

Transfer Pricing, Political Connection, and Tax Avoidance: An Empirical Study on Energy Companies in Indonesia

Alfina Farasandi ^{1*}, Agoestina Mappadang ²

¹ Prodi Magister Akuntansi; Universitas Budi Luhur; Jalan Ciledug Raya, Petukangan Utara, Jakarta Selatan, 12260; e-mail: 2332600200@student.budiluhur.ac.id

² Prodi Magister Akuntansi; Universitas Budi Luhur; Jalan Ciledug Raya, Petukangan Utara, Jakarta Selatan, 12260; e-mail: gustinam7808@gmail.com

* Korespondensi: e-mail: 2332600200@student.budiluhur.ac.id

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Abstract: *This research is important considering the rampant practice of tax avoidance in the energy sector that has an impact on state revenue. The aim is to test the influence of transfer pricing and political connections on tax avoidance, as well as the role of foreign ownership moderation. Using a quantitative approach, secondary data on energy companies listed on the IDX (2021–2024) were analyzed by regression panel data and MRA. The results showed that transfer pricing had a significant positive effect on tax avoidance, while political connections were not significant. Foreign ownership fails to moderate both relationships. These findings strengthen the agency theory by showing that managerial incentives in transfer pricing are more dominant than political or ownership factors. The novelty of the research lies in the integration of three strategic variables in the context of Indonesia's post-pandemic energy sector. The main contribution is policy recommendations for tax authorities to strengthen supervision of transactions between related parties, as well as for foreign investors to improve governance transparency. This study fills a gap in the literature on the dynamics of foreign ownership moderation in aggressive taxation practices in emerging markets.*

Keywords: *Transfer Pricing; Political Connections; Tax Avoidance; Foreign Ownership*

1. Introduction

Taxes are a very important source of state revenue to finance development and reduce budget deficits. However, optimizing tax revenue in Indonesia still faces challenges, as reflected in the low national tax ratio, which only reaches 10.08% in 2024, even though post-pandemic economic activity is starting to recover (Ministry of Finance of the Republic of Indonesia, 2024). One of the factors causing the low tax contribution is the tax avoidance practice carried out by companies.

Tax avoidance is generally carried out through tax planning strategies that take advantage of regulatory loopholes without directly violating the law (Irawan et al., 2020; Rini et al., 2022). This practice is widely carried out at the multinational

corporate level, particularly through the transfer pricing mechanism, which is pricing in cross-border affiliate transactions that allows companies to move profits to jurisdictions with lower tax rates (OECD, 2022).

In addition, political connections also have the potential to influence tax avoidance practices. Companies that have ties to politicians or government officials can get special treatment, including weaker tax oversight, thus encouraging tax avoidance (Faccio, 2006; Firmansyah et al., 2022). Previous research has shown that political connections can strengthen tax avoidance opportunities (Kim et al., 2011), although there are other findings that show different results (Sudiartana et al., 2021; Suhardianto et al., 2020).

In the context of Indonesia, the energy sector is one of the most vulnerable sectors to tax avoidance practices. This is due to the complex characteristics of cross-border transactions and dependence on exploration and production permits from the government. Several major cases, such as alleged tax evasion by PT Adaro Energy Tbk and PT Kaltim Prima Coal, show the potential for significant state losses due to transfer pricing practices and tax evasion in this sector (Global Witness, 2019; DGT, 2023).

Another factor that is also important to consider is foreign ownership. Foreign investors play a significant role in the corporate ownership structure in Indonesia, including in the energy sector. Foreign ownership has the potential to strengthen tax avoidance practices through access to global transfer pricing schemes (Suranta et al., 2020; Shi et al., 2020). However, on the other hand, foreign investors also face stricter global governance pressures that can suppress tax avoidance practices (Laksana et al., 2023; Muji & Waluyo, 2024). These differences in findings suggest that foreign ownership has ambivalent potential, both strengthening and weakening the influence of transfer pricing and political connections on tax avoidance.

Although there is a lot of research on tax avoidance, most still test the variables of transfer pricing, political connections, and foreign ownership separately. Research that integrates these three variables, especially by placing foreign ownership as a moderation variable, is still very limited in Indonesia. Therefore, this study aims to examine the influence of transfer pricing and political connections on tax avoidance, as well as analyze the role of foreign ownership as a moderation variable in energy sector companies listed on the Indonesia Stock Exchange for the 2021–2024 period.

This research is expected to make a theoretical contribution in enriching the accounting and taxation literature, especially related to agency theory and stakeholder theory. Practically, the results of this study are expected to be useful for regulators in strengthening tax policies as well as for companies and investors in understanding governance risks related to tax avoidance practices.

In the context of energy sector companies in Indonesia, how do transfer pricing practices and political connections affect the rate of tax evasion? In addition, does foreign ownership play a role as a moderation variable that can strengthen or weaken the relationship between transfer pricing and political connections to tax avoidance? This study aims to uncover the dynamics of these three variables in order to provide relevant empirical evidence for the development of agency theories and the formulation of more effective tax policies in emerging markets.

The following is a hypothesis formulation that is strictly adjusted to the content of Alfina Farasandi's thesis, including theory, relationships between variables, support for previous research, and the soundness of the hypothesis.

Transfer Pricing has a Positive Effect on Tax Avoidance.

Based on Agency Theory (Jensen & Meckling, 1976), managers as agents have incentives to maximize corporate profits or personal interests, including through aggressive taxation strategies. Transfer pricing allows the manipulation of transaction prices between affiliated entities to shift profits to low-tax jurisdictions, thereby reducing the tax burden in a legal but aggressive manner. In this context, managers use transfer pricing as a tool to engineer financial statements for short-term gains, even if it has the potential to harm the long-term owner or the company's reputation.

The higher the intensity of transactions with related parties (affiliates), the greater the opportunity for the company to engineer profits through unreasonable pricing, which ultimately lowers the Effective Tax Rate (ETR) and increases the tax avoidance rate.

Research by Amanda & Carolina (2021) and Amidu et al. (2019) found that transfer pricing has a significant positive effect on tax avoidance. In Indonesia, Laksana et al. (2023) and Azis (2024) also proved the same, especially in the energy sector, which has a complex multinational affiliation structure. Although there are studies such

as Rini et al. (2022) that have found negative influences, the majority of empirical evidence supports positive relationships.

H1: Transfer pricing has a significant positive effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the 2021–2024 period.

Political Connections Have a Positive Effect on Tax Avoidance

Based on Stakeholder Theory and *the Resource Dependency* approach, companies with political connections are expected to have privileged access to policy information, fiscal incentives, or even protection from strict tax audits. However, this theory also implies that politically connected companies may be more careful to maintain social legitimacy and good relations with the government, so as not to necessarily aggressively evade taxes.

Political connections are supposed to provide "informal protections" that allow companies to avoid taxes with a lower risk of sanctions. However, in the context of increasingly transparent governance and reputational pressure, this relationship can be neutral or even negative.

The empirical results are very mixed. Firmansyah et al. (2022) and Kim et al. (2011) found a positive influence, while Putra & Suhardianto (2020) and Sudiartana (2021) actually found a negative influence. Research by Lase & Subroto (2023) supports H2, but Harymawan et al. (2021) show that political connections actually make companies more tax-compliant to maintain their image.

H2: Political connections have a significant positive effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the 2021–2024 period.

Foreign Ownership moderates the relationship between Transfer Pricing and Tax Avoidance.

The role of foreign ownership is ambivalent, as described in Institutional Theory and Legitimacy Theory. On the one hand, foreign investors have access to a global network and expertise in designing sophisticated transfer pricing schemes, thereby strengthening the link between transfer pricing and tax avoidance. On the other hand, global reputational pressures, international governance standards (such as the OECD), and strict oversight from the parent company can weaken such aggressive tendencies.

Foreign ownership can strengthen (if the goal is global tax efficiency) or weaken (if the goal is compliance and reputation) the impact of transfer pricing on tax

avoidance. In the Indonesian context, this moderation effect has not been consistent due to weak law enforcement and the complexity of ownership structures.

Fitriani (2021) and Desai et al. (2006) support that foreign ownership strengthens tax avoidance through transfer pricing. However, Maryati (2020) and Wulandari (2023) found no significant moderation effect. Research by Suranta et al. (2020) shows that foreign ownership actually encourages tax avoidance, while Muji & Waluyo (2024) found that it has no effect.

H3: Foreign ownership moderates (strengthens or weakens) the relationship between transfer pricing and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the 2021–2024 period.

Foreign Ownership moderates the relationship between Political Connections and Tax Avoidance.

Based on Institutional Theory, foreign investors tend to come from countries with strict regulations and high ethical standards. They usually have no local political connections and instead avoid reputation-risking practices, including the exploitation of political connections for tax gains. Therefore, foreign ownership is supposed to weaken the relationship between political connections and tax avoidance. However, if foreign investors actually take advantage of local connections for strategic advantages, then the effect can be positive.

Foreign ownership is expected to be a "brake" on opportunistic practices made possible by political connections, due to the pressure to comply with global standards and avoid scandal. However, in practice, these controls may not be effective if local management is still dominant.

Rahmasari (2023) and Yulistia et al. (2020) found that foreign ownership does not moderate this relationship. Leuz & Oberholzer-Gee (2006) and Chen et al. (2006) show that foreign investors tend to suppress practices based on political relations for the sake of transparency. However, empirical evidence in Indonesia is still very limited and inconsistent.

H4: Foreign ownership moderates (strengthens or weakens) the relationship between political connections and tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the period 2021–2024.

2. Research Methods

This research is a causal-associative quantitative research, which is a study that aims to analyze the influence of independent variables on dependent variables, as well as examine the role of moderation variables in strengthening or weakening these relationships (Sugiyono, 2020). The quantitative approach was chosen because it allows empirical testing of hypotheses through statistical analysis of measurable numerical data.

The population in this study is all energy sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period, totaling 66 companies. Samples were selected using the purposive sampling technique with the following criteria:

Table 1. Sample Criteria

No	Sample Inclusion Criteria
1	Energy sector companies that are consistently listed on the IDX during 2021–2024.
2	Have complete financial statements that are available on the official IDX or IDX website.
3	No net loss during the research period (profit before tax > 0).
4	Have foreign ownership data and verifiable political connection information.

Based on the criteria above, 25 companies were obtained, so that the total observations in this study were 100 observations (25 companies × 4 years).

This study uses secondary data obtained from:

- a. The annual financial report of the sample company is published on the official website of the IDX (www.idx.co.id).
- b. Profile information of directors and commissioners to identify political connections, verified through the website of the House of Representatives of the Republic of Indonesia (www.dpr.go.id), political party websites, and official media.
- c. Foreign share ownership data is taken from securities ownership reports published on the IDX website.

The variables in this study consist of dependent, independent, and moderating variables. The operational definitions and measurement proxies are presented in the following table:

Table 2. Variable Operations

Variabel	Operational Definition	Measurement Proxies	Source
Tax Avoidance (TA)	The company's efforts to reduce the tax burden legally through the use of regulatory loopholes without violating the law.	Effective Tax Rate (ETR) = Total Tax Expense / Profit Before Tax	Sherly (2022); Delgado et al. (2023)
Transfer Pricing (TP)	Pricing in transactions between affiliated entities within a single group of companies, which could potentially be used to shift profits to low-tax jurisdictions.	Ratio of Receivables to Related Parties = Receivables to Related Parties / Total Receivables	Jaafar & Thornton (2015); Laksana et al. (2023)
Political Connection (KP)	The relationship between the company and government officials, legislative members, or political parties through the membership of the board of directors or commissioners.	Politically Connected Ratio of Directors = Number of Politically Connected Members of the Board of Directors / Total Members of the Board of Directors	Putra & Suhardianto (2020); Faccio (2006)
Foreign Ownership (KA)	The proportion of company share ownership by foreign investors, both individuals and foreign institutions.	Percentage of Foreign Ownership = (Number of Shares Owned by Foreign Investors / Total Shares Outstanding) × 100%	Saraswati & Sujana (2017); OECD (2022)

Data analysis was carried out using EViews 13 software with the following stages:

a. Panel Data Regression Model Selection Test

Done to determine the best model: Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM), through:

- 1) Chow test → comparing CEM vs FEM
- 2) Hausman test → compare FEM vs REM
- 3) Lagrange Multiplier (LM) test → compare CEM vs REM

b. Classic Assumption Test

To ensure the BLUE (Best Linear Unbiased Estimator) model:

- 1) Residual Normality Test → using the Jarque-Bera Test (prob > 0.05 = normal)
- 2) Multicollinearity test → through a correlation matrix ($r < 0.80$ = no multicollinearity)
- 3) Heteroscedasticity test → using White Test (prob > 0.05 = homoskedastic)
- 4) Autocorrelation test → using the Durbin-Watson Test and the Breusch-Godfrey LM Test

c. Uji Hypothesis

- 1) The (partial) t-test → to test the significance of the influence of each variable ($\alpha = 5\%$)
- 2) F (simultaneous) test → to test the overall significance of the model
- 3) The Determination Coefficient (Adjusted R^2) → to measure the proportion of TA variance described by independent variables
- 4) Moderated Regression Analysis (MRA) → to test the role of KA moderation through the significance of the coefficient of interaction variables (prob < 0.05 = significant moderation)

3. Results and Discussion

3.1 Statistics Descriptive

Descriptive statistics are used to provide an overview of the data characteristics of the research variables: Tax Avoidance (TA), Transfer Pricing (TP), Political Connection (KP), and Foreign Ownership (KA).

Table 3. Descriptive Statistical Results

Variabel	Mean	Median	Std. Dev.	Min	Max
TA (Tax Avoidance)	0.2893	0.23	0.2197	0	0.88
TP (Transfer Pricing)	0.3342	0.135	0.9062	0	8.22
KP (Political Connection)	0.1778	0.12	0.1262	0.06	0.62
KA (Foreign Ownership)	0.3913	0.28	0.5989	0	5.81

Source: Eviews 13 (2025)

The average ETR is 28.93% < a tax rate of 22% → moderate tax avoidance indications. On average, 33.42% of receivables to related parties → high TP potential. High standard deviations → great variation between companies. On average, 17.78% of directors have political connections → low-medium political exposure. On average, 39.13% of shares are foreign-owned. The standard of high deviation → the disparity of foreign ownership is very wide.

3.2. Panel Data Regression Model Selection Test

Table 4. Model conclusion

Test	Statistics	Prob.	Results
Chow Test	F = 3.5216	0	Tolak CEM → FEM
Hausman Test	Chi-Sq = 2.8597	0.7216	Gagal tolak REM
LM Test	Breusch-Pagan	0	Tolak CEM → REM

Source: Eviews 13 (2025)

Conclusion: The Random Effect Model (REM) was chosen because: Hausman Test ($p=0.7216 > 0.05$): there was no systematic difference between individuals → REM was more efficient. LM Test ($p=0.000 < 0.05$): REM is better than CEM. Although the Chow Test supports FEM, the Hausman Test is statistically stronger.

3.3 Classic Assumption Test

It is done to ensure the BLUE (Best Linear Unbiased Estimator) model.

a. Normality Test (Jarque-Bera Test)

JB Stats = 1.020, Prob. = 0.600 > 0.05. Residual is normally distributed → assumptions are met.

b. Multicollinearity Test (Correlation Between Variables)

There was no correlation > 0.80 → no multicollinearity.

c. Heteroscedasticity Test (White Test)

All variables had a p-value of $> 0.05 \rightarrow$ no heteroscedasticity.

d. Autocorrelation Test (Durbin-Watson Test)

DW Statistic = 1.9058

For $n=100, k=3 \rightarrow dL = 1.62, dU = 1.74$

Since $1.74 < DW (1.9058) < 2.26 \rightarrow$ there is no autocorrelation.

General Conclusion of Classical Assumption Test: All assumptions are fulfilled
 \rightarrow a valid regression model and are feasible for hypothesis testing.

3.4 Hypothesis Test (Panel Data Regression - REM)

Model:

$$TA = \alpha + \beta_1 TP + \beta_2 KP + \beta_3 KA + \beta_4 (TP \times KA) + \beta_5 (KP \times KA) + \varepsilon$$

Table 5. Hypothesis Test Results

Variabel	Coefficient	Std. Error	t-Statistic	Prob.	Results
C	0.4031	0.2707	1.4892	0.1398	Insignificant
TP	0.3357	0.1548	2.1693	0.0326	Significan (+)
KP	-0.3616	0.5947	-0.608	0.5446	Insignificant
KA	-0.0461	0.5285	-0.0872	0.9307	Insignificant
TP×KA	-0.3136	0.3401	-0.9221	0.3588	Insignificant
KP×KA	1.0135	1.3558	0.7475	0.4566	Insignificant

Source: Eviews 13 (2025)

Coefficient of Determination (Adjusted R^2) = 0.0663. Meaning: 6.63% of Tax Avoidance variations can be explained by variables in the model. The rest (93.37%) were explained by other factors outside the model.

Test F-statistic = 2.4050, Prob. = 0.0424 $< 0.05 \rightarrow$ Models are simultaneously significant.

3.5 Uji Moderated Regression Analysis (MRA)

The moderation test was carried out by looking at the significance of the coefficient of the interaction variables (TP×KA and KP×KA).

Table 6. MRA Test Results

Moderasi Hypothesis	Interaction Variables	Coefficient	Prob.	Moderation Decision
H3: Train Moderation on TP → TA	TP×KA	-0.3136	0.3588	Insignificant → Train does not moderate the TP-TA relationship.
H4: Moderation of trains on KP → TA	KP×KA	1.0135	0.4566	Insignificant → Train does not moderate the KP-TA relationship.

Source: Eviews 13 (2025)

Interpretation:

- a. TP×KA (negative but not significant): Foreign ownership tends to weaken the influence of TP on TA, but the effect is not statistically strong enough. This means that foreign investors are not effective in controlling TP practices.
- b. KP×KA (positive but not significant): Foreign ownership tends to strengthen the influence of KP on TA, but not significantly. This means that foreign investors are unable to systematically suppress or utilize political connections.

3.6 Discussion

Transfer Pricing has a Significant Positive Effect on Tax Avoidance

Based on Agency Theory (Jensen & Meckling, 1976), managers as agents have incentives to maximize corporate profits or personal interests, including through aggressive taxation strategies. Transfer pricing is a strategic tool because it allows the manipulation of transaction prices between affiliated entities to shift profits to low-tax jurisdictions. In the energy sector, which is characterized by multinational group structures, cross-border transactions, and tangible assets that are easily transferred, this practice is highly feasible. Logically, the higher the transaction ratio with related

parties, the greater the management's room to engineer profits, thereby lowering the Effective Tax Rate (ETR) and increasing tax avoidance.

These findings reinforce the literature that transfer pricing remains a "key weapon" in tax avoidance strategies, especially in capital-intensive and cross-border sectors such as energy. These results also show that although transfer pricing regulations in Indonesia (PMK 172/2023) are getting stricter, implementation and supervision are still weak, so companies are still free to take advantage of regulatory loopholes. Theoretically, these findings support the basic assumption of Agency Theory that agents will exploit information asymmetry and the complexity of corporate structures for personal or corporate gain, even to the detriment of the owner or the state.

The empirical findings in this study are in line with Laksana et al. (2023) and Azis (2024), finding that energy companies in Indonesia use aggressive transfer pricing to avoid taxes. Amidu et al. (2019) and Alade (2021) prove that transfer pricing is the main instrument of profit shifting in developing countries. Amanda & Carolina (2021) show that transfer pricing has a positive effect on tax avoidance, especially when supported by opportunistic executive characteristics.

However, several studies have found opposite results: Rini et al. (2022) and Suhendra et al. (2020) found a negative or insignificant influence, arguing that transfer pricing is instead used for tax compliance or due to strict internal oversight. Hanifah & Saepuloh (2024) found no significant influence on manufacturing companies, suggesting that the influence of transfer pricing may be sectoral.

Political Connections have no significant effect on Tax Avoidance.

Logically, political connections are supposed to provide "informal protections" against tax audits, access to fiscal incentives, or sanctions delays. However, in the

context of post-reform Indonesia, regulatory transparency (AEOI, Job Creation Law), media pressure, and the eradication of corruption make the exploitation of political connections high-risk. Instead, companies prefer to "play it safe" by not exploiting connections for fiscal gain, to maintain social legitimacy and good relations with the government.

These findings suggest that institutional context strongly determines the effectiveness of political connections. In Indonesia, governance and transparency reforms have made political connections no longer a "trump card" for tax avoidance, but rather a "reputational liability". Theoretically, this expands on the Stakeholder Theory that companies consider not only short-term profits, but also the sustainability of relationships with key stakeholders (governments). These results also challenge the Agency Theory assumption that political connections are always used to the advantage of agents; In reality, agents can actually be more conservative to maintain a long-term relationship.

The findings were insignificant ($\beta = -0.3616$, $p=0.5446$), supported by Putra & Suhardianto (2020) and Sudiartana (2021), finding a negative relationship between political connections and tax avoidance, as companies wanted to avoid scandals. Harymawan et al. (2021) show that companies with political connections in Indonesia are actually more tax-compliant due to legitimacy pressure. Kim et al. (2011) State that the influence of political connections depends on the institutional context; In countries with strong surveillance, the influence is weak or negative.

However, several studies have found a positive influence. Firmansyah et al. (2022) and Lase & Subroto (2023) found that political connections have a positive effect on tax avoidance, especially in sectors that are heavily regulated. Xiang et al.

(2023) showed that government involvement increases tax avoidance in private companies.

Foreign Ownership does not moderate the relationship between Transfer Pricing and Tax Avoidance.

Foreign ownership has a dual potential: on the one hand, it can strengthen transfer pricing due to access to global networks and low-tax jurisdictions; On the other hand, it can weaken due to reputational pressures and international governance standards. However, in practice, foreign investors are often "passive" as they focus on financial returns, rather than operational controls or tax policies. In addition, local management still dominates decision-making, so foreign investor control is ineffective.

These findings show that foreign ownership is not a guarantee of tax compliance. Theoretically, this reinforces the argument that "formal ownership" is not always followed by "effective control". Foreign investors may own shares, but do not have the mechanism to intervene in local management tax policies. These results also show that in the Indonesian context, institutional pressure (DGT regulations) is more decisive than foreign owner pressure. Academically, it expands the literature on the "limits of foreign ownership" in corporate governance in emerging markets.

The insignificance of moderation ($\beta = -0.3136$, $p=0.3588$) was supported by Maryati (2020) and Wulandari (2023), finding no significant moderation effect of foreign ownership on transfer pricing–tax avoidance. Muji & Waluyo (2024) show that foreign ownership does not have a significant effect on tax avoidance, let alone as a moderator.

Several studies have found the moderation effect of Fitriani (2021) and Desai et al. (2006): Finding that foreign ownership strengthens transfer pricing–tax avoidance*

due to access to global schemes. Suranta et al. (2020) showed that foreign ownership encourages tax avoidance through weak managerial controls.

Foreign Ownership does not moderate the relationship between Political Connections and Tax Avoidance.

Investor asing biasanya tidak memiliki relasi politik lokal dan justru menghindari praktik yang berisiko reputasi. Namun, dalam praktik, mereka sering “netral” tidak membangun koneksi, tapi juga tidak mencegah manajemen lokal memanfaatkannya. Selain itu, investor asing mungkin “beradaptasi” dengan praktik lokal demi kelangsungan bisnis, terutama di sektor strategis seperti energi yang bergantung pada izin pemerintah.

Temuan ini menunjukkan bahwa investor asing tidak memiliki pengaruh signifikan terhadap dinamika politik-perpajakan di Indonesia. Secara teoretis, ini mendukung argumen bahwa “global norms” tidak otomatis mentransformasi “local practices”, terutama di sektor yang sangat bergantung pada regulasi dan izin pemerintah. Hasil ini juga menunjukkan bahwa dalam konteks Indonesia, koneksi politik adalah “domain lokal” yang tidak bisa dikontrol oleh pemilik asing. Secara akademik, ini memperkuat literatur tentang “institutional voids” di pasar berkembang di mana kekuatan institusional lokal masih mendominasi meskipun ada intervensi global.

Tidak signifikannya moderasi ($\beta = +1.0135$, $p=0.4566$) didukung oleh Rahmasari (2023) dan Yulistia et al. (2020) Menemukan tidak ada efek moderasi signifikan. Leuz & Oberholzer-Gee (2006) Menunjukkan bahwa investor asing di negara berkembang sering “beradaptasi” dengan praktik lokal, termasuk relasi politik.

Beberapa studi menemukan efek moderasi Chen et al. (2006) Menunjukkan bahwa investor asing menekan praktik berbasis relasi politik demi transparansi. Kim &

Zhang (2016) Menemukan bahwa kepemilikan asing melemahkan efek koneksi politik terhadap manajemen laba.

4. Conclusion

This study aims to examine the influence of transfer pricing and political connections on tax avoidance practices, as well as the role of foreign ownership as a moderation variable in energy sector companies listed on the Indonesia Stock Exchange for the 2021–2024 period. Through a quantitative approach and panel data regression analysis using the Moderated Regression Analysis (MRA) method, this study produced empirical findings that made significant contributions both theoretically and practically.

Overall, the results of the study show that transfer pricing has a positive and significant effect on tax avoidance. These findings are in line with Agency Theory, which states that managers as agents have an incentive to maximize the company's profits through aggressive strategies, including the manipulation of transaction prices between affiliates to divert profits to low-tax jurisdictions. In the context of the energy sector, which is characterized by multinational group structures and complex cross-border transactions, transfer pricing is the main instrument in tax avoidance strategies. This is reinforced by empirical data that shows that the higher the ratio of receivables to related parties, the lower the company's Effective Tax Rate (ETR), which indicates more aggressive tax avoidance.

On the other hand, political connections have proven to have no significant effect on tax avoidance. These findings suggest that in the context of post-reform Indonesia, where regulatory transparency and fiscal oversight are increasingly tightening, political connections are no longer a "trump card" for fiscal gain. On the contrary, companies tend to be more tax-compliant to maintain social legitimacy and good relations with the government, as described in the Stakeholder Theory and Legitimacy Theory. These findings also reflect a paradigm shift: in the era of accountability and the eradication of corruption, political connections function more as "reputational liabilities" than "strategic assets" in tax planning.

Furthermore, this study examines the role of foreign ownership as a moderating variable. The results show that foreign ownership is unable to moderate the relationship between transfer pricing and political connections to tax avoidance. That is, foreign investors, despite being assumed to bring global governance standards and international

reputational pressures, do not effectively control or influence local management tax policies. This can happen because foreign investor control is passive, not followed by direct intervention in operational policies, or because local management still dominates strategic decision-making, including in terms of taxation. These findings challenge the common assumption that foreign ownership automatically improves tax transparency and compliance, and suggest that "formal ownership" is not always followed by "effective control".

These findings have important implications on three levels: theoretical, practical, and policy. Theoretically, this study strengthens the Agency Theory by proving that managerial incentives in transfer pricing remain dominant in tax avoidance strategies, even in the midst of institutional pressures. On the other hand, the findings on the insignificance of political connections and foreign ownership expand the Stakeholder Theory and Institutional Theory that institutional context (transparency, regulation, oversight) is more decisive than ownership structures or political relations in influencing corporate tax behavior. This research also opens up space for the development of new theories about the "limits of foreign ownership" in corporate governance in emerging markets.

Practically, for company management, this result is a warning that transfer pricing is indeed effective in reducing taxes, but it also carries high risks to audits, sanctions, and reputation. Companies need to ensure that transfer pricing documentation (TP Doc) meets the principles of fairness and business practice in accordance with PMK 172/2023. For foreign investors, these findings show that stock ownership alone is not enough; Active oversight mechanisms, such as independent internal audits or tax committees, are required to ensure fiscal compliance. For external stakeholders (analysts, creditors, media), these findings confirm that the foreign ownership profile is not a guarantee; tax compliance evaluation should be based on the transparency of the report and the structure of the affiliate's transactions.

In terms of policy, the Directorate General of Taxes (DGT) needs to focus its supervision on cross-border affiliate transactions, not on the ownership profile or political connections of the company. The implementation of Country-by-Country Reporting (CbCR), strengthening risk-based audits, and international cooperation (AEOI) must be strengthened to close the profit shifting gap. The regulator also needs to

revise the foreign investment incentive policy by including tax compliance clauses and transparency of the group structure as key requirements. Reform of the tax system should be oriented towards data objectivity, not assumptions based on political affiliation or ownership.

Although this research has been conducted systematically and methodologically, there are some limitations that need to be acknowledged. First, the scope of the research is limited to the energy sector, so the results are not necessarily generalized to other sectors, such as manufacturing, finance, or technology, that have different ownership structures and tax strategies. Second, the measurement of political connections is based solely on the proportion of directors with political backgrounds, without considering the intensity, depth, or informal influence of those relationships, which may be more decisive in practice. Third, the study did not control for other potential variables such as leverage, profitability, company size, or audit quality, which are also known to affect tax avoidance rates. Fourth, the data used is secondary and limited to public reports, so there is a potential for reporting bias or incompleteness of strategic information. Fifth, the observation period is only four years (2021–2024), which is relatively short to capture long-term trends or the impact of cyclical fiscal policies.

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