

THE EFFECT OF TRANSFER PRICING, SALES GROWTH, AND INVENTORY INTENSITY ON TAX AVOIDANCE IN FOOD AND BEVERAGE COMPANIES

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THE EFFECT OF TRANSFER PRICING, SALES GROWTH, AND INVENTORY INTENSITY ON TAX AVOIDANCE

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Abstract

This study approaches quantitative methods to determine the effect of transfer pricing, sales growth, and inventory intensity on tax avoidance. The research uses secondary data from the company's annual report. The annual report can be accessed on the company's official website, www.idx.co.id and www.idnfinancials.com. The study population consisted of 38 food and beverage companies listed on the Indonesia Stock Exchange (IDX) during 2018 and 2021. The sampling used Purposive sampling method with a total sample of 72 company data obtained during 2018-2021. In this test, there are outlier data so that 11 samples are removed so that the data is normally distributed and the number of samples becomes 61 samples. This study uses multiple linear regression analysis techniques. The results of the research obtained are transfer pricing and sales growth have a negative and significant effect on tax avoidance. While inventory intensity has a positive and significant effect on tax avoidance.

Keyword: *transfer pricing, sales growth, inventory intensity, tax avoidance*

1. Introduction

The component of state revenue comes from revenue in the taxation sector because taxes have the largest contribution to state revenue which helps the government in increasing economic growth. The tax revenue target continues to increase every year due to an increase in state expenditure. However, the proportion of tax revenue received never meets the predetermined target. The following is the achievement of tax revenue realization realized in 2018-2021 based on data provided by the Ministry of Finance:

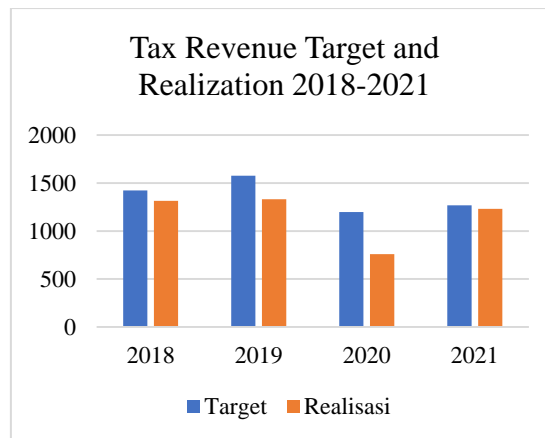


Figure 1. Tax Revenue Target and Realization 2018-2021

According to the realization data made, from 2018 to 2021, the state never met the target set by the Finance Ministry. In 2020, tax revenue will decrease significantly due to the pandemic of the new coronavirus infection. In addition, tax revenues fell short of targets, partly because the targets were too high, and partly because taxpayers deliberately avoided taxes by exploiting weaknesses in the tax code.

Tax revenue for the government has the opposite condition with companies. From the viewpoint of companies, companies consider taxes as a burden that does not provide benefits to them. Companies want to pay a small portion of tax, while the government wants more tax revenue. For companies, taxes will reduce the company's income or cash surplus. One of the efforts to reduce the number of taxes is to do tax planning, namely tax avoidance (Sonia & Suparmun, 2019).

Tax avoidance cases were revealed in the report of the Tax Justice Network, an independent taxation institution, which entitled *The Condition of Tax Justice 2020: Tax Justice in the Covid-19 Period* that a total loss of IDR 68.7 trillion was caused by taxpayers in Indonesia. The amount of losses caused reached Rp67.6 trillion caused by corporate taxpayers, while the rest came from individual taxpayers with a total of Rp1.1 trillion. Indonesia's position in tax evasion cases is ranked fourth in Asia after China, India, and Japan (www.nasional.kontan.co.id).

The phenomenon of tax avoidance occurs in several companies, for example, in the case of a manufacturing business in a food and beverage company, namely PT Indofood Sukses Makmur Tbk in 2013 established a new business entity and transferred assets and liabilities to the new business entity to avoid taxes of Rp 1.3 billion to its branch, PT Indofood CBP Sukses Makmur. The business expansion carried out was subject to a decision by the

Direktorat Jendral Pajak (DJP) that PT Indofood Sukses Makmur must continue to pay the tax payable of IDR 1.3 billion (www.gresnews.com). In addition, the phenomenon of tax avoidance also occurred at PT Coca-Cola Indonesia. PT CCI experienced a decrease in tax payments of IDR 49.24 billion. Significant financial expenses from expenses make the amount of income subject to tax reduced and result in low tax deposits. DJP stated that this financial burden was very suspicious which could lead to tax avoidance (www.money.kompas.com). Another phenomenon in food and beverage companies occurred at PT Unilever Indonesia Tbk., which utilized a transfer pricing scheme to avoid taxes.

Based on the phenomenon mentioned, it can be summarized that several things tend to make companies practice tax avoidance, such as transfer pricing, sales growth, and inventory intensity. Alfarizi et al., (2021) in their journal explained that transfer pricing is an effort carried out by management by transferring company profits or expenses to related companies and using loopholes in tax regulations to avoid taxes. Research by Omi Pramiana (2022), Hadianto (2021), and Cahyati & Darma (2022) states that transfer pricing has a positive effect on tax avoidance. Meanwhile, Sukrianingrum et al., (2022), Ayu et al., (2022), and Irawan, Ferry; Kinanti, Annisa; Suhendra, (2020) state that transfer pricing has a negative effect on tax avoidance. Contrary to research by Panjalusman, Nugraha, & Setiawan (2018), Pangaribuan et al., (2021) and Hutomo, Sari, & Nopiyanti (2021) state that transfer pricing has no effect on tax avoidance.

Sales growth is one of the factors that affect tax avoidance. Sales in the company can increase or decrease. The increased sales growth in the company results in large profits with certain costs. Companies will attempt to avoid taxes because if profits increase, then income tax will also increase (Afrianti, Uzliawat, & Ayu Noorida S, 2022). Research by Tebiono & Sukadana (2019), Wahyuni, Fahada & Atmaja (2019) and Ningsih & Noviari (2022) found that sales growth has a positive effect on tax avoidance. Meanwhile, Muti'ah et al. (2021), and Susanti & Satyawan (2020) in their journals found that sales growth has a negative effect on tax avoidance. Meanwhile, research conducted by Nurdyastuti & Suroto (2022), Cahyati & Darma (2022), Susilowati, Dewi, & Wijayant (2020), Azis & Sari (2022), Sonia & Suparmun (2019), and Pravita, Wahyu, & Achmad (2022) found that sales growth has no effect on tax avoidance.

Inventory intensity is one of the company's indicators that can affect the level of tax effectiveness because the more inventory the company invests in, the greater the expenses that must be paid by the company. These expenses will reduce the company's net profit which results in the amount of tax paid being reduced (Cindy, Putri, & Pratiwi, 2022). The previous research which done by Dwiyanti & Jati (2019), Novitasari & Suharni (2019), Cindy et al. (2022), Sukrianingrum et al. (2022), and Pravita et al. (2022) showed that inventory intensity has a positive effect on tax avoidance. Anindyka, Pratomo, & Kurnia's research (2018) showed that inventory intensity has a negative effect on tax avoidance. Contrary to the research of Artinasari & Mildawati (2018), Manihuruk, Arieftiara, & Miftah (2021), Susanti & Satyawan (2020), and Sonia & Suparmun (2019) which show that inventory intensity has no effect on tax avoidance.

2. Material and Method

2.1 Design Study

This study used a quantitative method for research. The purpose of quantitative research is to prove a theory or conceptual model that can explain a problem phenomenon in the unit of analysis under study (Purwohedi, 2022). The data for this study were obtained from secondary data from the financial reports of companies that listed on the Indonesia Stock Exchange (IDX). The study population was food and beverage companies, with a total of 38 companies. The sampling of this research was performed using purposive sampling method, where the sample was taken according to predetermined criteria. Therefore, 18 companies were obtained with a total of 72 samples over four years.

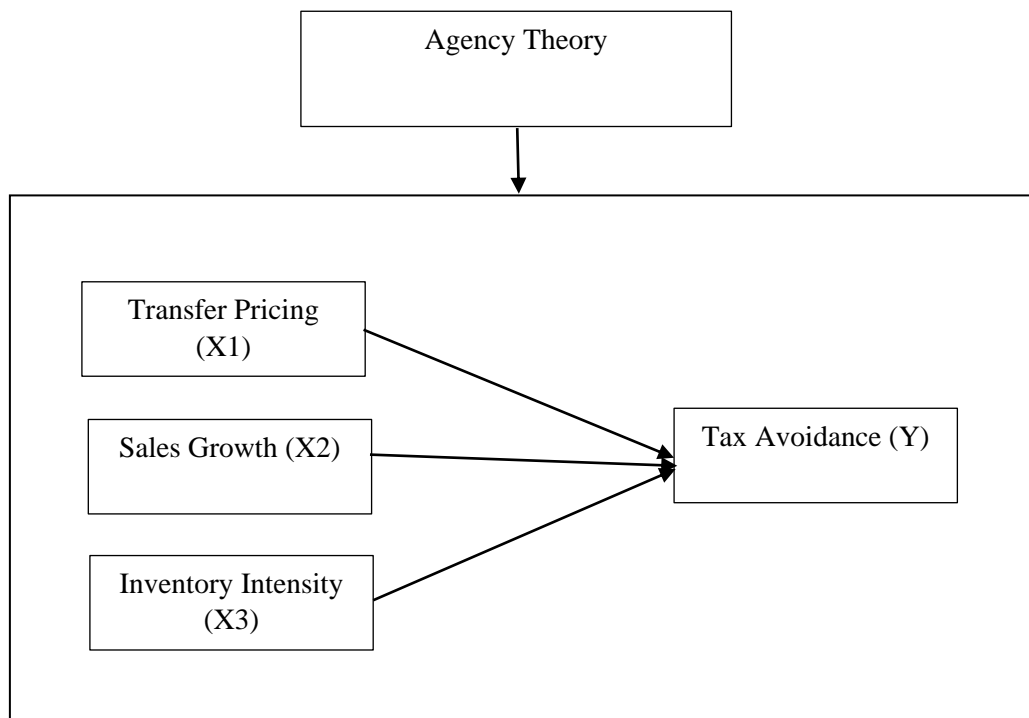


Figure 2. Research Model

2.2 Data Analysis

The data analysis method used in this study is a multiple regression analysis method with transfer pricing (X1), sales growth rate (X2), and inventory intensity (X3) as independent variables, and tax avoidance (Y) as a dependent variable. Data processing is supported through the use of the Social Science Statistical Package (SPSS) version 20 program.

3. Result

3.1 Descriptive Analysis

The descriptive statistics table shows the variables used in this study. From the criteria that have been determined, the sample obtained is 72 companies for four years in accordance with the purposive sampling used in this study. However, in the test, the data is not normally

distributed due to outlier data which must be removed from the sample so in order for the data to be normally distributed, the number of samples becomes 61.

Table 1. Result of Descriptive Analysis

	N	Min.	Max.	Mean	Std. deviation
TP	61	.000	.279	.06126	.080378
SG	61	-.290	2.821	.19143	.437342
INV	61	.015	.326	.14026	.076380
CETR	61	.002	.392	.20398	.087446

Based on the descriptive analysis table, it can be known that the amount of transfer pricing which is the sample of this study is between 0.000 to 0.279 with an average of 0.06126 and a standard deviation of 0.080378. In sales growth, it shows that the amount of Sales Growth which is the sample of this study is between -0.290 to 2.821 with an average of 0.19143 and a standard deviation of 0.437342. Inventory intensity gives the result that the amount of Inventory Intensity which is the sample of this study is between 0.015 to 0.326 with an average of 0.14026 and a standard deviation of 0.076380. It can be known that the amount of Tax Avoidance which is the sample of this study is between 0.002 to 0.392 with an average of 0.20398 and a standard deviation of 0.087446.

3. 2 Multiple Linear Regression Analysis

The results of the multiple regression analysis can be summarized as follows. The variables tax avoidance (y), transfer pricing (x1), sales growth (x2), and inventory intensity (x3) have the following relationships:

Table 2. Multiple Linear Regression Analysis

Pattern	Non-standardized Coefficients B	T	Sig.
(Constant)	0,200	9,300	0,000
TP	-0,500	-4,411	0,000
SG	-0,066	-3,099	0,003
INV	0,337	2,753	0,008
Adjusted R Square	0,361		
Sig. F	0,000		

Referring to the results of the multiple regression analysis presented in Table 2, the multiple regression model can be stated as:

$$Y = 0,200 - 0,500 TP - 0,066 SG + 0,337 Inv + \epsilon$$

3. 3 Analysis of the t-test

The results of testing the transfer pricing variables (x1), sales growth (x2), and inventory intensity (x3) against the tax avoidance variable (y) can be explained as follows.

Table 3. Multiple Linear Regression Analysis

Pattern	T	Sig.
(Constant)	9,300	0,000
TP	-4,411	0,000
SG	-3,099	0,003
INV	2,753	0,008

The statistical results of the t-test for the Transfer Pricing variable obtained a significance value of 0.000 less than the error tolerance $\alpha = 0.05$ and t count of $-4.411 >$ from t table 2.002. Then the hypothesis is rejected. This means that Transfer pricing negatively and significantly affects tax avoidance.

The statistical results of the t-test for the Sales Growth variable obtained a significance of 0.003 less than the error tolerance $\alpha = 0.05$ and t count of $-3.099 >$ from t table 2.002. Then the hypothesis is rejected. This means that Sales Growth negatively and significantly affects Tax Avoidance.

The statistical results of the t-test for the Inventory Intensity variable obtained a significance of 0.008 less than the error tolerance $\alpha = 0.05$ and t count of $2.753 >$ from t table 2.002. Then the hypothesis is accepted. This means that Inventory Intensity positively and significantly affects Tax Avoidance.

3. 4 Analysis of the f-test

Table 4. Multiple Linear Regression Analysis

Pattern	Sig.
Sig F.	0,000

From Table 4, we can see that the multiple regression test results in an F value of 12.307, the significance level of 0.000 is below 0.05, and an F value of 12.307 is greater than F (Table 2.76). From this, we can conclude that the considered model is applicable.

3. 5 Determination Coefficient Analysis

The coefficient of determination results for this study are shown in Table 5 below.

Table 5. Coefficient Determination

Pattern	Customized R Square
Adjusted R Square	0,361

The adjusted R-squared value of the test result for the coefficient of determination is 0.393. This means that the independent variable's ability to explained the variation in the dependent variable is 39.3%, with the remainder explained by other variables outside the study model.

4. Discussion

4. 1 Effect of Transfer Pricing on Tax Avoidance

Referring to the hypothesis test results presented in Table 3, the transfer pricing variable significantly affects tax avoidance activities, but with a negative coefficient value. By

increasing transfer pricing, the tax avoidance activity decreases. It can be interpreted that companies conducting transfer pricing comply with government regulations regarding transfer pricing, namely the arm's length principle. So that this regulation will make it difficult for companies to conduct tax avoidance through transfer pricing (Ayu et al., 2022). The results of this study are consistent with those of Sukrianingrum et al., (2022), Ayu et al., (2022), and Irawan, Ferry; Kinanti, Annisa; Suhendra, (2020) found that Transfer pricing significantly and negatively affects tax avoidance.

4. 2 Effect of Sales Growth on Tax Avoidance

Following the test results of the hypothesis presented in Table 3. Sales Growth has a significant effect on Tax Avoidance activity but with a negative coefficient value. If sales growth increases, tax avoidance activity decreases. An increase in sales growth indicates that the company is capable of paying its taxes because the profit earned by the company is large. Therefore, an increase in sales growth that makes the tax burden increase does not guarantee that a company will make tax avoidance efforts (Susanti & Satyawan, 2020). In addition, an increase in sales growth will be of concern to tax officials because the amount of tax payable that the company must pay increases so managers will be more vigilant in carrying out their tax policies (Muti'ah et al., 2021). The results of this study are consistent with research by Muti'ah et al. (2021) and Susanti & Satyawan (2020) state that Sales growth significantly and negatively affects tax avoidance.

4. 3 Effect of Inventory Intensity on Tax Avoidance

Consistent with the hypothesis testing results presented in Table 3, inventory intensity has a significant positive effect on tax avoidance activity. The agency theory used is in line with this research. Inventory intensity that has increased is likely to make managers (agents) in the company do tax avoidance to get the compensation promised by the owner (principal). The increase in costs borne by the company due to the high level of inventory will reduce taxable profit and then the tax burden will decrease. High inventory intensity indicates that the company manages its investment in the form of inventory effectively and efficiently for tax avoidance purposes. The company will increase the final inventory to reduce the amount of tax payable. From this, it can be concluded that the higher the inventory intensity, the greater the tax avoidance behavior of the company (Plavita et al., 2015). The results of this study is aligned with the research of Dwiyaniti & Jati (2019), Novitasari & Suharni (2019), Cindy et al., (2022), Sukrianingrum et al., (2022), and Pravita et al., (2022) showing the results that inventory intensity is positively and significantly related to tax avoidance.

5. Conclusion, Implication, and Recommendation

From the test results that have been done before, it can be summarized that the transfer pricing and sales growth variables have a negative and significant effect on tax avoidance. Meanwhile, the inventory intensity variable has a positive and significant effect on tax avoidance. For further research, it is expected that the sample used is wider so that the research results can be compared between industrial sectors and it is hoped to add other

variables that influence the company's decision to perform tax avoidance such as thin capitalization, capital intensity, and corporate social responsibility.

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