THE EFFECT OF *TRANSFER PRICING, POLITICAL CONNECTION* AND *FINANCIAL DISTRESS* ON *TAX AVOIDANCE* (EMPIRICAL STUDY OF PRIMARY CONSUMER GOODS SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE 2018-2021 PERIOD)

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ABSTRACT

This study aims to determine the effect of Transfer Pricing, Political Connection, and Financial Distress on Tax Avoidance in Primary Consumer Goods Companies listed on the Indonesia Stock Exchange for the 2018-2021 period. This type of research is quantitative research. The source of research data used is secondary data. The population is 87 companies, using purposive sampling method. From this method, the research sample amounted to 25 companie that matched the crteria of the reserch sample.

The analysis using multiple linear regression analysis method with the help of SPSS Version 26. The results of this study show that primary consumer goods companies listed on the Indonesia Stock Exchange for the 2018-2021 period partially transfer pricing and financial distress has a negative effect on tax avoidance, and political connection has a positive effect on tax avoidance.

Keywords: Transfer Pricing, Political Connection, Financial Distress, Tax Avoidance

INTRODUCTION

Tax is a source of substantial state cash income obtained from corporate taxpayers and individual taxpayers. Indonesia is a developing country that has a different economy than developed countries. The Indonesian government uses tax revenues as a balance of economic conditions and conditions in Indonesia.

The tax sector is one of the sources of state revenue, but for a company, taxes will be a burden that will cause a reduction in net profit. The government seeks to increase tax collection sourced from companies or people who pay taxes.

In 2018-2020, tax revenue in Indonesia experienced an increase and decrease and the revenue obtained was not in accordance with the predetermined target. However, in 2021 it experienced an increase and revenue exceeded the predetermined target. As a result of the tax avoidance strategy that has been used, the realization of tax revenue is not fulfilled 100%, the government in seeking optimization in the tax sector is hampered. The practice of tax avoidance is reduced, because companies and the public on their taxes re-manage so that the amount of tax paid to the government is different.

Factors that influence the company to carry out tax avoidance practices, *including* transfer pricing, is an effort carried out in the company with the aim of tax avoidance. In the government's view, transfer *pricing* can reduce the entry of tax revenue in the country because companies transfer their tax burden by lowering the selling price to affiliated companies and shifting the profits obtained to affiliated companies (Alfarizi et al.,
2021).

Another factor that influences tax *avoidance* is *political connection*. *Political* connection is a connection between the government and the company that makes the company will be given special facilities. It is said that companies are politically connected that each company has its own way of connecting politically and connecting with politicians and the government (Kadek &; Utari, 2017).

Financial distress can also be an influence in carrying out *tax avoidane* practices. A company with a situation where finances are experiencing a crisis or unhealthy is called *financial distress*. Companies will try to minimize various cash expenditures or expenses to overcome or reduce financial problems (Rani, 2017).

LITERATURE REVIEW

Agency Theory

In general, this theory requires each party to act on its own behalf so that it can cause agency problems between company owners and managers (Jensen &; Meckling, 1976). So there are differences in the way people react to various responses or events, depending on the level of interest between managers and shareholders. And there is an agreed contract to connect several different interests and become a common goal.

Tax Avoidance

In the existence of tax paying activities, companies carry out *tax avoidance* by reducing the tax burden without violating the provisions, because taxes are one of the factors causing profits to decrease (Maidina &; Wati, 2020). This tax *avoidance* is carried out by taking advantage of tax weaknesses that do not seem to violate the provisions of the tax law (Retnaningdya &; Cahaya, 2021).

Transfer Pricing

Transfer pricing is a strategy set by the company to choose the transfer price of a transaction, both services, intangible assets, and prices for goods or financial transactions carried out by the company. According to Alfarizi et al., (2021) explained that *transfer pricing* is a method carried out in companies with the intention of avoiding taxes.

Political Connection

Political connection is a company's relationship with the government that allows companies to receive special assistance. According to Annisa et al., (2017) that in every company related to politics is a company that has a close relationship with the government and makes companies get treatment or privileges.

Financial Distress

Financial distress is a situation where finances in a company experience a crisis or are not healthy. It can also be said that financial *distress* is a situation of financial difficulty in fulfilling its obligations. Companies facing financial difficulties will try to reduce the burden or various cash expenditures on the company as a minimization or overcome financial problems (Rani, 2017).

Framework of Thought and Hypothesis

The Effect of *Transfer Pricing* on *Tax Avoidance*

Related party transactions are the main factor related to *transfer pricing* which is part of tax *avoidance*. According to (Panjalusman et al., 2018) that the purpose *of transfer pricing* is to outsmart the amount of profit so that it becomes low in tax distribution and dividend distribution.

However, companies that carry out *transfer pricing* in its application are obliged to protect shareholders and creditors from improper treatment (Rasyid et al., 2021). The higher the value of trade receivables with related parties, the lower the company's tax burden will be paid. Or it can be said that the high level of companies doing *transfer pricing*, then *tax avoidance* is also high (Ardianto &; Rachmawati, 2018).

H1: *Transfer pricing* has a positive influence on *tax avoidance*.

The Influence of *Political Connection* on

Tax Avoidance

. *Political connection* is trust in the company because it can benefit from taxes or other things. *The Political Connection* that is owned provides special treatment for companies, making companies more proactive in the ease of obtaining capital borrowing, low tax detection risk, and the implementation of tax plans which result in financial statements experiencing a decrease in transparency (Maidina &; Wati, 2020). If there are sanctions in taxation and supervision in companies related to *political connection* , it becomes like untouchable (Ferdiawan & Firmansyah, 2017).

H2: *Political connection* has a positive influence on *tax avoidance.*

The Effect of *Financial Distress* on *Tax Avoidance*

The term tax becomes a burden if a company is experiencing *financial distress*. *Financial distress* can be said to be financial difficulties in companies that are experiencing periods of decline in the company's economic capacity. When the company is in *financial distress*, the high risk of *tax avoidance* makes investors very worried. If the company goes bankrupt or liquidated, it will spend the money invested in it. This allows companies to be compliant in paying taxes so as not to increase the cost of fines when finances are difficult.

H3: *Financial distress* has a negative influence on *tax avoidance.*

RESEARCH METHODS

This study used quantitative methods. The population used is Primary Consumer Goods Sector Companies listed on the IDX period 2018–2021 which recorded 87 companies. Sampling using *purposive sampling*, where researchers determine sampling by determining the number of samples studied based on specific criteria that are in accordance with the purpose of the study.

From the criteria set, there are 25 companies with 4 years of research so that the amount of data on this research is 100 samples. Secondary data collection used in this study, namely data collection used through documentation methods and literature studies. The secondary data used are *anmual report* data and annual financial statements of Primary Consumer Goods Sector Companies listed on the IDX for the period 2018 – 2021. Data analysis used multiple linear regression analysis.

Operational Variables

Tax Avoidance

Tax avoidance is a step that is legally implemented by an entity or company using the right tax strategy (Fauzan &; Arsanti, 2021). The measurement of *tax avoidance* in this study was measured using the *Effective Tax Rate* (ETR) formula. ETR formula by comparing income tax expense with profit before tax.

Transfer Pricing

Transfer pricing carried out in the company is by shifting its tax burden by lowering the selling price to affiliated companies and transferring the profits obtained to affiliated companies. *Transfer pricing* can be done by comparing related parties' trade receivables with total receivables.

Political Connection

Every company has its own way of partnering politically as well as with regard to politicians. Alternatively, the government is sometimes referred to as a politically affiliated company (Kadek &; Utari, 2017). In this study, *political connection* is proxied using *dummy variables* whose values are limited to 1 and 0 only. If there is a political connection in the company, it will be given a value of 1 and if the opposite is indicated a value of 0.

Financial Distress

Financial distress is a condition where the company's finances are difficult or facing bankruptcy. The company's financial condition can be used as a benchmark in the financial *distress variable*. The Altman Z-Score is used to measure *financial distress*. In Altman Z-Score, bankruptcy will be reflected in the Z-score. Cut-off values in gray zones ($1.81<Z<2.99$) and safe zones ($Z=2.99$ or more) are categorized for healthy companies.

RESULTS OF RESEARCH AND DISCUSSION

Multiple Linear Regression Analysis

Multiple linear regression analysis serves to test two or more independent *variables* with *dependent variables*. Based on multiple linear regression analysis conducted using SPSS version 26 produces the following output:

Table 1. Regression Analysis Test Results

Multiple Linear

Coefficientsa						
		Unstandardi zed Coefficients		Standardize d Coefficients		
			Std.			
1	(Constant)	,282	,010		27,924	,000
	Transfer	-,051	,014	-,245	-3,709	,000
	Political	,076	,009	,558	8,466	,000
	Financial	-,008	,001	-,519	-7,836	,000

Source : Data processed SPPS version 26

A regression equation model is obtained:

Y = 0.282 – 0.051X1 + 0.076X2 – 0.008X3 + e

Descriptive Statistical Analysis

Researchers use descriptive statistics to describe or provide a general description of the object under investigation using all the data that has been collected.

Table 2. Analysis Test Results

Descriptive Statistics

Descriptive Statistics					
					Std. Deviation
Transfer	100	,00	,97	,2596	,31676
Political	100	,00	1,00	,6200	,48783
Financial	100	1,2	27,68	6,0874	4,36719
Tax	100	,00	1,10	,2676	,15093
Valid N	100				

Source : Data processed SPPS version 26

Classical Assumption Test

Normality Test

Table 3. Kolmogorov- Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		62
Usual Parametersa,b	Mean	,0000000
	Std. Deviation	,19495095
Most Extreme Differences	Absolute	,112
	Positive	,112
	Negative	-,048
Test Statistics		,112
Asymp. Sig. (2-tailed)		.051c

Source : Data processed SPPS version 26

The normality test is the main requirement in detecting a variable used to have a normal data distribution (GIS exceeding 5% or 0.05) or not. In testing normality, researchers used *the Kolmogorov Smirnow* test.

Multicollinearity Test

The Kolmogorov-Smirnov statistical test shows 0.112 and probability values

0.051 with a significance level of 5% then 0.051 > 0.05 this indicates that the residual data are normally distributed.

Table 4. Multicollinearity Test Results

Coefficientsa								
		Unstandardized Coefficients		Standardized Coefficients				
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-,282	,010		27,924	,000		
	X1	-,051	,014	-,245	-3,709	,000	,986	1,014
	X2	,076	,009	,558	8,466	,000	,993	1,007
	X3	-,008	,001	-,519	-7,836	,000	,984	1,017

Source : Data processed SPSS version 26

The result of the VIF value shows that there is no independent variable that has a VIF value exceeding 10. So it can be said that the data

Autocorrelation Test

Residuals do not contain multicollinearity problems between independent variables in regression models.

Table 5. Autocorrelation Test Results

Model Summaryb					
1	.765a	,586	,573	,04331	2,090

Source : Data processed SPSS version 26

DW values of 2.090 exceed Du 1.7364 and less than 2.2636 (4 – du) or 1.7364 < 2.090 < 2.2636 this indicates that there is no

Heteroscedasticity Test

Positive or negative correlation or it can be concluded that the model does not contain autocorrelation problems

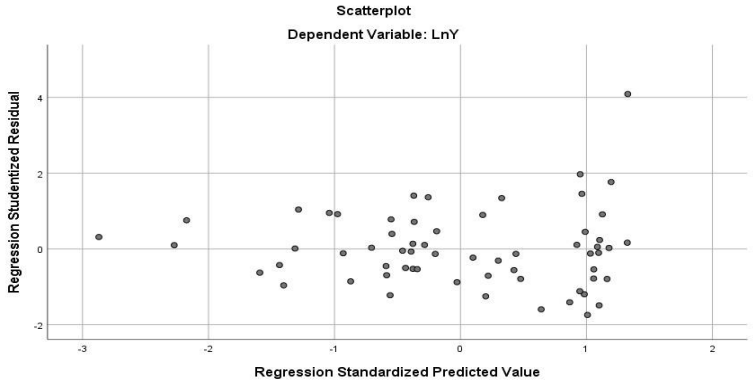

Figure 1. Heteroscedasticity Test Results

Based on the *scatterplots* chart above that the points spread both above and below

Test the hypothesis

Model Conformity Test – F Test

the number 0 on the Y axis. It can be said that the regression model does not contain heteroscedasticity.

Table 6. Model Conformity Test Results – F Test

ANOVAa					
Type	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	,255	3	,085	45,254	,000b
Residuals	,180	96	,002		
Total	,435	99			

Source : Data processed SPSS version 26

The suitability test of this model is measured by statistical value f or test f which aims to evaluate whether all independent variables have an influence or can be said to be feasible simultaneously or simultaneously on dependent variables (Ghozali, 2018). Based on the F test in the table above, the F table > which is 45.254 > 2.699 with a probability value of 0.000 and a sig level of 5%, then 0.000 < 0.05 so, it is concluded that together the independent variable is said to be significantly feasible for the dependent variable.

T Test

Table 6. Partial Significance Test Results/T Test

Coefficientsa					
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
1 (Constant)	,282	,010		27,924	,000
Transfer Pricing	-,051	,014	-,245	-3,709	,000
Political Connection	,076	,009	,558	8,466	,000
Financial Distress	-,008	,001	-,519	-7,836	,000

Source : Data processed SPSS version 26

1. Variable *transfer pricing* (X1)

   has a value (t-statistic) of -3.709 <

   1.985 (t-table) with a GIS value of 0.000 which means that the number is less than the significance level of 0.05. A t-statistic value of -3.709 indicating a negative direction, then the hypothesis is rejected. Because it does not correspond to the formulated hypothesis. It can be said that *transfer pricing* has a negative influence on *tax avoidance*.
2. The *political connection* variable (X2) has a t-statistic value of 8.466 > t-table which is 1.985 with a sig value of 0.000 which means that the number is less than the sig level of 0.05. Then the hypothesis is accepted. This can be said that *political connection* has a positive effect on *tax avoidance*.

3. The *financial distress* variable (X3) has a t-statistic value of -7.836 < t- table 1.985 with a sig value of 0.000 which means that the number is less than the sig level of 0.05. With a t-statistic financial *distress value* of -7.836 which indicates a negative direction. Then the hypothesis is accepted. So it can be said that *financial distrss* has a negative influence on *tax avoidance*.

Coefficient of Determination Test

Table 7. Coefficient of Determination Test Results

Model Summary				
1	.765a	,586	,573	,04331

Source : Data processed SPSS version 26

In the table above, an adjusted R-squared value of 0.573 or 57.3% of independent variables can affect the dependent variable while the remaining 42.7% is influenced by other variables that are not contained in this study, such as *thin capitalization* variables, *sales growth*, company size, institutional ownership, and so on. Then it can be said that the adjusted value of R-squared is good. It is said to be good when the value is above 0.5.

DISCUSSION

1. The effect of *transfer pricing* on *tax avoidance*

Based on the results of hypothesis testing conducted in testing the effect of *transfer pricing* variables on *tax avoidance* through t-tests showing the value of sig 0.000 < 0.05. With t-statistic values -

3,709 indicating a negative direction, then the hypothesis is rejected. In other words, *transfer pricing* has a negative influence on *tax avoidance*.

The test results do not support the hypothesis that has been formulated where the hypothesis formulated in this study is *transfer pricing* has a positive effect on *tax avoidance*. Which means that the higher the *transfer pricing*, the tax *avoidance* action increases. The company must not be careless in channeling *transfer pricing* activities to carry out *tax avoidance* activities with only the aim of maximizing profits because it will endanger the sustainability of the company's life. Another thing that causes companies to choose not to do tax avoidance is due to factors, such as changes in the government system that make new policies and so on (Lianawati, 2021)

The results of this research are in line and supported by Nadhifah's research & Arif, (2020); Melisa &; Muslim, (2021); Lianawati, (2021); Cahyanti, (2021) and Ramadhan et al., (2021) that *transfer pricing* negatively affects *tax avoidance*.

2. The effect of *political connection* on *tax avoidance*

Based on the results of hypothesis testing conducted in testing the effect of *political connection* variables on *tax avoidance* through t-tests show a sig value of 0.000 which means that the number is less than the sig level, namely
0.05 then the hypothesis is accepted. So it can be said that *political connection* has a positive influence on *tax avoidance*.

The test results support the hypothesis that has been formulated, namely that *political connection* has a positive effect on *tax avoidance.* Political connections aim to sustain the needs of companies covering the taxation sector. The existence of political connections in companies tends to take advantage of these connections in launching tax avoidance activities. Because the authority provides security and flexibility to companies that are correlated with it (Nurrahmi,
2020).

The results of this research are in line and supported by the research of Ferdiawan &; Firmansyah, (2017); Kadek &; Utari, (2017); Maidina &; Wati, (2020); Pratomo et al., (2021) and Melisa, (2021) stated that *political connection* has a positive effect on *tax avoidance.*

3. The effect of *financial distress* on *tax avoidance*

Based on the results of hypothesis testing conducted in testing the effect of the *variable financial distress* on *tax avodance* through the t-test showed a sig value of 0.000 which means that the number > the sig level of 0.05 so, the hypothesis is accepted. With a t-statistic value of –7.836 indicating a negative direction. So that *financial distress* has a negative influence on *tax avoidance*.

The test results support the hypothesis that has been formulated in the study, namely *financial distress* negatively affects *tax avoidance.* That is, high *financial distress* in the company, tax avoidance is reduced. Companies are worried about the possibility of sanctions that will greatly burden their finances and are feared to lead to liquidation or major bankruptcy if tax evasion actions carried out are illegal and known by tax authorities (Fhauziah, 2020).

Financial distress experienced by companies due to declining economic activity of companies. Companies that experience *financial distress,* then companies are considered too risky in carrying out tax payments. This is because companies that do tax avoidance in difficult economic times will find it more difficult to finance their activities.

That when companies are in a difficult financial situation, they are more likely to comply with tax rules. The worst possible result is that the company's reputation is damaged due to *tax avoidance* actions because it indirectly has a negative effect (Nadhifah &; Arif, 2020).

The results of this study are in line and supported by the research of Putri &; Chariri, (2017); Fhauziah, (2020); Reza et al., (2020); Pratiwi et al., (2020) and Selistiaweni et al., (2020) stated that *financial distress* negatively affects tax avoidance.

SIMPLIFICATION AND ADVICE

CONCLUSION

The results obtained from this study are a benchmark for researchers in determining whether *independent variables* in this study can be a factor in *tax avoidance* activities. Researchers draw the following conclusions:

1. *Transfer pricing* negatively affects *tax avoidance*.
2. *Political connection* has a positive effect on *tax avoidance*.
3. *Financial distress* negatively affects *tax avoidance*.

SUGGESTION

1. For managers, it is advisable before making a decision to see the risks that have an impact that is considered bad by shareholders when conducting *tax avoidance* through *transfer pricing practices.*
2. For DGT, it is better to evaluate or review applicable tax policies & regulations to prevent companies with political relations from carrying out tax *avoidance activities* that can harm the state.
3. Companies that experience *financial distress* should recognize the negative impact of *tax avoidance* activities that can affect the value of the company itself and companies must pay attention to the existing financial level.

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