161
TP	**-0.053857**	0.032017	-1.682115	0.0955

The panel data regression equations compiled from the analysis are as follows:

ETRit = 23.69 +0.018Emit) − 0.074 (Profit) +0.024 (LEVit) − 0.053 (Tpit) + eit

Information :

ETRit = Tax Avoidance

EMit = Earnings Management

Profit = Profitability

LEVit = Leverage

Tpi t = Transfer Pricing

= Constant

eit = Error or Interruption Variable

1, 2, 3, 4 = Regression coefficient

The above equation can be interpreted as follows:

1) is 23.69 which means if Earnings Management (EM) (X1), Profitability (Prof) (X2), Leverage (LEV) (X3) and Transfer Pricing (TP) (X4) are zero, then Tax Avoidance (ETR) (Y) will be worth 23.69 units.

2) The regression coefficient of the Earnings Management (EM) (X1) variable is 0.018, which means that if there is an increase in Earnings Management (EM) (X1) by 1 unit (assuming other variables are constant), then Tax Avoidance (ETR) (Y) will increase. as big as0.018unit.

3) The regression coefficient of Profitability (Prof) (X2) variable is -0.074 which means if there is a change in Profitability (Prof) (X2) by 1 unit (assuming other variables are constant), then Tax Avoidance (ETR) (Y) will decrease by -0.074 units.

4) The regression coefficient of the Leverage (LEV) (X3) variable is 0.024, which means that if there is a change in the increase in Leverage (LEV) (X3) by 1 unit (assuming other variables are constant), then Tax Avoidance (ETR) (Y) will increase by 0.024 unit.

5) The regression coefficient for the Transfer Pricing (TP) variable is -0.053, which means that if there is a change in the Transfer Pricing (TP) (X4) by 1 unit (assuming other variables are constant), then Tax Avoidance (ETR) (Y) will decrease by - 0.053 units.

F. Hypothesis test

Hypothesis testing aims to measure the effect of Earnings Management (DA), Profitability (ROA), Leverage (DER) and Transfer Pricing (TP) on Tax Avoidance (ETR) in companies included in the P3 sector (Plantation, Forestry and Mining) registered in IDX 2017-2021 partially or simultaneously. The hypothesis test used consisted of F test and T test.

1. F test

The F statistical test or the feasibility test or Goodness of fit was used to test whether there was a simultaneous significant effect on the ETR regression model. The significance

level (α) used in this study was 5%. This means that if the p-value (Sig) <5%, the independent variable as a whole has an influence on the dependent variable and is feasible to use.

Table 14
F test

Dependent Variable: ETR
Method: Panel EGLS (Cross-section random effects)
Date: 07/02/22 Time: 11:27
Sample: 2017 2021
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.69971	1.847346	12.82906	**0.0000**
DA	0.018838	0.017627	1.068724	**0.2876**
ROA	-0.074135	0.072953	-1.016199	**0.3119**
DER	0.024640	0.010077	2.445057	**0.0161**
TP	-0.053857	0.032017	-1.682115	**0.0955**

Effects Specification			
		SD	Rho
Cross-section random		4.702043	0.4205
Idiosyncratic random		5.519699	0.5795

Weighted Statistics			
MSE root Mean dependent var	5.481885	R-squared	0.088831
SD dependent var	10.90788	Adjusted R-squared	**0.054120**
Sum squared resid	5.769173	SE of regression	5.610888
Durbin-Watson stat	3305,617	F-statistics	2.559155
	1.829393	Prob(F-statistic)	0.042858

In Table 14 obtained the value of F count (3.703) > F table (4.105) (2.458) or the value of Sig (0.0428) <0.05, which means H0 is rejected and H1 is accepted. This means that there is a significant effect of the variable earnings management, profitability, leverage and transfer pricing simultaneously on tax avoidance of P3 sector companies, so that Hypothesis 5 is accepted.

2. T test

T test or partial test is used to test how the influence of each independent variable (Independent) namely earnings management, profitability, leverage and transfer pricing individually on the dependent variable (dependent) namely tax avoidance. The significance level applied is 5%, so if the value of Sig < 0.05 then the independent variable individually has a significant influence on the dependent variable. T test results can be seen in the following table:

Table 16
T test

Dependent Variable: ETR
Method: Panel EGLS (Cross-section random effects)
Date: 07/02/22 Time: 11:27
Sample: 2017 2021
Periods included: 5
Cross-sections included: 22
Total panel (balanced) observations: 110
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.69971	1.847346	12.82906	0.0000
DA	0.018838	0.017627	1.068724	0.2876
ROA	-0.074135	0.072953	-1.016199	0.3119
DER	0.024640	0.010077	2.445057	0.0161
TP	-0.053857	0.032017	-1.682115	0.0955

Effects Specification		
	SD	Rho
Cross-section random	4.702043	0.4205
Idiosyncratic random	5.519699	0.5795

Weighted Statistics			
MSE root	5.481885	R-squared	0.088831
Mean dependent var	10.90788	Adjusted R-squared	0.054120
SD dependent var	5.769173	SE of regression	5.610888
Sum squared resid	3305,617	F-statistics	2.559155
Durbin-Watson stat	1.829393	Prob(F-statistic)	0.042858

a) Earnings Management (DA)

Earnings management has a positive coefficient value of 0.018 with a sig value of 0.2876 > 0.05 or t count 1.068 < t table (105) 1.98. This shows that H0 is accepted and H1 is rejected, which means that the Earnings Management variable has no partial effect on tax avoidance and is not in accordance with the proposed hypothesis, meaning that hypothesis 1 is not accepted.

b) Profitability (ROA)

Profitability has a negative coefficient value of -0.074 with a sig value of 0.3119 > 0.05 or t count -1.016 < t table (105) -1.98. This shows that H0 is accepted and H1 is rejected, which means that the profitability variable has no partial effect on tax avoidance and is not in accordance with the proposed hypothesis, meaning that hypothesis 2 is not accepted.

c) Leverage (DER)

Leverage has a positive coefficient value of 0.020 with a sig value of 0.0265 <0.05 or t count 2.445 > t table (105) 1.98. This shows that H0 is rejected and H1 is accepted, which means that the leverage variable has a partial effect on tax avoidance and is in accordance with the proposed hypothesis, meaning that hypothesis 3 is accepted.

d) Transfer Pricing (TP)

Transfer Pricing has a negative coefficient value of -0.053 with a sig value of 0.095 > 0.05 or t count -1.682 < t table (105) -1.98. It means that the transfer pricing variable has no partial effect on tax avoidance in a negative direction so that H0 is accepted and H1 is rejected, so that Hypothesis 4 is not accepted.

3. Coefficient of Determination (R2)

The coefficient of determination is used to measure how much influence the independent variable has on the dependent variable in the study. The greater the R-Square value is close to one, the ability of the independent variable to explain the dependent variable is very

informative. Table 4.22 shows an R-Square of 8.8% so it can be concluded that the variables of earnings management, profitability, leverage and transfer pricing are able to explain the dependent variable, namely ETR of 8.8% while the remaining 91.2% is explained by other variables outside of this study.

G. Discussion

1. The Influence of Profit management to Tax evasion

Earnings Management Variable (X1) has a coefficient value of 0.018 with a significance probability of 0.028. The significance value is greater than the significance level (α) of 0.05 so that X1 is rejected. Thus it can be said that Earnings Management has no significant effect on the direction of the Positive relationship to Tax Avoidance. Therefore, H1: Earnings Management has a positive effect on Tax Avoidance is rejected. The results show that earnings management has no effect on tax avoidance by companies in the P3 sector. This means that P3 sector companies are considered to prefer to use earnings management for accounting purposes by increasing commercial profits rather than for tax purposes. In addition, the sample companies are companies listed on the Stock Exchange so that the Company will try to display financial statements with the best performance because all parties need information from the financial statements so that the presentation of information in the financial statements is required to comply with applicable regulations including in accordance with tax provisions. The results of this study are supported by research conducted by Lee and Swenson (2011) who conducted research on earnings management on discretionary spending in America, The results of other studies which show that

Earnings Management has no effect on tax avoidance are research conducted by Henny (2019) and Syanthi et al. (2013) because the company is proven not to do earnings management in tax planning because companies that carry out earnings management will have higher profits. persistent compared to companies that do not perform earnings management. In addition, Sari and Ajengtiyas (2021) who took a sample of mining companies on the IDX produced the same results where earnings management had no effect on tax avoidance because earnings management did not affect management's decision to carry out tax planning which would minimize the tax burden. However, the results of this study contradict those of (Amidu et al., 2019; Pajriyansyah & Firmansyah, 2017; Tiaras & Wijaya, 2015). The difference in this research is because the research concludes that earnings management carried out by companies in the form of income decreasing is aimed at avoiding government regulations where these regulations are directly related to company profits so that earnings management actions carried out by companies are more towards tax management so that the tax burden paid by the company is reduced. In addition, the difference in reporting according to accounting and tax is a gap to carry out earnings management, but because of the pressure to show good company performance there will be a conflict of interests of the company to carry out management profit for tax purposes (Pajriyansyah & Firmansyah, 2017). The difference in this research is because the research concludes that earnings management carried out by companies in the form of income decreasing is aimed at avoiding government regulations where these regulations are directly related to

company profits so that earnings management actions carried out by companies are more towards tax management so that the tax burden paid by the company is reduced.

2. The Effect of Profitability on Tax Avoidance

Profitability variable (X2) has a coefficient value of -0.074 with a significance probability of 0.3119. The significance value is greater than the significance level (α) of 0.05 so that X2 is rejected. Thus, it can be said that profitability has no significant effect on the direction of the negative relationship to tax avoidance. Therefore, H1: Profitability has a positive effect on tax avoidance. As the company's ability to generate profits increases, the company's operating profit will also increase and taxes payable will also increase. The results of this study reveal the behavior of ROA which has a negative relationship with Tax Avoidance. The direction of the negative relationship means that Profitability has a behavior that is not in the direction of Tax Avoidance (ETR) where when ROA increases, Tax Avoidance will decrease and vice versa if ROA decreases, Tax Avoidance will increase. The results of this study are supported by research conducted by Mbroh, Monney, and Bonsu (2019) which examines the relationship between tax avoidance and corporate profitability in the country of Ghana resulting in a negative relationship between tax avoidance and profitability (ROA) because good corporate governance is required to generate profitability compared to do tax evasion.

However, the results of this study contradict those of Jaffar et al. (2021) and Kim and Im (2017). The difference in the interpretation of the research results is because according to Jaffar et

el (2021) who examined companies in Malaysia that generate higher profits pay lower tax rates because these companies do more tax planning to reduce the tax burden. The company focuses on developing a tax strategy to reduce its income tax liability but not on profits in its financial statements.

3. The Effect of Leverage on Tax Avoidance

Profitability variable (X3) has a coefficient value of 0.024 with a significance probability of 0.095. The significance value is smaller than the significance level (α) of 0.05 so that X3 is accepted. Thus, it can be said that leverage is significant with a positive relationship towards tax avoidance. Therefore, H1: l Leverage has a positive effect on tax avoidance. As the company's debt increases, the interest expense that must be paid increases and this increase in interest expense naturally causes additional costs which ultimately reduce taxable income. The results of this study reveal the behavior of DER which has a direct relationship with Tax Avoidance. The direction of the unidirectional relationship means that an increase in leverage will affect an increase in tax avoidance (ETR becomes smaller) and vice versa, a decrease in DER will reduce tax avoidance (ETR will be larger). Leverage reflects the complexity of a financial transaction where high leverage increases the company's ability to avoid taxes Pajriansyah (2017). In addition, there are indications that companies that have a high tax burden will tend to finance debt to reduce the tax burden through interest payments because the capital structure of equity financing does not receive tax incentives in Indonesia. The results of this study are in line with those carried out by (Kim & Im, 2017;

Pajriyansyah & Firmansyah, 2017) but different from the research conducted by Tiaras and Wijaya (2015) and Jaffar et al. (2021). This difference is due to differences in interpretation which state that the company does not use debt to avoid tax. Research conducted by Ugbogbo, Omoregie, and Eguavoen (2019) which examines the determinants of tax avoidance in Nigeria makes the hypothesis that leverage does not affect tax aggressiveness because companies that have high leverage are not directly motivated to do tax avoidance and other studies show that there is no significant effect of leverage on tax avoidance against companies that take advantage of tax shelters. This difference is due to differences in interpretation which state that the company does not use debt to avoid tax. Research conducted by Ugbogbo, Omoregie, and Eguavoen (2019) which examines the determinants of tax avoidance in Nigeria makes the hypothesis that leverage does not affect tax aggressiveness because companies that have high leverage are not directly motivated to do tax avoidance and other studies show that there is no significant effect of leverage on tax avoidance against companies that take advantage of tax shelters. This difference is due to differences in interpretation which state that the company does not use debt to avoid tax. Research conducted by Ugbogbo, Omoregie, and Eguavoen (2019) which examines the determinants of tax avoidance in Nigeria makes the hypothesis that leverage does not affect tax aggressiveness because companies that have high leverage are not directly motivated to do tax avoidance and other studies show that there is no significant effect of leverage on tax avoidance against companies

that take advantage of tax shelters.

4. The Effect of Transfer Pricing on Tax Avoidance

The Transfrer Pricing (X4) variable has a coefficient value of -0.053 with a significance probability of 0.095. The significance value is greater than the significance level (α) of 0.05, meaning that the Transfer Pricing variable does not significantly affect tax avoidance in a negative direction. Therefore, H1: l Transfer has a positive effect on Tax Avoidance is rejected. This negative direction indicates that an increase in Transfer Pricing activities will reduce tax avoidance activities (ETR will increase). Taxpayers engaged in the P3 sector have a tendency to carry out Transfer Pricing using relational receivables instruments but with other accounting purposes that will increase asset capitalization as a group so that overall company performance looks good. This is inseparable because the samples taken are companies that have been listed on the stock exchange because their financial statements are exposed to all parties so that the company will display the best performance of their company. This research is supported by research conducted by Widyanto, Kristanto, and Sucahyo (2019) which results in the conclusion that transfer pricing has no effect on tax avoidance due to tax policies issued by the government that provide tax incentives to avoid transfer pricing, namely the tax amnesty program that makes several companies deposit their funds abroad. repatriate assets to Indonesia. There has been an increase in supervision over Transfer Pricing transactions conducted by the Directorate General of Taxes in recent years with the issuance of Regulation No. PMK.

213/PMK. 03/2016 which requires companies to disclose affiliate transactions through TP DOC and the regulatory procedures that adopt the OECD Guidelines play a role in reducing transfer pricing practices in Indonesia. However, it is different from the results of research conducted by Amidu et al. (2019) and Sari and Ajengtiyas (2021). the company operates in many countries and has a tendency to exploit loopholes in tax laws that differ between countries.

5. **Effect of Earnings Management, Profitability, Leverage and Transfer Pricing on tax avoidance**

Earnings Management, Profitability, Leverage and Transfer Pricing variables simultaneously affect tax avoidance with a probability value of 0.04and an R-Square of 8.8%, which means that the determinant of tax avoidance from this research model is only able to explain 8.8% and the remaining 91.2%. influenced by other variables. The low value of R-Square is due to the large number of selected independent variables that have less significant effect on tax avoidance.

Earnings Management Variable; based on the significance test Earnings management has no effect on tax avoidance and from descriptive statistical data the average company that performs earnings management is -9.63%. The negative coefficient indicates that the average company does not carry out earnings management.

Profitability Variable; based on the significance test Profitability has no effect on tax avoidance and from descriptive statistical data the average company that performs well is 11.93%. With the company's performance tht is not too good but the company has an average tax payment above the

effective tax rate in effect in 2020-2021 where the average effective tax rate for P3 sector companies is 23.5% while the applicable tax rate is 22%.

Variable Leverage; based on the significance test, it is known that leverage has a significant effect on tax avoidance because the average descriptive statistics of companies engaged in this sector have a large debt of 79.34%. The large leverage of companies engaged in this sector cannot be separated from the high financing for capital expenditure needs, especially for land acquisition and the company's initial investment costs. From the data recap, almost all companies engaged in this sector have large affiliated and non-affiliated debts, causing interest payments which naturally reduce the amount of taxable income that must be paid by the company.

Variable Transfer Pricing; based on the significance test of transfer pricing, it has no effect on tax avoidance and from descriptive statistical data the average transfer pricing of the company is 26.56%. This shows that the transaction of relational receivables has no effect on the company's taxable profit because some of the relational receivables are ultimately not aimed at tax avoidance but rather for other accounting purposes. The sensitivity of the transfer pricing measure can be measured with another approach as has been done by Richardson et al. (2013) who studied the determinants of the aggressiveness of transfer pricing in Australia by making a more complex equation including the control variable of the industrial sector and the independent variable of profitability, intengible assets, MNC, Leverage, tax heaven utility. The same thing as done by (Amidu et al., 2019) who examined

the relationship between transfer pricing and tax avoidence in the country of Ghana which used a similar approach to Richardson et al. (2013) but by adding control variables for firm age and liquidity. In addition to the similarity of the variables used in the measurement of the two studies, the sample is companies that operate in a multinational manner.

CONCLUSION

Earnings Management has no significant effect on the direction of the Positive relationship to Tax Avoidance. This means that P3 sector companies are considered to prefer to use earnings management for accounting purposes by increasing commercial profits rather than for tax purposes.

Profitability has no significant effect on tax avoidance because the higher the profitability of companies in the P3 sector increases the amount of tax payments to taxpayers in this sector. Companies prefer to do tax planning for their tax obligations to the maximum when they have good profitability to avoid the costs incurred when compliance is carried out by the DGT.

Leverage effect on tax avoidance because companies use more debt instruments in financing investment and working capital because debt will generate interest expense which naturally will reduce taxable profit.

Transfer Pricing does not have a significant effect on tax avoidance. This shows that taxpayers engaged in the P3 sector carry out transfer pricing through relational receivables instruments not with the aim of tax avoidance but more for other accounting purposes such as transfers between business units of one group which will increase asset capitalization so that the company's performance will look good.

Earnings Management, Profitability, Leverage and Transfer Pricing variables simultaneously affect the tax avoidance of companies engaged in the P3 sector listed on the IDX.

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