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Effect of Transfer Pricing, Capital Intensity and Audit Committee on Tax Avoidance (Case Study of a Mining Company in the Energy Sector Listed on the Indonesian Stock Exchange for the 2021-2022 Period)

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ABSTRACT

The objective of this research was to generate empirical evidence regarding the impact of Audit Committees, Capital Intensity, and Transfer Pricing on tax avoidance in energy sector mining companies that are listed on the Indonesia Stock Exchange during the 2021-2022 period. The porpusive sampling method was employed to conduct the sample selection. The sample size of 31 companies that satisfied the sample criteria was drawn from a total population of 82 companies in this study. The data compilation in this research is based on secondary data that was sourced from the annual financial reports of companies listed on the Indonesia Stock Exchange for the 2021-2022 period that operate in the mining industry and energy sub-sector. In this quantitative research method, SPSS version 26 is implemented to evaluate data. Descriptive statistical analysis is implemented. The findings of this investigation suggest that audit committees, capital intensity, and transfer pricing have a substantial and beneficial influence on tax avoidance. This was confirmed by employing the F-test and t-test analysis.

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1. INTRODUCTION

In Indonesia, revenue from the tax sector contributes significantly more than other sources of income. For the country, taxes serve as a key revenue source for financing national needs and development. Nevertheless, taxes are regarded as a burden for a company because they diminish the net profit it generates [1]. One of the appropriate ways for companies to practice tax management and reduce the amount of tax paid is through tax avoidance. Tax avoidance is the process of minimizing tax liabilities by averting taxation on transactions that do not involve taxable items [2]. Tax avoidance is not considered a violation of tax regulations because its purpose is to exploit loopholes in tax laws. Therefore, tax avoidance can be seen as a complex and unique issue because, on one hand, such actions are permitted, but on the other hand, they reduce state tax revenues. Indonesia is not the only country to experience tax avoidance; it has become a global concern that is confronted by numerous nations [3]. There are several inconsistent factors in each previous study

conducted. Transfer pricing is a policy used by companies to establish transaction prices between different units within a multinational corporation. The greater the tax burden that must be paid, the greater the motivation for companies to implement transfer pricing in order to reduce their tax burden.

Capital intensity is another factor that influences tax avoidance behavior. A company's investment activity in terms of fixed assets and inventory is reflected in capital intensity [4]. Taxation that is misused in order to safeguard future generations. Capital intensity is another factor that influences tax avoidance behavior. Capital intensity is a measure of the extent to which a company's investment activities are indicative of its investment in inventory and fixed assets [4]. The extent to which a company relies on capital in its business operations can affect its capital structure and profitability. Furthermore, the audit committee's presence within a company assists the board of commissioners in overseeing the preparation of the company's financial statements by the management. In essence, the audit committee's primary obligation is to oversee the compilation of the company's financial statements in order to prevent financial deception by management. The responsibility of the audit committee in a company is to support the board of commissioners in their oversight of management during the preparation of the company's financial statements. The audit committee's primary obligation is to ensure that the financial statement preparation process is under control in order to prevent any potential malfeasance by management. The effective operation of the audit committee enables the compilation of more precise financial statements and improved internal control within the company, all of which are conducive to the implementation of sound corporate governance [5].

One of the sectors that is abundant in natural resources is the mining industry. Mining is the process of extracting valuable and economically significant mineral deposits from the earth's crust, whether through mechanical or manual methods, on the earth's surface, underground, or underwater. Crude oil and natural gas, coal, iron grit, tin ore, nickel ore, bauxite ore, copper ore, gold, silver, and manganese ore are among the products of mining activities. The mining sector in Indonesia provides many benefits both to the country and its people. Its substantial potential makes it one of the major contributors to Non-Tax State Revenue (PNBP). PNBP from the Energy and Mineral Resources Sector (ESDM) comprises revenue from the Oil and Gas Subsector, Mineral and Coal Subsector, Renewable Energy and Energy Conservation Subsector (EBTKE), and other sectors.

Researchers often sample mining companies due to concerns about corruption practices, including tax avoidance. The Corruption Eradication Commission (KPK) notes that underpayment of mining taxes in forest areas amounts to Rp 15.9 trillion annually. Global Witness reports indications of tax avoidance by a multinational mining company suspected of using transfer pricing schemes to reduce domestic tax obligations.

This case study provides insights into how companies respond to these changes. Through in-depth analysis of these factors, the case study examines how mining companies listed on the Indonesia Stock Exchange utilize transfer pricing, capital intensity, and audit committees in relation to activities of tax avoidance from 2021 to 2022. The aim is to determine whether understanding these developments can provide deeper insights into tax practices and influencing factors within the mining industry in Indonesia.

2. LITERATURE REVIEW

2.1 Agency Theory

Agency theory describes the contract between one or more individuals (principal) who delegate decision-making authority to another person (agent) in the operation of a company [6]. The agent is authorized to manage the company because they are deemed to have adequate human resources and can take responsibility for the company's operations. However, it is undeniable that agents sometimes act in ways that harm their

clients for personal gain, thereby sacrificing the interests of the principal [7] *Stating the existence of conflicts of interest implies that accounting figures can be used as a means to maximize profits. Additionally, this agent receives a large bonus from all the work done for the company, and the principal wants to gain a profit that is commensurate with the actual circumstances.*

Three assumptions about human nature are present in agency theory: individuals generally prioritize self-interest, humans have limited cognitive abilities regarding future perceptions (bounded rationality), and humans tend to avoid hazards (risk-averse) [8]. The agency theory focuses on information asymmetry with differing interests between principals and agents interested in maximizing compensation and performance incentives through higher profits, prompting shareholders to seek tax avoidance actions. If companies aim to reduce taxes paid through lower profits, tax avoidance measures can be used to address these divergent interests [9].

2.2 Transfer Pricing

Transfer Pricing is the practice of setting prices for transactions of goods and services between entities within the same corporate group in a manner that does not reflect fair market prices, either by raising or lowering prices. The Arm's Length Principle (ALP) states that transaction prices should be fair and non-discriminatory, whether between affiliated or non-affiliated companies [8]. The central issue of transfer pricing revolves around the determination of pricing. Tax authorities and fiscal entities aim to ensure that both related and unrelated companies use fair market prices in every buying and selling transaction.

2.3 Capital Intensity

Capital Intensity is an investment policy where investors tend to allocate their investments into a company's fixed assets. Owning fixed assets helps companies reduce the amount of tax they have to pay due to depreciation. According to [10], capital intensity is one aspect of financial decision-making by company management aimed at increasing profitability. Capital intensity reflects the amount of capital required by a company to achieve desired profit levels. According to [11] companies with significant fixed assets tend to choose to utilize foreign capital in their capital structure. Capital can be obtained through the reduction of fixed assets (sold) or increasing the number of fixed assets (purchased).

2.4 Audit Committee

According to [5], An audit committee is an additional committee that is responsible for supervising the compilation of a company's financial statements in order to prevent potential misconduct by management. According to [12], The audit committee is closely associated with the assessment of the company's risks and the guarantee of adherence to relevant regulations. According to research by [13], The relationship between asymmetry is demonstrated. demonstrate the relationship between information and the integrity of financial reporting. As the information asymmetry decreases, the accuracy of financial reporting improves. In contrast, the quality of financial reporting decreases as the degree of information asymmetry increases.

2.5 Tax Avoidance

Tax avoidance involves legitimate and safe efforts by taxpayers to avoid taxes without violating tax regulations [2]. The methods and techniques used typically exploit weaknesses (grey areas) in tax legislation itself to reduce the tax liability, known as the amount of tax owed.

3. METHODS

SPSS version 26 is employed to analyze secondary data in this quantitative research method. The purposive sampling method was employed to determine the samples. The sample size of 31 companies that satisfied the sample criteria was determined from a population of 82 companies in this study. The data for this study was collected from the annual financial reports of companies listed on the Indonesia Stock Exchange in the energy sector of the mining industry between 2021 and 2022. Multiple linear regression analysis was implemented in this investigation.

4. RESULTS AND DISCUSSION

4.1 Deskriptif Statistics

The variables analyzed in this study include transfer pricing, capital intensity, audit committee, and tax avoidance for the period 2021-2022. The following are presented descriptive statistics for each variable used in this study.

Tabel 4.1 Statistik Deskriptif Variabel Transfer Pricing, Capital Intensity, Komite Audit dan TaxAvoidance

Statistics					
		X1	X2	X3	Y
N	Valid	62	62	62	62
	Missing	0	0	0	0
Mean		2.63	1.85	4.03	2.68
Median		2.34	1.87	4.00	2.71
Mode		2	0[a]	4[a]	0[a]
Minimum		0	0	2	0
Maximum		5	4	6	6
Sum		163	115	250	166

Based on table 4.5, it shows descriptive statistics for each research variable. A fictitious variable is employed to measure the Transfer Pricing variable. Where the company is assigned a value of 1 if it engages in transactions with affiliated parties and 0 otherwise. The descriptive statistics for this variable suggest that the average value is 2.63, with a minimum value of 0 and a maximum value of 5. A minimal value of 0.000 suggests that multinational corporations did not engage in transactions with related parties during that year. In contrast, the company's utmost value of 5.451 suggests that it is a multinational organization that engages in transactions with related parties. The total value of transfer pricing is 163, with an average value of 2.63. These values reflect the implementation of a transfer pricing scheme through transactions with parties who are related or have a special relationship. The average (mean) can be regarded as a fair representation of the overall data, as the total number of variables in this study is less than the average value.

The Total Capital Intensity variable has a value of 115, with the lowest value of 0.000 and the highest value of 3.901. The capital intensity average is 1.85. In this research, companies typically prioritize fixed asset investment when making financial decisions. This is evident in the average value, which can be employed as

4.2 Classic assumption test

To obtain an accurate empirical model, the regression coefficients must meet the Best Linear Unbiased Estimation (BLUE) criteria. This means that the regression coefficients are expected to be unbiased, linear, and efficient in estimating population parameters. To ensure that the regression coefficients meet the BLUE criteria, it must be ensured that the data meets classical assumptions, such as normal or near-normal distribution, the correct determination value (R2) in accordance with the model employed, the absence of heteroscedasticity in the residuals, and the absence of multicollinearity between independent variables.

4.3 Normality test

Data normality testing is used to determine whether the data is normally distributed or not.

Table 4.2 Normality Test Results with One-Sample Kolmogrov Smirnov Test

One-Sample Kolmogorov-Smirnov Test					
		X1	X2	X3	Y
N		62	62	62	62
Normal Parameters[a,b]	Mean	.0000000	.0000000	.0000000	.0000000
	Std. Deviation	1.61121252	1.10293964	1.36146875	1.72775247
Most Extreme Differences	Absolute	.093	.107	.066	.100
	Positive	.081	.107	.064	.074
	Negative	-.093	-.083	-.066	-.100
Test Statistic		.093	.107	.066	.100
Asymp. Sig. (2-tailed)		.200[c,d]	.077[c]	.200[c,d]	.200[c,d]

The 2024 SPSS 26 output indicates that the data follows a normal distribution, as evidenced by the results of the normality test on one sample Kolmogorov-Smirnov. The Kolmogorov-Smirnov test was selected due to its reputation for providing more detailed information and its reliability in interpreting the results. As the Asymp significance value of 0.200 exceeds the commonly used significance level of 0.05, it implies that the data in this study is normally distributed. Another method for evaluating the normality of data distribution is the P-P plot test.

4.4 Multicollinearity Test

The multicollinearity test is conducted to determine whether the independent variables in the multiple linear regression model exhibit a significant correlation. Multicollinearity arises when the independent variables in the regression model exhibit a linear relationship. The Variance Inflation Factor (VIF) and the tolerance value of each independent variable can be assessed to conduct multicollinearity testing.

Tabel 4.3 Multicollinearity Test Results

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.420	.805		3.008	.004		
	Transfer Pricing	.221	.138	.210	1.605	.114	.933	1.072
	Capital Intensity	.239	.203	.148	1.174	.245	.999	1.001
	Komite Audit	-.189	.165	-.150	-1.148	.256	.933	1.072

Based on the test results in table 4.3 above, the tolerance value for each variable shows a value greater than 0.10. Where the transfer pricing variable is worth 0.933, capital intensity is worth 0.999 and the audit committee is worth 0.933. The VIF value for the variable has a value smaller than 10. For the transfer pricing variable it is 1.072, capital intensity is 1.001 and audit committee is 1.072. The regression model's independent variables are not multicollinear, as indicated by the results of this test. As a result, the findings of the analysis are dependable and can be interpreted as indicating that these variables can make distinct and substantial contributions to the dependent variable without any interference from the high correlation between the independent variables.

4.5 Heteroscedasticity Test

The heteroscedasticity test aims to determine whether the variation of the residual error in the regression model is inconsistent from one observation to the next.

Tabel 4.4 Park Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.781	.604		1.293	.201
	Transfer Pricing	.067	.103	.087	.652	.517
	Capital Intensity	.131	.153	.110	.858	.395
	Komite Audit	-.172	.124	-.185	-1.391	.169

Based on the park test table above, it can be seen that all independent variables have a sig value of 0.114 > 0.05, 0.245 > 0.05, 0.256 > 0.05, so there are no symptoms of heteroscedasticity in the regression model.

4.6 Multiple Linear Regression Test

A method employed to characterize the relationship between the dependent variable (x) and the independent variable (Y) is the multiple linear regression test. A regression equation with a single dependent variable and multiple independent variables is constructed through multiple linear regression. The independent variables in this research are Transfer Pricing (X1), Capital Intensity (X2), and Audit Committee, while Tax Avoidance is the dependent variable. The SPSS 26 software was employed to conduct regression analysis. The significance level was established at 5% (a = 0.05).

Table 4.5 Multiple Linear Regression Results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.420	.330		7.335	.000
	Transfer Pricing	.221	.056	.438	3.914	.000
	Capital Intensity	.239	.083	.310	2.864	.006
	Komite Audit	.189	.068	.313	2.799	.007

The results of multiple regression analysis of panel data can be derived with a constant value of 2,420, as indicated by the results of multiple regression testing in table 4.5. The constant (a) is 2.420, and the values of X1, X2, and X3 are as follows:

Y= α + β1X1 + β2X2 + β3X3 + e

Information:

Y = *Tax Avoidance*
α = Constant
X1 = *Transfer pricing*
X2 = *Capital Intensity*
X3 = Audit Committee
β 1-β 2 = Koefisien regresi berganda
e = error term

From the multiple linear regression equation, it can be interpreted as follows:

***Tax Avoidance* = 2,420 – 0,221 + 0,239 + 0,189**

The above equation can be explained as follows:

The consistent value of tax avoidance is 2,420 (R Squere) of 0.323, indicating that the independent variable has a 32.3% influence on the dependent variable. The calculated F value is 9,205 F Table, with a significance level of 0.000 < 0.05. In other words, the tax avoidance variable can be predicted using the regression model, which implies that variable (X) has an impact on variable (Y).

4.7 Coefficient of Determination Test (R2)

The coefficient of determination test is designed to quantify the extent to which the independent variable can account for its impact on the dependent variable in the model that was employed.

Table 4.6 Test Results for the Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.568[a]	.323	.288	.726

The R Square of the moderation regression model is 0.323, as indicated by the coefficient of determination test results in Table 4.6. This suggests that the variables Transfer Pricing, Capital Intensity, and the Presence of an Audit Committee can account for approximately 32.3% of the variation in Tax Avoidance. The remaining variation in Tax Avoidance, approximately 67.7%, is influenced by factors that were not examined in this research.

4.8 Research Hypothesis Testing

t Test (Partial)

The t test is employed to ascertain the impact of each independent variable, Capital Intensity (X2), Audit Committee (X3), and

Transfer Pricing (X1) on the partial dependent variable, Tax Avoidance (Y). The calculated t value is compared to the t table value in order to make a decision in the t test.

Table 4.7 t test results

Model	t	Sig
(Constant)	7.335	.000
Transfer Pricing	3.914	.000
Capital Intensity	2.864	.006
Komite Audit	2.799	.007

Conclusion:

1. Transfer Pricing

The t-test results for the transfer pricing variable indicate a calculated t-value of 3.914. The t-table value is 2.002, with a value of 0.05 and a df of 58. These findings indicate that the calculated t value exceeds the t table (3.914 > 2.002). The test results' significance value is less than the threshold of 0.000, which is less than 0.05. These assessments indicate that the transfer pricing variable has a substantial positive impact on tax avoidance.

2. Capital intensity

The t-test results for the capital intensity variable indicate a calculated t-value of 2.864. The t-table value is 2.002 when df = 58 and a = 0.05. These findings indicate that the calculated t value exceeds the t table (2.864 > 2.002). The test results' significant value is less than the threshold of 0.05, which is 0.006 (p < 0.05). This test indicates that the capital intensity variable has a substantial positive impact on tax avoidance.

3. Audit Committee

The t-test results for the capital intensity variable indicate a calculated t-value of 2.799. The t-table value is 2.002 when df = 58 and a = 0.05. These findings indicate that the calculated t value exceeds the t table (2.799 > 2.002). The test results' significant value is under the threshold of 0.007 < 0.05. This test indicates that audit committee variables have a substantial positive impact on tax avoidance.

Simultaneous F Test

The simultaneous test (F-Test) is a statistical technique that assesses the extent to which the dependent variable is significantly influenced by all of the independent variables included in the regression model. The hypothesis that at least one independent variable has a significant impact on the dependent variable is either accepted or rejected based on the results of this simultaneous test.

Table 4.8 Simultaneous F-Test Results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.574	3	4.858	9.205	.000[b]
	Residual	30.610	58	.528		
	Total	45.183	61			

Conclusion :

The calculated f result is 9.205, as illustrated in table 4.8 above, and the significance level is 0.000, which is less than 0.05, according to the moderation regression test. This value is greater than the t table value of 2.002. This implies that the transfer pricing, capital intensity, and audit committee variables either jointly or simultaneously influence tax avoidance.

DISCUSSION

The Effect of Transfer Pricing on Tax Avoidance

The calculated t value is 3.914, as determined by the Transfer Pricing variable's testing. The t-table value is 2.002 when df = 58 and a = 0.05. These findings indicate that the calculated t value exceeds the t table (3.914 > 2.002). The test results' significance value is less than the threshold of 0.000 below 0.05. These evaluations demonstrate that the transfer pricing variable has a substantial positive effect on tax avoidance.

In tax avoidance activities, transfer pricing is frequently referred to as a reasonable action, as corporations implement transfer pricing practices to reduce their tax payments to the state by circumventing the amount of profit. The likelihood of corporations engaging in tax avoidance is

exacerbated by the higher the tax rate of a country, as taxes are perceived as a burden that will reduce profits. This is in accordance with Agency theory, which presupposes that company management will strive to optimize profits for the company's prosperity. The likelihood of corporations engaging in tax avoidance is exacerbated by the higher the tax rate of a country, as taxes are perceived as a burden that will reduce profits.

The Effect of Capital Intensity on Tax Avoidance

The calculated t value is 2.864, as determined by the capital intensity variable's testing. The t-table value is 2.002 when df = 58 and a = 0.05. These findings indicate that the calculated t value exceeds the t table (2.864 > 2.002). The test results' significant value is less than the threshold of 0.05, which is 0.006 (p < 0.05). This test indicates that the capital intensity variable has a substantial positive impact on tax avoidance. The reason for this is that the tax avoidance actions of a company are reduced as the value of its capital intensity increases. The total value of net fixed assets is divided by the total number of assets to determine capital intensity. This will increase the probability that company management will engage in tax avoidance related to the acquisition of fixed assets through investment activities. In addition, organizations are required to choose a depreciation method that transcends the useful life of their assets in order to comply with tax regulations. Capital intensity considerably influences tax avoidance, as evidenced by the results of this investigation.

The Influence of the Audit Committee on Tax Avoidance

Based on tests on the audit committee variable, the calculated t value is 2.799. The t table value with df = 58 and a = 0.05 is 2.002. These results show that the calculated t value is greater than the t table (2.799 > 2.002). The significant value of the test results is smaller than the set 0.007 < 0.05. Based on this test, it shows that there is a significant positive effect of audit committee variables on tax avoidance.

The audit committee's role in tax avoidance is influenced by its responsibility to ensure the accuracy of financial reports and the successful execution of audits. Nevertheless, the audit committee's expertise, which is closely linked to the company's operations, requires the incorporation of members with pertinent experience. expertise in accountancy and finance. However, this can have the opposite effect. One the one hand, the audit committee's proficiency in finance and accounting allows it to prevent the implementation of policies and practices that are detrimental to the company. However, on the other hand, the audit committee's expertise also enables it to identify loopholes that can be exploited as part of company tax avoidance by exploiting various aspects of weaknesses in a country's tax provisions. So tax experts stated that this was legal and did not violate tax regulations.

5. CONCLUSIONS

The following can be deduced from the discussion and analysis that have been conducted above:

1) Tax Avoidance and Transfer Pricing Variables: The results of the analysis indicate that mining companies listed on the Indonesia Stock Exchange during the 2021-2022 period were substantially impacted by transfer pricing variables in terms of tax avoidance. This illustrates the potential impact of transfer pricing practices on mining corporations in order to mitigate their tax avoidance.
2) Tax Avoidance and Capital Intensity Variable: The analysis findings indicate that tax avoidance is substantially influenced by capital intensity in mining companies listed on the Indonesia Stock Exchange during the 2021-2022 period. This demonstrates that the company's propensity to conceal taxes is substantially influenced by its capital intensity practices.
3) Tax Avoidance and Audit Committee Variables: The research findings indicate that the Audit Committee variables have a substantial influence on tax avoidance in mining companies listed on the Indonesia Stock Exchange during the

2021-2022 period. This demonstrates that the tax avoidance strategies of mining corporations are substantially influenced by the audit committee's existence or composition.

4) The influence of audit committee variables, capital intensity, and transfer pricing on tax avoidance: The Indonesia Stock Exchange is impacted by the combined effects of these three variables on Tax Avoidance in Mining Companies during the 2021-2022 period. The significant influence of these three variables implies that they are indispensable elements of mining companies' tax management strategies.

SUGGESTION

1) Increased supervision and management of transfer pricing: Mining companies need to increase supervision of their transfer pricing policies. This can be done by ensuring that transfer pricing practices not only comply with applicable tax regulations, but also take reasonable account of tax efficiency without leading to excessive tax avoidance.
2) Assessment of capital strategies and tax avoidance: despite the conclusion of the research that Capital Intensity has a substantial impact on Tax Avoidance, it is still imperative for companies to consider the potential impact of their capital structure on tax liabilities. Periodic evaluation of capital strategies that are consistent with the company's objectives while maintaining tax compliance is necessary.
3) The role and character of the audit committee: Despite the substantial influence of the Audit Committee variable on Tax Avoidance, companies should still ensure that the audit committee plays a significant role in ensuring the company's transparency and compliance with tax regulations. Mitigating risks associated with tax avoidance practices that have the potential to harm the company and its stakeholders can be achieved by fortifying the audit committee.
4) Continuity of research and policy development: It is important to conduct further research to understand the dynamics of tax avoidance in the context of mining companies in Indonesia. The results of this research can be used as a basis for developing better internal policies in managing tax obligations wisely and complying with applicable regulations.
5) Increased internal awareness and training. Companies need to increase internal awareness and understanding regarding the tax consequences of operational and strategic decisions. Training related to tax policies, both for upper level management and operational staff, can help reduce gaps in understanding and increase compliance with tax regulations.

RESEARCH LIMITATIONS

1) Financial limitations: There are financial reports published in the transfer pricing classification that are not available so they cannot be identified properly and reduce the number of samples.
2) Methodological limitations: the statistical methods used to analyze the data must be chosen with care. Limitations in analytical methods in research on mining companies for the 2021-2022 period may affect the validity and interpretation of the findings.

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