

The Effect of Transfer Pricing, Thin Capitalization and Foreign Ownership on Tax Aggressiveness in Manufacturing Companies in Indonesia

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ABSTRACT

This study aims to analyze the effect of transfer pricing, thin capitalization, and foreign ownership on tax aggressiveness in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. Secondary data was obtained from an annual report with a sample of 39 companies selected through the purposive sampling method, resulting in 195 observations. Data analysis was carried out using the help of WarpPLS 8.0 software. The results of the study showed that transfer pricing did not have a significant effect on tax aggressiveness, while thin capitalization and foreign ownership were proven to have a significant positive effect. These findings support the agency's theory that managers tend to act opportunistic in reducing tax burdens through capital structure policies and foreign shareholder encouragement. This research contributes to enriching the literature on tax avoidance practices in Indonesia and provides implications for regulators to strengthen tax regulations and supervision.

Keywords: Ceo Overconfidence; Leverage; Dividend Policy

Pengaruh Transfer Pricing, Thin Capitalization dan Kepemilikan Asing terhadap Agresivitas Pajak pada Perusahaan Manufaktur di Indonesia

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh transfer pricing, thin capitalization, dan kepemilikan asing terhadap agresivitas pajak pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) periode 2019–2023. Data sekunder diperoleh dari laporan tahunan dengan sampel sebanyak 39 perusahaan yang dipilih melalui metode purposive sampling, sehingga menghasilkan 195 observasi. Analisis data dilakukan dengan menggunakan bantuan perangkat lunak WarpPLS 8.0. Hasil penelitian menunjukkan bahwa transfer pricing tidak berpengaruh signifikan terhadap agresivitas pajak, sedangkan thin capitalization dan kepemilikan asing terbukti berpengaruh positif signifikan. Temuan ini mendukung teori agensi bahwa manajer cenderung bertindak oportunistik dalam mengurangi beban pajak melalui kebijakan struktur modal dan dorongan pemegang saham asing. Penelitian ini berkontribusi dalam memperkaya literatur tentang praktik penghindaran pajak di Indonesia dan memberikan implikasi bagi regulator untuk memperkuat regulasi dan pengawasan perpajakan.

Kata Kunci: Penetapan Harga Transfer; Kapitalisasi Tipis; Kepemilikan Asing, Agresivitas Pajak



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INTRODUCTION

Tax revenues in Indonesia, especially from value-added tax (VAT) and corporate income tax (PPh), are still far below their potential. The World Bank in its report entitled "Estimating Value Added Tax (VAT) and Corporate Income Tax (CIT) Gaps in Indonesia" (March 17, 2025) noted that the tax revenue gap reached 6.4 percent of gross domestic product (GDP) between 2016 and 2021, resulting in a loss of potential revenue of Rp548 trillion due to non-compliance in tax reporting (Tempo.co, 2025). The table below explains the contribution of the manufacturing sector to the gross domestic product (GDP) in Indonesia.

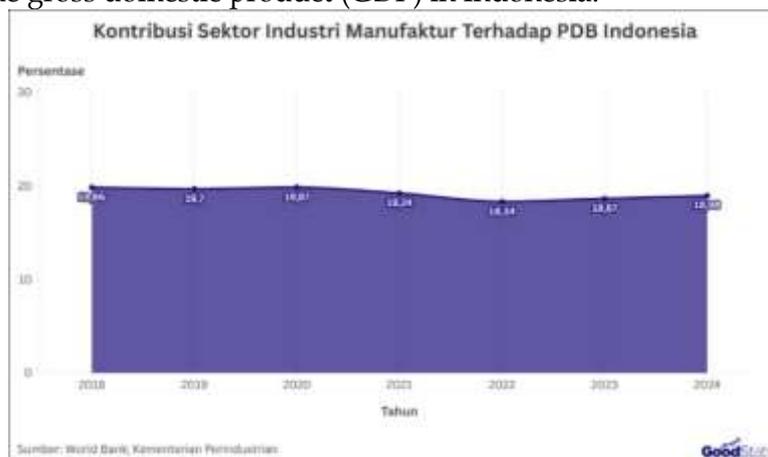


Figure 1. Contribution of the Manufacturing Sector to Indonesia's GDP

Source: World Bank; Ministry of Industry

Based on Figure 1, the contribution of the manufacturing industry sector to Indonesia's Gross Domestic Product (GDP) shows a relatively stable trend but tends to decline in the 2018–2024 period. In 2018, the contribution of manufacturing was recorded at 19.86%, slightly decreased to 19.70% in 2019, then increased again to 19.87% in 2020 even though the economy was facing the shock of the COVID-19 pandemic at that time. Entering 2021, the contribution of manufacturing fell to a level of 19.24% and again experienced a significant decline in 2022 to 18.34%, which is the lowest point in the last seven years. However, in 2023 the manufacturing contribution will begin to recover with 18.67% and continue to increase in 2024 to 18.98% with industrial growth reaching 4.75% (Kementerian Perindustrian, 2025). In this context, the manufacturing industry, which contributes 18.98% to GDP in 2024 with a growth of 4.75%, only contributes about 10% to tax revenue (KEMENKEU, 2023). This inequality shows the potential for significant tax avoidance practices.

One of the commonly used indicators to measure the level of tax aggressiveness is the Effective Tax Rate (ETR), which is the ratio between the income tax burden paid and the profit before tax (EBT). A low Effective Tax Rate (ETR) indicates that a company may be aggressively implementing tax avoidance strategies, which are often caused by transfer pricing manipulation practices, the use of debt-based capital structures, or the diversion of profits to low-tax jurisdictions. Transfer pricing, as one strategy, allows companies to allocate profits in countries with low tax rates, thus potentially reducing the overall tax burden (Yani, 2024 in Gultom et al., 2025). This practice often involves setting an increased

purchase price and a lowered selling price between companies in a group, with the goal of shifting profits to groups operating in countries with higher tax rates Susilawati et al., (2024). Research conducted by Trisnawati et al., (2020) shows the relationship between the transfer pricing policy and the tax aggressiveness strategy implemented by the company. The study was supported by observations of profit management practices and the shifting of tax burdens through cross-border affiliate transactions. The findings were reinforced by an analysis of profit management practices as well as the transfer of tax burdens through cross-border affiliate transactions. On the other hand, research conducted by Hutomo et al., (2021) and Ruknan et al., (2024) showed different results, indicating that the relationship between transfer pricing and tax aggressiveness is not always consistent, and tends to be influenced by external factors such as fiscal oversight and regulatory compliance.

Some studies such as those conducted by Utami & Irawan (2022) and Anindita et al., (2022) examine how a company's capital structure can correlate with aggressive tax behavior. However, the results obtained by Istiqomah & Trisnaningih (2022) indicates a misalignment, which indicates that the relationship can be affected by the level of leverage and the company's financing policies. As for foreign ownership, a number of studies show a link between the level of ownership by foreign investors and corporate tax strategies. Research by Suhartonoputri & Mahmudi (2018) and (Alianda et al., 2021) shows that the characteristics of foreign shareholders can influence the fiscal policies taken by companies, either through the encouragement of transparency and through expectations of tax efficiency. However, other studies such as Gouwvara & Susanty (2023) and (Maisaroh et al., 2024) highlights that the results of such relationships are not always consistent, indicating the need for a more in-depth analysis of the role of foreign investors in corporate tax decision-making. Therefore, transfer pricing, thin capitalization and foreign ownership are suspected to have an influence on tax aggressiveness.

Previous studies have generally only examined the relationship between two variables, such as transfer pricing and thin capitalization, while studies that integrate all three in one empirical model are still limited. In addition, research with post-pandemic data coverage (2019–2023) is also rarely conducted, even though this period is important as companies face economic pressures and changes in fiscal regulations. The novelty of this research lies in focusing on the manufacturing sector that is strategic but vulnerable to tax avoidance practices, as well as the integration of these three exogenous variables in one quantitative model, so as to provide a more comprehensive understanding of the determinants of tax aggressiveness. The results of the research are expected to contribute to the academic literature as well as provide practical input for fiscal authorities in strengthening tax supervision and regulation policies.

Agency theory introduced by (Jensen & Meckling, 1976) Explains the existence of a conflict of interest between the owner (principal) and the manager (agent), where the agent tends to act opportunistically for personal interests, including through tax avoidance practices such as transfer pricing, thin capitalization, and the use of foreign ownership if not properly supervised. Furthermore, this theory was developed by (Fama & Jensen, 1983) by emphasizing

the importance of corporate governance mechanisms to minimize agent opportunistic behavior. Recent research also confirms that strict regulation, cross-border governance, and fiscal oversight can reinforce or limit agents' opportunistic behavior (Merle et al., 2019). A number of studies support the application of agency theory in the context of taxation such as (Hutomo et al., 2021), (Utami & Irawan, 2022) and (Ardillah & Vanesa, 2022) which confirms that transfer pricing and thin capitalization can be opportunistic means for managers to increase tax aggressiveness. Meanwhile, (Nainggolan & Sari, 2020), (Hasyim et al., 2022) and (Tristiawan & Mila, 2024) shows that foreign ownership and capital intensity also influence managers' opportunistic behavior in tax avoidance strategies. Thus, the theory of agency proved to be relevant and applicable, thus becoming the right analytical framework for this research.

Transfer pricing is a pricing policy for transactions between entities in a business group (affiliate), both in the form of goods, services, or intangible assets. In the context of taxation, this practice is often used by multinational companies to divert profits to countries with low tax rates, thereby lowering the tax burden to be paid in countries with high tax rates. According to the theory of agency (Jensen & Meckling, 1976), managers as agents have a tendency to act opportunistic, including in terms of tax management, in order to maximize personal or group interests. One form of such opportunistic action is through a transfer pricing strategy to reduce the taxes paid by the company. When internal oversight is weak and regulations are less effective, high-risk transfer pricing practices become aggressive tax avoidance tools. If the internal supervision system is weak and regulations are not effective, then transfer pricing has great potential to be used to evade taxes aggressively.

A number of empirical studies have supported a positive relationship between transfer pricing and tax aggressiveness. Aisha et al., (2024) shows that transfer pricing has a significant positive effect on tax aggressiveness in mining companies on the IDX, which means that the higher the transfer pricing practice, the greater the tendency of companies to engage in tax aggressiveness. Similar research was conducted by Suntari & Maesi (2020) which found that transfer pricing increases tax aggressiveness on manufacturing companies in the basic and chemical industrial sectors. In line with the findings Trisnawati et al., (2020) prove that transfer pricing has a significant effect on tax aggressiveness on manufacturing companies on the IDX, and this finding is strengthened by Utami & Irawan (2022) which shows a similar positive influence on the basic industry and chemical sectors for the 2016–2020 period. These findings reinforce the suspicion that transfer pricing is one of the main strategies in aggressive tax avoidance practices. Therefore, transfer pricing is suspected to have an influence on tax aggressiveness. The first hypothesis (H1) in this study is as follows.

H1: Transfer pricing has a positive effect on tax aggressiveness

Thin capitalization is one of the practices commonly used by multinational companies to optimize tax burden through debt-based financing structures. Based on agency theory (Jensen & Meckling, 1976), managers as agents have a tendency to act opportunistic, including in managing the company's tax burden. One form is through the thin capitalization strategy, which is the use of high debt financing between affiliated entities to increase interest expenses so that taxable profits

decrease. When internal oversight mechanisms are weak, this practice is often used to aggressively evade taxes. A number of empirical studies support this. Research conducted by Utami & Irawan (2022) It shows that thin capitalization has a significant effect on increasing tax aggressiveness. In line with that, Sinaga & Siagian (2023) It also found that the higher the proportion of debt, the greater the tendency of companies to evade taxes. Next Prastiwi & Ratnasari (2019) proving that thin capitalization has a positive impact on tax avoidance practices, while Gouwvara & Susanty (2023) asserting that excessive debt structures are statistically proven to encourage tax avoidance tax avoidance practices. The hypothesis can be described as follows: in manufacturing companies. Thus, there is a theoretical basis that strengthens the suspicion that thin capitalization is one of the main strategies in tax avoidance practices. The hypothesis can be described as follows:

H2: Thin capitalization has a positive effect on tax aggressiveness.

Based on agency theory (Jensen & Meckling, 1976), managers as agents tend to act according to the interests of parties who have dominant influence, one of which is foreign shareholders. In this context, foreign ownership can encourage management to carry out aggressive tax planning in order to maximize the net profit expected by foreign investors. A number of empirical studies support this. Nainggolan & Sari (2020) shows that the greater the proportion of shares owned by foreign parties, the higher the tendency of companies to evade taxes. Alianda et al., (2021)It also proves that foreign ownership has a significant effect on tax aggressiveness due to pressure from foreign investors to reduce tax burden and increase profit efficiency. Next Suhartonoputri & Mahmudi (2018) found that ownership structures, including foreign ownership, have a positive effect on tax aggressiveness on manufacturing companies. Hasyim *et al.*, (2022) Reinforcing these findings by proving that foreign ownership is a factor that encourages companies to evade taxes through transfer pricing policies and capital intensity. Last, Tristiawan & Mila (2024)It shows that the dominance of foreign ownership influences the behavior of managers (agents) in making more aggressive decisions on corporate tax policies. These findings reinforce the suspicion that foreign ownership is one of the factors influencing the aggressive behavior of companies in tax management. The hypothesis can be described as follows:

H3: Foreign ownership has a positive effect on tax aggressiveness.

The conceptual framework of the research prepared based on the above explanation can be seen in Figure 2.

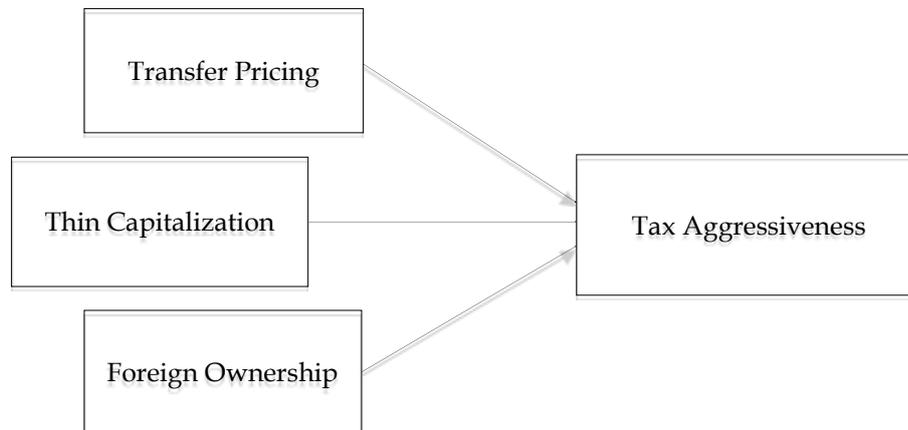


Figure 2. Research Framework

Source: Research Data 2025

RESEARCH METHOD

The type of data used in this study is secondary data, obtained from the company's annual financial statements available on the official website of the Indonesia Stock Exchange (www.idx.co.id). The population in this study includes all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. The selection of the manufacturing sector is based on its dominant role in the national economy, both in terms of contribution to Gross Domestic Product (GDP) and as one of the significant contributors to tax revenue. The research sample was determined using the purposive sampling method, which is a sample selection technique based on certain considerations that are in accordance with the research objectives.

Table 1. Determination of Research Sample

Yes	Research Sample Criteria	Sum
1	Manufacturing companies listed on the IDX in 2019-2023	219
2	The company did not consistently present annual reports and financial statements in 2019-2023	-51
3	Companies whose financial statements do not use rupiah during 2019-2023	-31
4	The company did not get a positive profit balance during 2019 - 2023	-66
5	The company does not have complete data related to the variables to be studied	-32
Total Company Sample		39
Research Period		5
Total Research Observations		195

Source: IDX Website (2025)

Table 2. Operationalization of Variables and Data Sources

Name	Variable Operationalization	Data Source
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ETR	Tax aggressiveness is measured by the proxy Effective Tax Rate (ETR), which is the ratio between the payment of income tax expense divided by profit before tax.	Indonesia Stock Exchange (IDX)
TP	Transfer pricing is measured using the ratio of accounts receivable to related parties divided by the company's total receivables.	Indonesia Stock Exchange (IDX)
TC	Thin Capitalization (TC) is measured by a company's capital structure using the Debt to Equity Ratio (DER), which is the ratio of total debt divided by the company's total equity.	Indonesia Stock Exchange (IDX)
KAS	Foreign ownership is measured using the ratio between the number of shares owned by foreign investors and the number of all outstanding shares (KAS).	Indonesia Stock Exchange (IDX)

Source: IDX Website, 2025

The empirical model in this study was used to analyze how the independent variables influenced by independent variables, namely **Transfer Pricing (TP)**, **Debt to Equity Ratio (DER)**, and **Foreign Ownership (KAS)** affect the dependent variables of **tax aggressiveness** as measured through **the Effective Tax Rate (ETR)**. The equation of the model is written as follows:

$$ETR_{it} = \beta_0_{it} + \beta_1 TP_{it} + \beta_2 TC_{it} + \beta_3 KAS_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

ETR_{it} is a variable of tax aggressiveness measured by *the Effective Tax Rate (ETR)*, which is the ratio of tax burden to profit before tax. The lower the ETR value, the higher the level of tax aggressiveness. β₁TP_{it} is a transfer pricing (TP) *variable* that is measured by the ratio of accounts receivable to related parties to total receivables. A high ratio indicates the intensity of affiliate transactions and can potentially be used for tax avoidance. β₂TC_{it} is a Thin Capitalization (TC) *variable* measured by *the Debt to Equity Ratio (DER)*, which is the ratio of total debt to equity. High DER indicates the use of excess debt, especially from affiliates, to suppress taxable profits through interest costs. β₃KAS_{it} is a foreign ownership variable (KAS) measured by the proportion of foreign shares to the total outstanding shares. High foreign ownership encourages companies to optimize their tax structures globally, including cross-jurisdictional avoidance practices.

The data was analyzed using *the Partial Least Squares – Structural Equation Modeling (PLS-SEM)* method with the help of **WarpPLS 8.0 software**. This method was chosen because it was able to test the causal relationship between variables in the research model with a relatively limited number of samples, and was not too strict on the assumption of data distribution. The analysis is carried out through several stages. First, a *fit model* test was conducted to assess the feasibility of the research model using the Average Path Coefficient (APC), Average R-Squared (ARS), Average Variance Inflation Factor (AVIF), and Goodness of Fit (GoF) indicators. Second, multicollinearity testing between independent variables is carried out through VIF values to ensure that there is no high correlation problem. Third, *path coefficients are estimated* to determine the direction and magnitude of the influence of independent variables on dependent variables. Fourth, a

significance test was carried out on each path coefficient using a p value (< 0.05) to test the research hypothesis. In addition, the R^2 value on the dependent variable is used to explain the large contribution of independent variables in explaining the variation in corporate tax aggressiveness.

RESULTS AND DISCUSSION

A Model fit test is used to find out if a model has a match with the data. The model fit test in the WarpPLS 8.0 program can be seen from the output of the general result.

Table 3. Model Fit Test Results

Model fit and quality indices	Index	P-Value	Criterion	Information
Average path coefficient (APC)	0.075	0.015	$P < 0.05$	Significant
<i>Average R-squared (ARS)</i>	0.075	0.072	$P < 0.05$	Close to Significant
Average Adjusted R-squared (AARS)	0.061	0.098	$P < 0.05$	Close to Significant
<i>Average Block VIF (AVIF)</i>	1.076	≤ 5 ideally ≤ 3.3		Multicollinearity-free
<i>Average Full Collinearity VIF (AFVIF)</i>	1.076	≤ 5 ideally ≤ 3.3		Multicollinearity-free
Tenenhaus Gof (GoF)	0.274	Small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36	≥ 0.25 , large ≥ 0.36	Medium
Simpson's Paradox Ratio (SPR)	1.000	≥ 0.7 (ideal = 1)		Excellent
R-squared Contribution Ratio (RSCR)	1.000	≥ 0.9 (ideal = 1)		Excellent
Statistical Suppression Ratio (SSR)	1.000	≥ 0.7		Excellent
Nonlinear Bivariate Causality Direction Ratio (NLBCDR)	0.833	≥ 0.7		Good

Source: Research Data, 2025

The **Average Path Coefficient (APC)** value is 0.075 with a p value of 0.015, which means significant at a significance level of 5% ($p < 0.05$). This shows that the path relationships in the model have sufficient strength and are statistically trustworthy. Furthermore, **the Average R-squared (ARS)** value is 0.075 with a p-value of 0.072, and **the Average Adjusted R-squared (AARS)** is 0.061 with a p-value of 0.098. Although these two values have not yet reached the 5% significance level, they are close to significance, indicating that the model is able to explain some of the data variability, although there is room for improvement in the variable's explanatory power. In the multicollinearity aspect, **the Average Block VIF (AVIF)** and **Average Full Collinearity VIF (AFVIF)** values were 1.076 each, well below the maximum limit of 5 (and ideally ≤ 3.3). This indicates the absence

of a significant multicollinearity problem in the model, so that the free variables are not highly correlated with each other and the regression results are reliable.

The **Tenenhaus Goodness of Fit (GoF)** index of 0.274 indicates the level of model fit in the medium category, with a small value threshold of ≥ 0.1 and a medium ≥ 0.25 . This value indicates that the model is quite good at representing the data being analyzed. For other ratios, such as **Simpson's Paradox Ratio (SPR)**, **R-squared Contribution Ratio (RSCR)**, and **Statistical Suppression Ratio (SSR)**, all of them received perfect or very high values of 1,000. These values were well above the minimum threshold (≥ 0.7 for SPR and SSR, ≥ 0.9 for RSCR), which suggests that the model did not suffer from the Simpson's paradox problem, the contribution of variance described by each variable was excellent, and no suppressor variable interfered with the results of the analysis. Finally, a **Nonlinear Bivariate Causality Direction Ratio (NLBCDR)** value of 0.833, greater than the minimum limit of 0.7, indicates that the direction of causal relationships between variables in the model is reliable and valid.

Hypothesis testing was carried out in this research approach to determine the level of significance and relationships between variables. All hypotheses in this study can be known whether they are significant or not based on the P-value. If the P-value is ≤ 0.05 , the hypothesis is accepted and if the P-value is > 0.05 , the hypothesis is rejected, while to find out the magnitude of the relationship or influence between variables, it can be seen from the results of estimating path coefficients. The results of the hypothesis test will be described in the model/image below.

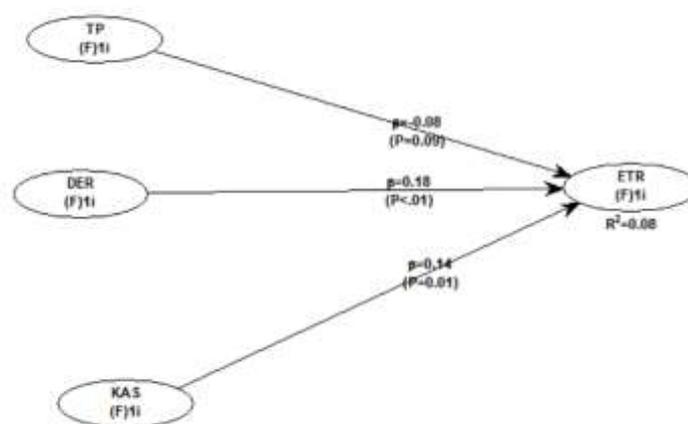


Figure 3. Hypothesis Testing Results Model

Source: Research Data, 2025

The results of the hypothesis test showed an R-Square value of 0.08, which means that the research model was only able to explain 8% of the variation in tax aggressiveness (ETR), while the rest was influenced by other factors outside the model. First, the coefficient of the Transfer Pricing path to Tax Aggressiveness is -0.08 with a significance value of $P=0.09 (>0.05)$. This value shows that that *Transfer Pricing* (TP) does not have a significant influence on Tax Aggressiveness (ETR) so that the First Hypothesis (H1) was rejected. These findings are not in line with the agency's theory (Jensen & Meckling, 1976) which states that managers tend to act

opportunistic, including through transfer pricing to reduce the tax burden. This discrepancy can be explained by external factors, namely strict regulations such as the arm's length principle (reasonable and customary) in PMK 172/2023 which functions as a control mechanism to limit managers' room to carry out aggressive tax strategies (Minister of Finance of the Republic of Indonesia, 2023). These findings are in line with research (Hasanudin et al., 2022; Nainggolan & Sari, 2020; Buntu et al., 2025; Ruknan et al., 2024; Hutomo et al., 2021), which also found that transfer pricing had no significant effect on tax aggressiveness. Thus, although conceptually *Transfer Pricing* can be used as a tax management tool, in practice governance mechanisms and regulatory pressures have limited the manager's room to act opportunistically, so that *Transfer Pricing* is not a major factor in encouraging tax aggressiveness in the manufacturing sector.

Second, Thin Capitalization measured using DER has an effect on a significant impact on tax aggressiveness (ETR) with a coefficient 0.18 with a significance value of $P=0.01$ (<0.05). This shows that the higher the debt-to-equity ratio of the company, the greater its influence in increasing the effective tax rate. Thus, these results support Hypothesis 2 (H2) which states that Thin Capitalization has a positive effect on tax aggressiveness so that the hypothesis is accepted. These findings are in line with the agency's theory (Jensen & Meckling, 1976), which explains that managers as agents can use debt-based capital structures (thin capitalization) to reduce tax burdens and increase net profits, especially when supervision from owners (principals) is weak. The use of high debt allows for a reduction in taxable profits through interest expenses, thus encouraging tax aggressiveness. In other words, the orientation of the capital structure to debt increases the interest expense which affects the calculation of taxable profit and the effective tax rate of the company. These findings strengthen the empirical evidence that capital structure plays a strategic role in the management of tax burden and is one of the indicators of opportunistic management behavior in the context of agency theory. The results of this study are also consistent with the results of previous research showing that thin capitalization as measured through the Debt to Equity Ratio (DER) ratio has a positive and significant influence on tax aggressiveness (Utami & Irawan, 2022; Prastiwi & Ratnasari, 2019; Suntari & Maesi, 2020; Sinaga & Siagian, 2023; Fabrila & Ariefiara, 2021). Thus, the practice of thin capitalization becomes a managerial instrument that is aligned with the interests of the agent but potentially contradicts the interests of the principal, as described in the agency theory. This confirms that the capital structure, especially the use of debt, is one of the strategic instruments that can reflect the level of corporate tax aggressiveness, especially when there are gaps in the principal supervision mechanism for agents.

Finally, Foreign Ownership (KAS) which is measured by the proportion of company shares owned by foreign investors has a significant positive effect on tax aggressiveness to tax aggressiveness (ETR) shows that the value of the coefficient of 0.14 and significance $P=0.01$ (<0.05). This indicates that the greater the foreign ownership in a company, the higher the effective tax rate charged. Thus, these results support the third hypothesis (H3) which states that Foreign Ownership has a positive effect on tax aggressiveness, so that the hypothesis is accepted. These findings reflect that the involvement of foreign investors is able to increase the

level of supervision of managerial practices, including tax policies. By **Agency theory (Jensen & Meckling, 1976)**, foreign investors play the role of external principals demanding transparency, accountability, and enforcement **Good Corporate Governance (GCG)**. This pressure encourages management to avoid aggressive tax strategies and be more compliant with applicable fiscal provisions. Therefore, increasing foreign ownership can be an effective control mechanism in suppressing managers' opportunistic behavior in tax planning. **The results of this study are in line with a number of previous studies**, as done by (Tristiawan & Mila Ferry, 2024; Suhartonoputri & Mahmudi, 2018; Alianda et al., 2021) which reveals that companies with a high portion of foreign ownership tend to avoid aggressive tax avoidance practices. Thus, the results of this study support the agency theory and strengthen the argument that foreign involvement in ownership structures can be a strategic instrument in improving fiscal compliance and the effectiveness of tax regulations in Indonesia.

CONCLUSION

This study aims to analyze the effect of transfer pricing, thin capitalization, and foreign ownership on tax aggressiveness in manufacturing companies in Indonesia. Using secondary data from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the period 2019–2023 and the WarpPLS analysis method, this study found that transfer pricing had no significant effect on tax aggressiveness, while the thin capitalization variable measured through the debt-to-equity ratio had a positive and significant effect on tax aggressiveness, indicating that companies used a debt-based capital structure as a strategy to manage tax burden. In addition, foreign ownership exerts a significant positive influence on effective tax rates, indicating that companies with foreign investors are more likely to comply with tax regulations and avoid aggressive tax avoidance practices.

The implications of this study show that a more adaptive fiscal policy and a comprehensive supervisory strategy are needed, especially in supervising tax practices in the manufacturing sector in Indonesia. This study has limitations in the use of secondary data from manufacturing companies listed on the Indonesia Stock Exchange during the period 2019–2023 so that the results are less generalizable for other sectors or a wider period. Therefore, it is recommended that further research expand the scope of sectors and time periods, use more comprehensive measurement of transfer pricing variables, and integrate qualitative methods to explore the mechanisms of tax aggressiveness.

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