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Tax Avoidance in Mining Sector (Coal Production) Companies Listed on the Indonesia Stock Exchange (2019-2023): The Effect of Transfer Pricing and Profitability

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Abstract *This research examines the influence of transfer pricing and profitability on tax avoidance in coal mining companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. Employing a quantitative associative method on panel data from 10 firms, the study measures tax avoidance using the Cash Effective Tax Rate (CETR), where a lower value signifies greater tax avoidance. The results demonstrate that both transfer pricing and profitability have a significant, negative impact on CETR. This finding suggests that more intensive transfer pricing and higher profitability are strongly correlated with increased tax avoidance practices. The findings serve as a crucial reference for corporate tax planning and recommend that firms exercise greater prudence in their transfer pricing strategies, particularly when achieving high profitability. Furthermore, the study advises tax authorities to enhance their supervision of related-party transactions and utilize profitability as a key indicator for mapping tax compliance risks.*

Keyword *Transfer Pricing; Profitability; Tax Avoidance*

INTRODUCTION

Taxes are a cornerstone of state revenue, playing a critical role in funding national development and public expenditures. According to Law No. 28 of 2007 concerning General Provisions and Tax Procedures, tax is a mandatory contribution to the state owed by individuals or entities, enforced by law, without direct reciprocal benefits, and used for state purposes for the prosperity of the people. However, a fundamental conflict of interest exists between taxpayers, particularly corporations, and the government. For companies, tax is often viewed as a significant expense that diminishes profits, while for the state, it is a vital source of income to finance national programs and development. This divergence often motivates companies to engage in tax management strategies aimed at minimizing their tax liabilities. One such strategy is tax avoidance, which involves efforts to reduce tax payments, often by exploiting legal loopholes within existing tax regulations. While tax avoidance may be technically legal, it poses a significant challenge to state revenues.

The Secretary General of the Indonesian Forum for Budget Transparency (FITRA) highlighted the severity of this issue, noting that tax avoidance amounts to approximately IDR 110 trillion annually, with corporations accounting for 80% of this figure. Several notable cases and reports underscore the magnitude of tax avoidance in Indonesia. For instance, PT Adaro Energy Tbk was alleged to have engaged in tax avoidance practices from 2009 to 2017 through transfer pricing, reportedly reducing its tax payments by approximately USD 125 million (IDR 1.75 trillion) by shifting profits to a subsidiary in a low-tax jurisdiction. Similarly, the Tax Justice Network reported that Indonesia suffers an estimated annual loss of USD 4.86 billion (around

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IDR 68.7 trillion) due to tax avoidance, predominantly from corporate profit shifting to tax havens. in 2024, PT Bhakti Agung Propertindo Tbk (BAPI) was implicated in a case involving the submission of incorrect tax returns, resulting in state losses of at least IDR 2.9 billion. These instances highlight the ongoing challenge of ensuring tax compliance and the substantial revenue losses incurred by the state. The actual tax revenue often falls short of targets, as indicated by the tax revenue realization data from 2019-2023, although targets were exceeded in 2022 and 2023.

Table 1 Revenue Target, Revenue Realization, Revenue Percentage

Year	Target Admission	Realization of Acceptance	Percentage of Acceptance
2019	1.557,56	1.332,68	85,56%
2020	1.198,82	1.072,11	89,25%
2021	1.229,60	1.227,50	99,83%
2022	1.600,00	1.716,77	107,3%
2023	1.718,00	1.869,23	108,8%

Source: Ministry of Finance of the Republic of Indonesia, DJP Performance Report

An examination of tax revenue realization between 2019 and 2023 reveals considerable fluctuations pertinent to potential tax avoidance. Notably, the lower collection rates in 2019 (85.56%) and 2020 (89.25%) suggest difficulties in maximizing state income, possibly linked to corporate tax avoidance strategies. Conversely, the period of 2022–2023 saw revenues surpass targets (107.3% and 108.8% respectively), signaling positive developments, yet a sustained assessment of regulatory gaps and oversight efficacy remains crucial.

Transfer pricing is a common method employed, particularly by multinational corporations, to manage their tax obligations by setting prices for intra-group transactions in a way that shifts profits from high-tax to low-tax countries. This practice is often associated with companies aiming for high profitability, as higher profits typically lead to higher tax burdens, thus incentivizing tax minimization efforts. Profitability itself is a key factor, companies with substantial profits may be more inclined to explore avenues for tax avoidance to reduce their tax dues, as a higher profit base results in a larger tax liability. The drive to maximize net profits and shareholder wealth can thus fuel the search for tax avoidance strategies.

Unlike previous studies that often examine tax avoidance in broader contexts, such as manufacturing or banking, this research specifically focuses on the coal mining sector. This sector is selected for its unique profile: it is capital intensive, highly susceptible to transfer pricing practices through multinational affiliated transactions, and it experienced a significant surge in profitability during the 2019–2023 period. Therefore, this study aims to examine how two key determinants namely, transfer pricing and profitability directly influence tax avoidance behavior within the context of this highly specific industry, which is crucial to national revenue.

LITERAUR REVIEW

Agency Theory

Agency Theory, a cornerstone of corporate governance studies, emerged from the concept of separating ownership from management. It views the firm as a web of contracts within a world of transaction costs, stressing the need for principal-agent agreements to manage conflicts overlooked by neoclassical economics. This principal-agent relationship involves owners delegating authority to managers. Yet, as Jensen and Meckling (1976) identified, information gaps and differing goals often lead to monitoring costs and self-interested behavior by agents like chasing bonuses instead of maximizing owner value. The theory presumes individuals act in their own self-interest. In practice, shareholders act as principals and executives as agents. Agents may be incentivized to increase profits, sometimes by reducing tax burdens, which aligns with their performance goals but can also reflect self-serving decisions, as noted by Hendrawaty (2017).

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Eisenhardt (1989) emphasized the contractual nature of the theory and its basis in assumptions about human self-interest, organizational information flows, and information as a commodity. Critically, Jamal & Enre (2023) view the theory as embedding capitalistic, potentially exploitative, values that rationalize control and sideline human elements like empathy in favour of utilitarianism.

International and Regional Context

Globally, the challenge of tax avoidance by multinational enterprises (MNEs) led to the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project. This initiative provides a comprehensive framework, including 15 Action Plans, to address gaps in international tax rules that allow profits to be shifted to low-tax jurisdictions. Key actions directly impacting transfer pricing (Actions 8-10) aim to align transfer pricing outcomes with value creation, while Action 13 enhances transparency through standardized documentation like Country-by-Country Reporting. OECD. (2022).

Within the ASEAN region, including Indonesia, the application of international transfer pricing standards and BEPS measures encounters unique challenges Masri, I. (2021). While the arm's length principle is widely adopted, variations in administrative capacity, availability of comparable data, and the pace of BEPS implementation across member states can create opportunities for regional profit shifting. This highlights the ongoing need for regional cooperation and domestic capacity building to effectively combat tax avoidance.

Tax Avoidance

Tax avoidance, as described by Pohan (2019:370), is a legal and safe practice where taxpayers work to minimize their tax dues without violating current tax regulations. It often involves making use of the inherent 'grey areas' or weaknesses within the Tax Laws to lower the final tax amount. Hutagaol (2007) echoes this view, characterizing tax avoidance as a tax-saving approach that uses a set of actions entirely permissible under tax rules, thereby staying within all established legal limits. Tax avoidance involves strategies aimed at legally reducing tax liabilities. It operates within the confines of the law, primarily by identifying and utilizing loopholes or ambiguities present in the current tax regulations (Sholihah & Rahmiati, 2024). The concept of tax avoidance, characterized as a legal method of tax reduction (Justice Reddy) achieved by leveraging lawful opportunities (Black's Law Dictionary), is often pursued because corporations consider taxes an expense. This can create an agency issue where principals might support assertive tax positions taken by agents. As highlighted by Arizah et al. (2024), a major consequence of high tax avoidance levels, both in Indonesia and globally, is a decline in tax compliance and a considerable loss of state income.

Dyreng et al. (2010) identify several metrics for quantifying corporate tax avoidance. Among these are the Effective Tax Rate (ETR), which signifies the company's overall tax percentage, the Cash Effective Tax Rate (CETR), centered on actual tax payments made, and the Current ETR, which isolates tax figures by removing deferred and final elements. This research specifically utilizes CETR as its measurement tool. Within this framework, a lower CETR score is interpreted as an indication that the firm is likely engaging in tax avoidance. The calculation method compares the company's income tax expense with its profits before tax.

$$CETR = \frac{Tax\ Payment}{Previous\ Profit}\ X\ 100$$

Transfer Pricing

According to Saga (2024:1), multinational companies engage in transfer pricing to set the costs for goods, services, and intangibles that are transferred between their various subsidiaries or affiliated units. This is generally done with the goal of lowering their collective tax burden. A

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significant feature of this practice is the potential use of 'unreasonable' prices, which facilitates the migration of profits from territories with high tax rates to those imposing lower taxes.

Transfer pricing is understood as a method of setting non-arm's length (unreasonable) prices for transactions conducted between related entities. In this research, transfer pricing is measured using a proxy, specifically the ratio of related-party receivables to the company's total receivables, following the approach of Refgia et al. (2017).

$$TP = \frac{Related\ Party\ Receivables}{Total\ Receivables}\ X\ 100$$

Profitability

Profitability, according to Kasmir (2016:196), serves as an indicator illustrating the extent of a company's success in generating profits through its business endeavors. When a company displays a strong ability to earn high profits, it signifies its successful stewardship of its assets. Ambarasri & Hermanto (2021) add that profitability measures how well the total invested capital can yield profits for those who invested, stressing that achieving better profitability hinges on operational efficiency. Profitability reflects a firm's capacity to earn profits within a given timeframe by utilizing its resources and skills. Return on Assets (ROA) is a common metric used for this assessment. Such profitability ratios are derived by contrasting figures from financial statements particularly the balance sheet and income statement thereby offering insights into management's performance regarding operational effectiveness and efficiency (Agustadana & Khomsiyah, 2024).

Return on Assets (ROA) is utilized in this research. According to Kasmir (2016:202), ROA is determined through the ratio of profit after tax to a firm's total assets, meaning a superior ROA indicates higher net profit achievement. This ratio demonstrates a company's capability to generate after-tax earnings from its owned assets. A larger ROA implies more efficient asset management, or generating more profit with the same assets. This profitability level is directly linked to the corporate income tax (PPh Badan) due; greater profits mean a larger tax bill, and lower profits lead to reduced tax liabilities (Mariana et al., 2022).

$$ROA = \frac{Profit\ After\ Tax}{Total\ Asset}$$

Previous Research

Table 2 previous research

NO	NAME, YEAR	TITLE	RESULTS	=	≠
1	Ariff, Akmalia Wan Ismail, Wan Adibah Kamarudin, Khairul Anuar Mohd Suffian, Mohd Taufik (2023)	*Financial distress and tax avoidance: the moderating effect of the COVID-19 pandemic*	Financially distressed firms exhibit lower tax avoidance before and during the pandemic period. The authors find higher tax avoidance during the pandemic compared to the pre-pandemic period, but the pandemic increases the negative relationship between financial distress and tax avoidance.	This study has similarities in the dependent variable, namely Tax Avoidance, and several other similarities in the research sample, namely	This study focuses more on the influence of financial difficulties on tax avoidance and the samples used by this study are companies from 32 different countries.

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NO	NAME, YEAR	TITLE	RESULTS	=	≠
				companies affected by the Covid-19 pandemic.	
2	Alya dinda nurrahmi, dan srirahayu, S.E., M.Ak., CA (2020)	PENGARUH STRATEGI BISNIS, TRANSFER PRICING, DAN KONEKSI POLITIK TERHADAP TAX AVOIDANCE (Studi pada Perusahaan di Sektor Pertambangan yang Terdaftar di Bursa Efek Indonesia)	The results of the study show that simultaneously business strategy, transfer pricing, and political connections have a significant effect on tax avoidance. While partially business strategy does not affect tax avoidance, transfer pricing has a positive effect on tax avoidance, and political connections have a negative effect on tax avoidance.	This research has one Dependent Variable, one Independent Variable and one Sector in common.	This study has different independent variables, namely business strategy and political connections, and the sample used by this study is broader, namely mining sector companies listed on the Indonesia Stock Exchange.
3	Hafid Alim Sobirin, Etika Dewi Rahayu, Priyatno, Ajimat (2023)	UKURAN PERUSAHAAN, TRANSFER PRICING, CAPITAL INTENSITY DAN PENGARUHNYA TERHADAP TAX AVOIDANCE	The results of the analysis show that company size has a significant influence on tax avoidance, while transfer pricing and capital intensity do not have a significant influence.	This study has the same dependent variable, namely Tax Avoidance, and one independent variable, namely Transfer Pricing.	This study has different independent variables, namely company size and capital intensity. The data taken from this study are non-cyclical companies listed on the Indonesia Stock Exchange for the 2020-2022 period.
4	Scott D. Dyreng, Michelle Hanlon, Edward L.	*The effects of Executives on Corporate Tax Avoidance*	This study investigates whether individual top executives have an incremental effect on corporate tax avoidance	This study has the same dependent variable,	This research focuses more on the influence of individual

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NO	NAME, YEAR	TITLE	RESULTS	=	≠
	Maydew (2010)		that cannot be explained by firm characteristics. To identify executive effects on a firm's effective tax rate, we construct a dataset that tracks the movements of 908 executives across firms over time. The results show that individual executives play a significant role in determining the level of tax avoidance that firms engage in. The economic magnitude of executive effects on tax avoidance is substantial. Movements between the top and bottom quartiles of executives result in about an eleven percent change in the GAAP effective tax rate; thus, executive effects appear to be an important determinant of corporate tax avoidance.	namely Tax Avoidance.	peaks in the company on Tax Avoidance that occurs in the company.
5	Renal Ijlal Alfarizi, Ratna Hindria Dyah Pita Sari, Ayunita Ajengtiyas (2021)	Pengaruh Profitabilitas, Transfer Pricing, Dan Manajemen Laba Terhadap *Tax Avoidance*	The results of the research obtained were: (1) there was no influence between profitability and tax avoidance, (2) there was a positive and significant influence between transfer pricing and tax avoidance, (3) There was no influence between earnings management and tax avoidance.	This study has several similarities in Independent variables and Dependent variables, namely Transfer Pricing, Profitability and Tax Avoidance.	This study has a difference in the Independent variable, namely Earnings Management and the population used in this study is wider, namely mining companies listed on the Indonesia Stock

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NO	NAME, YEAR	TITLE	RESULTS	=	≠
					Exchange for the 2016-2019 period.
6	Ilham Hidayah Napitupulu,Anggiat Situngkir, Chairunnisa Arfani (2020)	Pengaruh *Transfer Pricing* dan Profitabilitas Terhadap *Tax Avoidance*	The results of the analysis show that transfer pricing and profitability have no effect on tax avoidance.	This study has similarities in Dependent and Independent Variables, namely Transfer Pricing, Profitability and Tax Avoidance.	This study focuses on the plantation company sector listed on the IDX in 2013-2019.
7	Rafiqah Asaff, Nurjannah, Muh H. Yunus, Renaldi, Munawir (2022)	*Factor Supporting Companies Performing Transfer Pricing*	The results of the study found that the tax variable showed a positive and significant influence on the occurrence of transfer pricing transactions. While the tunneling incentive and bonus mechanism variables did not have a significant effect on transfer pricing.	This study has similarities in the Transfer Pricing variable.	This research focuses more on the factors that influence transfer pricing that occurs in companies.
8	Diana Sari, Ratih Kusuma Wardani, Dwirani Fauzi Lestari (2021)	*The Effect of Leverage, Profitability and Company Size on Tax Avoidance (An Empirical Study on Mining Sector Companies Listed on Indonesia Stock Exchange Period 2013-2019*)	The results of the study indicate that leverage and company size have an effect on tax avoidance, while profitability has no effect on tax avoidance. For further research, this study suggests adding research model variables that have an effect on tax avoidance.	This research has similarities in the dependent variable, namely Tax Avoidance and the independent variable Profitability.	This study has different variables, namely Leverage and Company Size. The data used in this study also has differences, namely mining sector companies listed on the Indonesia Stock Exchange for

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NO	NAME, YEAR	TITLE	RESULTS	=	≠
					the 2014-2018 period.

A review of the previous studies summarized in Table 2 reveals significant inconsistencies that form the basis for this research. Regarding transfer pricing, there is a clear conflict in the literature. Research by Nurrahmi & Rahayu (2020) and Alfarizi et al (2021). Found a positive and significant effect on tax avoidance. However, this finding is directly contradicted by studies from Sobirin et al. (2023) and Napitupulu et al. (2020), which, in their respective contexts, reported no significant influence of transfer pricing on tax avoidance. This disparity suggests that the impact of transfer pricing may be contingent on the specific industry and period under examination. An even sharper divergence appears concerning profitability. Three separate studies in this review by Alfarizi et al. (2021), Napitupulu et al. (2020), and Diana Sari et al (2021). Uniformly concluded that profitability does not affect tax avoidance. This consistent null finding, which challenges the conventional hypothesis, raises critical questions about when and why profitability fails to explain tax avoidance practices. This conflict in prior findings underscores the need for further investigation. This study is therefore critical to re-examine the influence of transfer pricing and profitability specifically within the coal mining sector during the 2019–2023 period a unique context of extreme profitability fluctuations to provide more recent and relevant empirical evidence that can help clarify these existing inconsistencies.

Transfer pricing generally occurs between related parties. It's common for companies using transfer pricing to bypass prevailing market rates, instead setting artificial prices for internal transactions. By raising or lowering these transfer prices, firms can strategically allocate net profits among their related entities. A key consequence is a reduction in potential tax revenue for the government Nurrahmi & Rahayu, (2020). Empirical evidence supports this; research by Alfarizi et al. (2021) demonstrated a positive and significant impact of transfer pricing on tax avoidance. These findings are consistent with those of Nurrahmi & Rahayu (2020), who also identified a positive link. Based on this discussion, the research hypothesis is proposed as:

Ha^1 : Transfer pricing affects tax avoidance.

Ensuring future business sustainability drives companies to constantly seek higher profits. Firms aim for optimal income maximization, as profit serves as a key indicator of successful business management and is vital for ongoing operations. A company's performance is often gauged by its profitability. Consequently, higher profitability usually leads to a greater tax liability. This situation can motivate companies to find methods for reducing their tax obligations, and engaging in tax avoidance is one such strategy. Supporting this, a study by Dewi & Noviari (2017) found a positive relationship between profitability and tax avoidance. Therefore, based on this reasoning, the following hypothesis is put forward:

Ha^2: Profitability has an effect on Tax Avoidance.

RESEARCH METHOD

This study employs an associative research design, a methodological approach utilized to analyze the influence exerted by one variable upon another. The core objective is to evaluate the impact of transfer pricing and profitability on corporate tax avoidance practices. Utilizing

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secondary data, the research sources its information from the official website of the Indonesia Stock Exchange (IDX) (www.idx.co.id). The dataset constitutes panel data, integrating both time-series information (from 2019 to 2023) and cross-sectional data across firms. The entire population comprises 34 companies operating within the coal production sub-sector and listed on the IDX during the 2019-2023 period. Sample selection adheres to a purposive sampling technique, whereby firms are chosen based on specific, predefined criteria. These inclusion criteria are:

1. The company must operate within the Mining Sector (specifically Coal Production) and be listed on the IDX throughout the 2019-2023 timeframe.
2. The company must have consistently published complete annual and financial reports during the observation period.
3. The company must possess comprehensive data for all variables under investigation in this study.

Table 3. Research Sample

No.	Kode Perusahaan	Nama Perusahaan
1	HRUM	PT. Harum Energy Tbk
2	ADRO	PT. Adaro Energy Tbk
3	BYAN	PT. Bayan Resources Tbk
4	KKGI	PT. Resource Alam Indonesia Tbk
5	GEMS	PT. Golden Energy Mines Tbk
6	DSSA	PT. Dian Swastatika Sentosa Tbk
7	SGER	PT. Sumber Global Energy Tbk
8	MBAP	PT. Mitrabara Adiperdana Tbk
9	BSSR	PT. Baramulti Suksessarana Tbk
10	ITMG	PT. Indo Tambangraya Megah Tbk

The final sample selected for this investigation consists of 10 companies. Given that the observation period spans five years, from 2019 to 2023, the total number of data observations utilized in this study amounts to 50. This research employs a quantitative approach to assess the extent to which Related Company Transactions (Transfer Pricing) and Return on Assets (ROA) influence tax avoidance practices.

Table 4. Operational Definition of Variables

No.	Variable Name	Variable Concept	Scale
1	Transfer Pricing (X1)	Results of dividing related party receivables by total receivables and multiplying by 100%	Ratio
2	Profitability (X2)	Distribution of Profit After Tax to Total Assets	Ratio
3	Tax Avoidance (Y)	Results of Income Tax Payment Distribution against Profit Before Tax	Ratio

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RESULT

Table 5. Descriptive Statistics Results

	Y	X1	X2
Mean	0.280180	0.144861	0.212803
Median	0.223974	0.091054	0.156610
Maximum	0.811262	0.686437	0.616346
Minimum	0.030279	0.000337	0.019267
Std. Dev.	0.192479	0.152702	0.173708
Skewness	0.969289	1.834125	0.951679
Kurtosis	3.149552	6.233644	2.764032
Jarque-Bera	7.875932	49.81772	7.663446
Probability	0.019488	0.000000	0.021672
Sum	14.00899	7.243055	10.64013
Sum Sq. Dev.	1.815359	1.142581	1.478556
Observations	50	50	50

Source: Research Data, 2025

The results from descriptive statistics show that the Cash Effective Tax Rate (CETR), used here as a proxy for tax avoidance, varies significantly. Its lowest recorded value is 0.030279, and its highest is 0.811262, defining the range of the data. The central tendency, or mean, is 0.280180, indicating an average cash tax payment of 28.02% relative to profit before tax. The data's dispersion is captured by a standard deviation of 0.192479. When compared to the mean, this standard deviation (Coefficient of Variation ≈ 68.70%) points to a high degree of variability. This suggests that the tax avoidance practices among the sampled firms and time periods are not uniform but rather diverse. This variability underscores the appropriateness and accuracy of employing the CETR measure for analyzing tax avoidance in this study.

The RPT variable, representing transfer pricing, shows significant spread in the descriptive analysis, with values from 0.000337 up to 0.686437. The mean stands at 0.144861, while the standard deviation is even larger. This yields a Coefficient of Variation of 105.41%, indicating extreme data variability. It implies that the intensity of related party transactions is highly heterogeneous within the sample, pointing towards disparate strategies among the firms regarding these transactions.

Profitability, measured by ROA, ranges from 0.019267 to 0.616346 based on descriptive statistics. The sample mean of 0.212803 (a 21.28% average return) is accompanied by a standard deviation of 0.173708. The resulting Coefficient of Variation (81.63%) is high, indicating substantial variability. This implies that financial performance and asset utilization efficiency differ significantly across the companies and time periods included in this research sample.

Table 6. Multicollinearity Test Result

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Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.002400	3.691597	NA
X1	0.028691	1.934795	1.008596
X2	0.022172	2.553152	1.008596

Source: Research Data, 2025

Based on the table, the results of the multicollinearity test show Centered VIF both VIF values < 10. Therefore, based on this VIF analysis, it can be confidently concluded that there is no multicollinearity.

Table 7. Autocorrelation Test Result

F-statistic	0.375951	Prob. F(2,45)		0.6888
Obs*R-squared	0.821717	Prob. Chi-Square(2)		0.6631

Source: Research Data, 2025

According to the autocorrelation test results presented in the table, the Obs*R-squared value exceeds the alpha level of 0.05. This outcome indicates that the data is suitable for further use in the analysis.

Table 8. Heteroscedasticity Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.049684	0.011615	4.277448	0.0001
X1	-0.037349	0.040163	-0.929933	0.3572
X2	-0.064477	0.035306	-1.826235	0.0742

Source: Research Data, 2025

The results of the heteroscedasticity test show Both of these probability values are greater than our tolerance limit (0.05). This means that neither Transfer Pricing nor Profitability individually shows indications of a heteroscedasticity problem.

Table 9. Coefficient determination result

R-squared	0.158500	Mean dependent var		0.280180
Adjusted R-squared	0.122691	S.D. dependent var		0.192479
S.E. of regression	0.180285	Akaike info criterion		-0.530431
Sum squared resid	1.527625	Schwarz criterion		-0.415710
Log likelihood	16.26079	Hannan-Quinn criter.		-0.486745
F-statistic	4.426308	Durbin-Watson stat		1.569938
Prob(F-statistic)	0.017329			

Source: Research Data, 2025

The coefficient of determination, as measured by the Adjusted R-squared in the table, is 0.122691, equivalent to 12.27%. This figure reveals that the combined influence of transfer

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pricing and profitability explains only 12.27% of the variability in corporate tax avoidance. This implies that while these variables have some effect, a substantial 87.73% of the variation in tax avoidance practices stems from numerous other sources not examined here. It highlights that a multitude of other potentially significant factors, outside the scope of transfer pricing and profitability, also affect corporate tax avoidance practices. This limited explanatory power raises further questions: could the existing complexity or strictness of Indonesian transfer pricing regulations be influencing these outcomes, perhaps in ways not fully captured by the model? Or, alternatively, is it possible that the proxy used for transfer pricing (RPT) does not entirely reflect the full spectrum of practices or address potential misperceptions in its measurement, thus impacting its ability to explain tax avoidance more comprehensively? Exploring these aspects could provide deeper insights into the dynamics of tax avoidance in this sector.

Table 10. T Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.402545	0.048987	8.217360	0.0000
X1	-0.394715	0.169385	-2.330285	0.0241
X2	-0.306321	0.148902	-2.057204	0.0452

Source: Research Data, 2025

A p-value of 0.0241 was obtained for the Transfer Pricing variable. The decision regarding the hypothesis is made by contrasting this value with the 0.05 significance level (α). As the p-value (0.0241) falls below the alpha (0.05), the results indicate that Transfer Pricing has a effect on Tax Avoidance. With a p-value of 0.0452, the Profitability variable's test result falls below the 0.05 significance level (α) used for decision-making. Profitability has a effect on Tax Avoidance.

DISCUSSION

The Effect of Transfer Pricing on Tax Avoidance

The first hypothesis Ha1 proposed that transfer pricing has an effect on tax avoidance. The findings confirm that transfer pricing influences tax avoidance. The t-test results support this conclusion, showing a probability value of 0.0241 (which is less than the 0.05 significance level). Furthermore, the negative coefficient and corresponding t-statistic (-2.330285) indicate a significant inverse relationship. This implies that as transfer pricing activities (as proxied by RPT) increase, the Cash Effective Tax Rate (CETR) tends to decrease, which is interpreted in this context as an increased level of tax avoidance. This study's finding that transfer pricing has a significant negative effect on the Cash Effective Tax Rate (CETR) indicating that transfer pricing practices increase tax avoidance is consistent with research by Nurrahmi & Rahayu (2020) and Alfarizi et al. (2021). Both prior studies also identified a positive relationship between transfer pricing and tax avoidance. This alignment reinforces the Agency Theory argument that management (the agent) can use discretion in transfer pricing as a tool for tax efficiency to maximize firm profits. However, this result stands in contrast to the findings of Sobirin et al. (2023) and Napitupulu et al. (2020), who reported no significant influence of transfer pricing. This divergence in findings can likely be explained by several external factors. First, the differing industrial contexts. Our research concentrates on the capital-intensive coal mining sector, which is rife with multinational affiliated transactions, making transfer pricing highly relevant. In contrast, Sobirin et al (2023) study examined non periodic firms, while Napitupulu et al (2020). focused on plantations, both of which have different operational dynamics and supply chains. Second, the observation period. The 2019–2023 period in our study captured an extreme commodity price boom. This external shock likely intensified the incentive for coal companies to

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manage their taxable income more aggressively through transfer pricing compared to the more stable periods examined in the other studies.

This significant inverse relationship between the RPT proxy for transfer pricing and CETR (indicating increased tax avoidance) reflects a critical concern for tax authorities, a challenge also prevalent across many ASEAN nations Masri, I. (2021). While these nations often face similar oversight issues regarding related-party transactions, the effectiveness of their countermeasures and the specific nature of transfer pricing practices can vary. When viewed against the OECD BEPS framework, these findings suggest that despite international efforts (particularly BEPS Actions 8-10 and 13) to curb profit shifting and enhance transparency, MNEs, especially in resource-rich sectors like Indonesian coal mining, may still utilize particular related-party transaction structures (as captured by an increasing RPT ratio) to effectively lower their cash tax rates. This underscores the persistent need for robust domestic implementation and enforcement of BEPS-aligned regulations within the Indonesian context to ensure taxation aligns with value creation.

The Effect of Profitability on Tax Avoidance

The second hypothesis Ha2 stated that Profitability has a significant effect on tax avoidance. The results of the t-test showed a probability value of 0.0452, which is less than the significance level of 0.05 (0.0452 < 0.05), confirming a significant effect. Importantly, the negative t-statistic (-2.057204) and its corresponding negative coefficient indicate that this significant relationship is inverse. This implies that as a company's profitability (ROA) increases, its Cash Effective Tax Rate (CETR) tends to decrease, signaling a stronger indication of tax avoidance. Thus, it can be concluded that profitability has a significant negative effect on tax avoidance, leading to increased tax avoidance practices. This aligns with Agency Theory, as proposed by Eisenhardt (1989), which assumes that individuals are inherently driven by self-interest, potentially leading companies to maximize post-tax profits through various tax reduction strategies. However, these results also support the theoretical expectation that large profits create strong incentives for tax planning. Interestingly, these findings directly contradict several previous studies included in our literature review. Studies by Alfarizi et al. (2021), Napitupulu et al. (2020), and Diana Sari et al. (2021) all report that profitability has no significant effect on tax avoidance. Why are our results different? The most plausible explanation again lies in the unique sectoral and temporal context. The 2019–2023 period was a period of “windfall profits” for the coal industry. It is possible that at normal levels of profitability, as may be the case in other research samples, firms are less aggressive. However, when profitability reaches very high levels, the incentive to shield such earnings from substantial tax rates becomes very strong, revealing significant effects that may not be detectable under normal conditions. These findings imply that the effect of profitability on tax avoidance may be non-linear or only manifest under certain economic circumstances.

The observation that higher profitability correlates with increased tax avoidance (lower CETR) is a widely discussed phenomenon internationally, with studies in both developed (OECD) and developing (ASEAN) economies exploring this dynamic Masri, I. (2021). It highlights that greater resources and amplified incentives often drive highly profitable firms towards more sophisticated tax planning. Even within the post-BEPS environment, which aims to establish a fairer global tax system, this trend suggests that the motivation to reduce tax burdens when profits are high remains a significant factor. This indicates that regulatory measures, while crucial, should ideally be complemented by strong corporate governance and continuous, risk-based monitoring by tax authorities Al-Faryan, (2024). For ASEAN countries, navigating the balance between attracting investment and ensuring that profitable MNEs contribute their fair share of tax remains a key policy challenge, reinforcing the importance of adopting and effectively implementing BEPS minimum standards.

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CONCLUSION

Based on the results of data analysis, this study concludes that transfer pricing practices and profitability levels increase tax avoidance in coal mining companies in Indonesia during the period. This finding confirms that higher affiliate transaction intensity and high profitability achievement encourage companies to make more aggressive tax efficiency efforts, which are reflected in the low Cash Effective Tax Rate (CETR). Although providing relevant empirical evidence, this study has several limitations that need to be considered. First, the focus on the coal production sub-sector results in a relatively limited sample, so generalizing the results to the entire mining sector must be done with caution. Second, this research model is only able to explain 12.7% of the variation in tax avoidance, indicating that many other factors outside of transfer pricing and profitability also play a role. Finally, the use of specific proxies for each variable (RPT for transfer pricing and ROA for profitability) is one of many ways to measure this complex phenomenon.

These limitations directly pave the way for future research directions. For further research, it is recommended to expand the sample coverage by including other mining sub-sectors or even compare across industries to test the generalizability of the findings. Develop a more comprehensive model by including additional variables such as corporate governance quality, ownership structure, or capital intensity to gain a more comprehensive understanding. Use alternative proxies or mixed-methods approaches, such as case studies, to dig deeper into the motivations behind corporate tax strategies.

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