Factors causing tax avoidance practices in multinational companies: Evidence from Indonesia

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ABSTRACT

Tax avoidance by the multinational company has been at the top of the international tax policy agenda since the global financial crisis in 2008. This level of tax evasion raises concerns that large multinational corporations pay meager effective tax rates. Therefore, this study aims to obtain empirical evidence of the influence of transfer pricing, thin capitalization, and tax heaven utilization on corporate tax avoidance. This paper aims to examine the effects of factors that cause tax avoidance practices in multinational companies. This study used 37 multinational companies listed on the Indonesia Stock Exchange (IDX) for 2018–2020. This study used a purposive sampling method that produced 111 suitable samples. The analytical method used is multiple linear regression analysis through Stata 12 software. Main findings of the study demonstrate that (i) Transfer pricing has a positive effect on the practice of Tax Avoidance (ii) Thin capitalization does not affect the practice of Tax Avoidance, and finally (iii) Tax heaven utilization has a positive effect on the practice of Tax Avoidance.

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Introduction

In this era of globalization, the world is required to develop an unlimited economy. Through the development of the economy carried out by every country around the world, in the end, national companies develop themselves and their companies into multinational companies which, in carrying out company operations, involve various countries and not only one country.

Tax avoidance by multinational corporations has been at the top of the international tax policy agenda since the global financial crisis in 2008. This level of tax evasion raises concerns that large multinational corporations pay meager effective tax rates. This concern has led to significant new international initiatives to curb international tax avoidance, especially the G20/OECD initiatives (G20/OECD, 2015). However, the Tax Justice Network (2020) reports that the world loses more than $427 billion (USD) in taxes a year due to international tax abuse. As for Indonesia itself, the lost tax due to misuse of corporate taxes every year reaches 4 billion US dollars.

Many researchers have conducted research regarding tax evasion activities and the things that influence these activities, but the results show some variations. In his research, Subekti (2019) shows that thin capitalization occurs because of these goals, among others, to influence companies to avoid taxes. However, this finding is different from the study conducted by Olivia & Dwimulyani (2019), namely that thin capitalization has no impact on tax avoidance practices.

Other factors that influence tax avoidance include transfer pricing and tax havens. The research of Taylor & Richardson (2012) shows a significant effect between tax avoidance and transfer pricing. However, this result is different from the research of Nadhifah & Arif...
(2020). Damayanti & Prastiwi (2017) shows tax avoidance and similar outcomes. However, according to Wahuyo & Doctoralina (2018), tax havens do not affect tax avoidance.

Among the problems that make companies avoid taxes, several cases can be used as examples, such as PT Bentoel Internasional Investama, the second-largest cigarette company in Indonesia. Reporting from nationalkotan.co.id (2019), One of them is the tax evasion process carried out by British American Tobacco, the parent company. It bypassed PT Bentoel Internasional Investama, which was finally given a large debt from 2013 to 2015, the large debt was done by refinancing bank loans and distributing machinery and equipment. Going through the debt payment process can minimize the tax bill that a company in Indonesia will receive because the interest on the loan can reduce the tax that has been assigned to the company, which makes the company pay tax lower. It would eventually cost the country $14 million a year in losses.

Furthermore, some cases occurred in Indonesia by PT. Adaro Energy Tbk, which in this case was concluded from the Global Witness report entitled Taxing Times for Adaro, suspected that PT. Adaro Energy Tbk avoided paying taxes amounting to 1.75 trillion using the transfer pricing method to avoid taxes. PT. Adaro Energy Tbk is suspected of practicing tax avoidance by implementing transfer pricing, namely by transferring large profits from Indonesia to its subsidiary Coaltrade Services International in Singapore, which can exempt taxes or have a low tax rate. This was done from 2009 to 2017. Companies benefit from lower taxes in Singapore, 15%, while Indonesia has a tax rate of 25%. (Merdeka.com, 2019)

In addition, it was reported by CNBC Indonesia (2020) that the form of companies that do tax avoidance is currently mainly carried out by Over the top (OTT) companies. Over the top company is a content service company in data, information, or media that operates through the internet network. Among these various OTT companies (such as Twitter, Facebook, and Google). In Indonesia itself, OTT companies have caused controversy among telecommunications and information companies in Indonesia. Because since 2014, the government has intended to regulate restrictions on OTT players and impose taxes on OTT players, for example, Netflix Indonesia. Even recently, Netflix is still not in Permanent Business Entity (Badan Usaha Tetap) status. Matters governing Permanent Business Entity (Badan Usaha Tetap) are contained in PP No. 80 Th. 2019 regarding trading through electronic systems (Perdagangan Melalui Sistem Elektronik).

Without a Permanent Business Entity (Badan Usaha Tetap) status, this digital company cannot be taxed in Indonesia. In Indonesia, the tax law requires taxpayers to have a permanent establishment. They generally do not transact in Indonesia to avoid taxes. For example, Netflix. Netflix service users must transfer the subscription money directly to a company account in the Netherlands so that the funds do not enter the Indonesian financial system.

With these problems, the researcher wishes to examine the aspects that can affect efforts to avoid taxes, and the research carried out is a replication of the research of Taylor & Richardson (2012), which uses the same variables, namely the effect of transfer pricing, thin capitalization, and tax haven utilization. The research carried out contained several modifications, especially on the location and year of testing where this research was carried out on multinational companies in Indonesia. This research was chosen because there are still many taxes avoidance cases in Indonesia, even though regulations curb tax avoidance both internationally and nationally. Based on the explanation of the background, the researcher reviewed the research entitled "Analysis of Effect, Transfer Pricing, Thin Capitalization, and Tax Haven Utilization on Tax Avoidance of Multinational Companies."

The grand theories underlining this research are agency theory and compliance theory. This agency theory arises because of the problems that arise during carrying out the needs between the principal and the agent (Jensen & Meckling, 1976). Furthermore, the agency theory contains that the principal gives work to other parties, starting now referred to as agents (Eisenhardt, 1989). Agency theory is a fundamental theory that provides an overview related to the relationship between those who hold shares called the principal and the agent, namely the company management as the party given orders by the company owner in running the company, including in terms of decision making.

This study aims to obtain empirical evidence of the influence of transfer pricing, thin capitalization, and tax heaven utilization on corporate tax avoidance. Furthermore, this paper aims to examine the effects of factors that cause tax avoidance practices in multinational companies.

**Literature Review**

**Theoretical and Conceptual Background**

Agency theory assumes that the biggest motivation in making decisions is for its own sake and has excellent benefits from decisions made by both the principal and the agent. Although accounting science agency theory focuses on the relationship between managers who become agents and company owners who become principals, according to (Booth & Schulz, 2004), taxpayers can also be viewed as agents and the director-general of taxes as principals.

In particular, Reinganum & Wilde (1985) explained that the relationship between tax authorities and taxpayers is principal and agent. The tax authority is the principal, and the taxpayer is the agent. The taxpayer's role as an agent is to provide reports related to taxes that the government has not paid. In this research, the proposed tax avoidance model will be discussed in which the taxpayer (agent) conducts tax avoidance for his benefit.
Compliance theory is a theory that relates a person's obedience behavior to applicable regulations or laws. According to research by Tyler (2006), in the sociological literature on legal compliance, there are two perspectives, namely normative and instrumental. The normative perspective relates to something considered moral and contrary to personal interests. A person tends to be able to obey the law because it is considered appropriate and by internal norms. The instrumental perspective assumes that a person as a whole is motivated by self-interest and responses to changing behavior.

Devos (2014) said while the compliance theory has emerged from a wide variety of disciplines, there has been a lack of consensus and agreement as to why people do or do not pay their taxes. Indeed, the tax compliance literature indicates that there are still many research gaps that need to be filled with respect to issues concerning tax morals, tax fairness and deterrence measures, for the likely improvement in overall taxpayer compliance.

Efforts to avoid taxes are an effort used by taxpayers to avoid paying their tax obligations by reducing the company's burden. This method is a legal action that is not included in the act of violating regulations related to taxation (Marsahala et al., 2020). Tax avoidance cases are a challenge for tax authorities to improve further tax regulation management effectiveness (Damayanti & Prastiwi, 2017).

The economic principle adopted by entrepreneurs is to increase revenue and reduce costs low. Tax planning generally begins with the belief that the transaction or phenomenon is taxed. There are two approaches to reducing tax debt: increasing costs or reducing revenues. Usually, there are loopholes in tax regulations, which is the route permitted by tax regulations. Optimally, this means that the company pays the lowest possible amount of tax but does so without violating the applicable regulations.

Transfer pricing is a situation where special parties have a relationship (Lo et al., 2010). In principle, transfer pricing is possible because of a special relationship between multinational companies which leads to negotiation and cooperation to determine transfer pricing. This causes transfer pricing to get a negative perception because if there is a transaction involving several parties with certain relationships, it can be proven to damage government tax revenues.

**Empirical Review and Hypothesis Development**

**Transfer Pricing**

According to Lo et al. (2010), Transfer pricing is often used as a tax implication because setting transfer pricing has a goal, namely minimizing the tax burden. When implementing transfer pricing, multinational companies tend to shift the tax burden of countries with high tax rates to countries with low tax rates by lowering the selling price between companies in the same group. According to Research Research, Suntari & Mulyani (2020) states that transactions between parties to relations in various tax jurisdictions provide great opportunities to avoid taxes. According to Taylor and Richardson's research (2012), more complex transfer pricing arrangements involve intangible assets (for example, R&D expenditures), which are difficult to assign to value, and taxable income can easily be transferred internationally.

**H1: transfer pricing has a significant positive effect on tax avoidance**

**Thin capitalization**

Thin capitalization is an effort to avoid taxes. This effort occurs because of the influence of investment decisions taken by companies where they tend to apply leverage rather than capital (Olivia & Dwimulyani, 2019). Interest expense is included as a deduction from income when calculating taxable income, while dividends are not included in income deduction. Then multinational companies consider that the payment of predetermined interest can be used as a tax credit which causes foreign investors to prefer debt rather than equity participation in financing their subsidiaries. Research by Waluyo & Doctoralina (2018) states that investment in the context of thin capitalization is a loan in the form of money or wealth from those who hold shares or other parties who have good relations with the borrower. Generally, MNEs achieve thin capitalization by increasing the total cost of debt in high-tax countries. Andawiyah et al. (2019) research state that thin capitalization affects the effective cash tax rate as a proxy for tax avoidance. According to law, multinational companies carry out thin capitalization because interest expense is a deductible expense that companies can use as a measurement tool. This condition is also supported by research by Taylor & Richardson (2012), which shows a positive correlation between thin capitalization and tax avoidance.

**H2: Thin capitalization has a significant positive effect on tax avoidance**

**Tax Haven Utilization**

The use of tax havens (Tax Haven Utilization) is a company's effort to build its business in countries that offer tax exemptions (Sugiyart & Purwanti, 2017). Tax haven countries provide opportunities to obtain tax benefits through different tax treatments between countries, so it is believed that the use of tax havens impacts companies to avoid tax. According to Taylor and Richardson's (2012) research, companies established in countries with tax haven status may play an important role, namely as a facilitator of transfer pricing and efficient thin capitalization to reduce taxes between members of a group of companies. Thus, efficient tax planning across group entities involving companies belonging to tax havens.

**H3: Tax Haven Utilization has a significant positive effect on tax avoidance**
Table 1: Summary of Literature Review

<table>
<thead>
<tr>
<th>Author (Date)</th>
<th>Subject</th>
<th>Variables</th>
<th>Methods</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taylor &amp; Richardson (2012)</td>
<td>Australian company listed on the Australian stock exchange</td>
<td>thin capitalization, transfer pricing, Multinationality, Tax Haven</td>
<td>Multi regression model</td>
<td>All variables show a significant effect on tax avoidance</td>
</tr>
<tr>
<td>Damayanti &amp; Prastiwi (2017)</td>
<td>Indonesia company listed on the Indonesia stock exchange</td>
<td>Tax Audit, Multinationality, Tax Haven</td>
<td>Multi regression model</td>
<td>All variables don’t show a significant effect on tax avoidance</td>
</tr>
<tr>
<td>Waluyo &amp; Doktoralina (2018)</td>
<td>Indonesia Multinational company listed on the Indonesia stock exchange</td>
<td>thin capitalization, Multinationality, Tax Haven, Institutional ownership</td>
<td>Multi regression model</td>
<td>Only thin capitalization and multinationality shows a significant effect on tax avoidance</td>
</tr>
<tr>
<td>Andawiyah, Subeki, &amp; Hakiki (2019)</td>
<td>All manufacturing company listed on the Indonesia Sharia Stock Index</td>
<td>thin capitalization</td>
<td>Multi regression model</td>
<td>Thin capitalization shows a significant effect on tax avoidance</td>
</tr>
<tr>
<td>Utami, Cahyaningsih, &amp; Kunia (2020)</td>
<td>The Consumer Goods Industry sector is listed on the IDX</td>
<td>thin capitalization, transfer pricing, Tax Haven</td>
<td>Multi regression model</td>
<td>Only Tax haven shows a significant effect on tax avoidance</td>
</tr>
</tbody>
</table>

Source: Authors

Research and Methodology

This study uses a quantitative research approach (Creswell & Creswell, 2017). Quantitative research aims to conduct a theoretical proof of the hypothesis and to obtain conclusions. There are four variables in this research, namely Tax Avoidance, Transfer Pricing, Thin Capitalization, and Tax Haven Utilization.

The researcher used a total Book-Tax Different (BTD) to measure the tax avoidance variable. BTD is applied to show the occurrence of tax avoidance. Riguen & Jarboui, (2015) shows that companies calculate profits each period to report on the treasury of money and determine tax obligations. Different rules apply to both purposes, so for accounting purposes, it refers to accounting standards, while the purpose of determining tax obligations is related to tax regulations. This difference in rules causes differences in accounting profit and tax profit, a difference that is often referred to as the Book-Tax Different (BTD).

\[ BTD = \frac{Pre \ Tax \ Book \ Income - Taxable \ Income}{Total \ Asset} \]

Transfer pricing is a situation where special parties have a relationship. In principle, transfer pricing is possible because of a special relationship between multinational companies which leads to negotiation and cooperation to determine transfer pricing. According to Lo (2010), transfer prices are measured by:

\[ RPT = \frac{Receivables \ to \ Affiliates}{Total \ Receivables} \times 100\% \]

Taylor and Richardson's (2012) opinion that Thin capitalization is closely related to how companies decide to invest in a business in financing business operations that also take advantage of the use of capital in their capital structure. Here is how to measure thin capitalization:

\[ \text{Rasio MAD} = \frac{Long - term \ debt}{\text{Company’s SHDA}} \]

As Permenkeu No. 169/PMK.010/2015, the maximum debt to equity ratio is 4:1, so the maximum debt limit is 80%. Furthermore, to determine the calculated value of SHDA, using the formula:

\[ SHDA = (\text{mean Total Asset} - \text{Non IBL}) \times 80\% \]

The higher, closer to or greater than 1 for the index of MAD, the greater the thin capitalization because the average debt level is more than the maximum debt level allowed by the government.

The variable using Tax Haven Utilization was measured using a dummy variable. Giving a value of 1 if the company has an affiliated company that is a member of a Tax Haven recognized by the OECD; otherwise, the company is given a value of 0.
The population in this study is 130 multinational companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2020. In the research carried out, the data used are annual financial reports audited during 2018-2020, which were obtained through the official website of the IDX, namely www.idx.co.id. In the research conducted, the researcher chose the purposive sampling technique as the sampling technique. The selection of the sample in this study was selected based on the following criteria:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Multinational companies listed on the IDX in the period 2018-2020.</td>
<td>126</td>
<td>127</td>
<td>130</td>
<td>383</td>
</tr>
<tr>
<td>2 Exclude companies in the financial, mining, infrastructure, and</td>
<td>(43)</td>
<td>(43)</td>
<td>(44)</td>
<td>(130)</td>
</tr>
<tr>
<td>companies whose income is subject to final income tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 The audited financial report has complete data for 2018-2020.</td>
<td>(12)</td>
<td>(13)</td>
<td>(15)</td>
<td>(37)</td>
</tr>
<tr>
<td>4 The company did not experience any losses during 2018-2020</td>
<td>(34)</td>
<td>(34)</td>
<td>(34)</td>
<td>(102)</td>
</tr>
<tr>
<td>The samples in the research</td>
<td>37</td>
<td>37</td>
<td>37</td>
<td>111</td>
</tr>
</tbody>
</table>

**Source:** Authors

As in table 2, 37 multinational companies were found that be consistent with the sample criteria determined by the researcher. The research was carried out from 2018 to 2020, so there were 111 observational data.

**Findings and Discussions**

Panel data regression was used to test the appropriate model for this study. Three models can be used: the Common Effect Model, Random Effect Model, and Fixed Effect Model. Panel data regression was carried out on data from researchers, and then the data was processed using the STATA ver.12 described by Chow Test, Lagrange Multiplier Test, Hausman Test.

**Table 3: Chow Test Results**

<table>
<thead>
<tr>
<th>Probability F-Restricted</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0000</td>
<td>0.05</td>
</tr>
</tbody>
</table>

**Source:** Output STATA v.12

**Table 4: Lagrange Multiplier Test Results**

<table>
<thead>
<tr>
<th>Prob&gt;chi2</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0000</td>
<td>0.05</td>
</tr>
</tbody>
</table>

**Source:** Output STATA v.12

**Table 5: Hausman Test Results**

<table>
<thead>
<tr>
<th>Prob&gt;chi2</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.3910</td>
<td>0.05</td>
</tr>
</tbody>
</table>

**Source:** Output STATA v.12

A value is obtained from panel data regression using the Chow Test, Lagrange Multiplier Test, and Hausman Test, which indicates that the selected model is the Random Effect Model.

**Hypothesis testing**

The F test is carried out to ensure the regression model is feasible or not used by using a significance of 5%. The regression model in the study can be accepted if the probability is less than 5%.

**Table 6: Simultaneous Significance Test**

<table>
<thead>
<tr>
<th>Number of OBS</th>
<th>111</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prob &gt; chi2</td>
<td>0.0005</td>
</tr>
</tbody>
</table>

**Source:** Output STATA v.12

Based on the Simultaneous Significance Test (F test), it can be said that the regression model in the research undertaken can be used where the value of Prob>chi2 is less than 5%, which is 0.0005.
Table 7: Simultaneous Significance Test

<table>
<thead>
<tr>
<th>Number of OBS</th>
<th>111</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-sq:</td>
<td></td>
</tr>
<tr>
<td>within</td>
<td>0.0729</td>
</tr>
<tr>
<td>Between</td>
<td>0.3325</td>
</tr>
<tr>
<td>Overall</td>
<td>0.2220</td>
</tr>
</tbody>
</table>

Source: Output STATA v.12

From the coefficient of determination test results, it can be understood that the value of the coefficient of determination (R2) is 0.2220. The conclusion is that tax avoidance efforts can be explained by transfer pricing, thin capitalization, and tax haven utilization of 22.20%. The rest is influenced by other variables not described in the study.

Table 8: Partial Test Results (t Test)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coef.</th>
<th>t</th>
<th>P&gt;t</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-3.8713</td>
<td>-1.43</td>
<td>0.152</td>
</tr>
<tr>
<td>TP</td>
<td>1.2594</td>
<td>2.41</td>
<td>0.016*</td>
</tr>
<tr>
<td>T CAP</td>
<td>0.2414</td>
<td>0.29</td>
<td>0.769</td>
</tr>
<tr>
<td>TAX_HVN</td>
<td>0.9556</td>
<td>3.18</td>
<td>0.001**</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.0236</td>
<td>0.26</td>
<td>0.791</td>
</tr>
</tbody>
</table>

Note: *p<5%, **p<1%

Source: Output STATA v.12

Finding

Based on the tests that have been carried out using STATA 12, the results obtained in table 8 are described as follows:

i. Based on table 8, the t-count for the Transfer pricing variable is 1.42 and has a positive value. It indicates that the value of t-count < t-table or 2.41 > 1.98238, meaning that H1 is accepted, which positively influences transfer pricing on efforts to avoid taxes. In addition, a variable significance of 0.016 less than its significance (0.016 < 0.05) indicates a significant effect. Thus, the partial test results conclude that transfer pricing has a significant positive effect on tax avoidance, so the first hypothesis is accepted.

ii. Based on table 8, the t-count for the thin capitalization variable is 0.29 and has a positive value. It indicates that the value of t-count > t-table or 0.29 < 1.98238, meaning that H2 is rejected, which makes no effect between thin capitalization and efforts to avoid taxes. In addition, with a variable significance of 0.769 less than its significance (0.769 > 0.05), there is no significant effect. Thus, the partial test results conclude that thin capitalization has no significant effect on tax avoidance, so the second hypothesis is rejected.

iii. Based on table 8, the t-count for the Tax haven utilization variable is 3.32 and is positive. It indicates that the t-count > t-table or 3.32 > 1.98238, meaning that H3 is accepted, which positively influences tax haven utilization in efforts to avoid taxes. In addition, with a variable significance of 0.001 less than its significance (0.001 < 0.05) indicates a significant effect. Thus, the partial test results conclude that Tax haven utilization has a significant positive effect on tax avoidance, so the third hypothesis is accepted.

Discussion

Transfer pricing and Tax Avoidance

The partial regression test results show that transfer pricing has a significant positive effect on tax avoidance. Tax avoidance can happen because there are still weak regulations regarding transfer pricing in Indonesia that affect tax payments. The government has made several efforts to overcome the problem of tax avoidance or tax avoidance in Indonesia, namely the existence of articles that aim to be the Anti Avoidance Rule (AAR) in tax laws and regulations. However, Indonesia’s current AAR has not been able to solve the transfer pricing problem. This problem is due to the absence of clear provisions regarding transfer pricing arrangements and the sanctions for violating them.

The OECD Institution 2017 issued the OECD Transfer Pricing Guidelines to guide tax authorities and multinational companies in resolving transfer pricing issues. This guide is made so that companies carry out transfer pricing according to these rules so that there is no gap to avoid taxes. Unfortunately, this guide is still not implemented in Indonesia.

Thin capitalization and Tax Avoidance

The results of partial regression testing show that thin has no significant effect on tax avoidance. No significant effect could be because this research's object or sample is still small in scope, only reaching 37 samples of companies. Moreover, all of these companies did not experience losses during the observation, so more companies were observed that were not indicated to do thin
capitalization aimed at tax avoidance. Furthermore, the majority of the sample companies listed on the IDX are dominated by companies whose company funding does not come from loans. Therefore, the benefits of tax savings through interest expense that companies get if they carry out the thin capitalization mechanism are less beneficial.

In agency theory, where the agent or manager is the party authorized to the company's activities and obliged to provide financial reports. Will tend to report something that maximizes its utility and increases the company's income for the benefit of shareholders so that the use of thin capitalization will only harm the company. Besides that, many companies in Indonesia use debt for expansion and company operations. This expansion and operations are evidenced by the company's debt which is dominated by short-term debt that does not contain an element of interest.

**Tax Haven utilization and Tax Avoidance**

The results of partial regression testing show that the use of tax havens has a significant positive effect on tax avoidance. This positive effect is the tendency to avoid international taxes through state tax havens. It is caused by tax havens that refer to discriminatory tax policies either through low tariff provisions or with privileges for certain tax subjects, the confidentiality of taxpayer data, and the lack of information exchange for the company to do international tax evasion. In doing international tax avoidance through state tax havens, the usual schemes used are transfer pricing and thin capitalization. International tax avoidance can also be done with treaty shopping. Taxpayers can carry out this scheme to avoid tax if the country does not have tax regulations that prevent the use of the scheme.

Treaty shopping is a tax effort that is not entitled to get Double Taxation Avoidance Agreement (P3B)/Tax Treaty facilities from a country. However, the tax subject forms a subsidiary company in the country with the tax agreement to obtain the listed tax facilities in the country's tax treaty. This action can be seen in many multinational companies in Indonesia opening subsidiaries in Singapore. Apart from lower taxes, Singapore also has a Double Taxation Avoidance Agreement (P3B)/Tax Treaty with Indonesia to benefit the company in carrying out tax avoidance activities.

**Conclusions**

Based on the analysis results on multinational companies listed on the Indonesia Stock Exchange (IDX) in 2018-2020. The conclusions obtained in tax avoidance efforts can be explained by transfer pricing, thin capitalization, and tax haven utilization of 22.20%. The rest is influenced by other variables not described in the study.

Testing the first hypothesis proves that transfer pricing has a significant positive effect on tax avoidance. Testing the second hypothesis proves that thin capitalization has no significant effect on tax avoidance. Moreover, the results of testing the third hypothesis prove that tax haven utilization has a significant positive effect on tax avoidance.

This research has been carried out following established research methods and procedures. However, the researcher is aware that some limitations can be conveyed by the researcher and may cause interference with the research results, including:

i. Not all populations can meet the specified criteria, reducing the number of samples from 126 multinational companies listed on the Indonesia Stock Exchange to 37 companies.

ii. In determining the tax haven utilization variable, there is high subjectivity because the data results are obtained through notes on the company's financial statements, which sometimes have different formats, and sometimes the data related to affiliated companies is not implied in the notes.

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**References**


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