The Role of Transfer Pricing, Financial Distress, Business Strategy and Institutional Ownership on Tax Avoidance

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Abstract: *This study aims to examine the effect of transfer pricing, financial distress, business strategy and institutional ownership on tax avoidance. This study uses a quantitative approach and uses an associative method. The type of data used in this study is secondary data. The data analysis method used in this study is Panel Data Regression Analysis using the Eviews version 10 application and Microsoft Excel. The population used in this study were companies included in the LQ45 Index with a research period of 2018-2023. The sampling technique used the purposive sampling method with 45 Company populations becoming 9 final research samples processed in this study. The results of the study show that simultaneously transfer pricing, financial distress, business strategy and institutional ownership have an effect on tax avoidance. Partially transfer pricing has an effect on tax avoidance, while financial distress, business strategy and institutional ownership have no effect on tax avoidance.*

INTRODUCTION

Indonesia is one of several countries in the world that utilizes tax contributions as one of the sources of state revenue. According to the Law of the Republic of Indonesia Number 17 of 2003 concerning State Finance, there are 3 (three) sources of state revenue, namely tax revenues, non-tax revenues, and grants. Among these three sources, the tax sector is the main sector, contributing the largest share and becoming one of the most important components in the State Revenue and Expenditure Budget (kemenkeu.go.id, 2022).

Taxes can be considered the backbone of state revenue with the aim of providing benefits and welfare to all Indonesian people (Setiawan, 2020). However, tax revenue contributions have begun to decline since 1997 (Sembiring, 2021). The following table presents tax targets and realizations from 2018 to 2023, quoted from the website of the Ministry of Finance:

Table 1. Tax Targets and Realizations for 2018–2023 (trillion)

Years	Target	Realized	Achievement (%)
2018	Rp 1.424,00	Rp 1.315,51	92,38
2019	Rp 1,557,56	Rp 1.332,68	85,56
2020	Rp 1.198,82	Rp 1.070,00	89,25
2021	Rp 1,743,60	Rp 2.003,10	114,9
2022	Rp 1,485,00	Rp 1.716,80	115,6

2023	Rp 1,818,20	Rp 2.155,42	101.75

Source: Processed from DJP Performance Reports 2018–2023

Quoted from the website of the Ministry of Finance, as of the end of December 2023, tax revenue realization reached Rp2,155.42 trillion (101.75 percent of the target in Presidential Regulation 75/2023), growing 5.94 percent year-on-year (yoy). Tax revenue comes from tax receipts and customs and excise revenues. In 2022, tax revenue realization reached Rp1,716.8 trillion or 115.6 percent of the Rp1,485 trillion target. In 2021, as of December 31, state revenue realization reached Rp2,003.1 trillion amardhiatulmaula@gmail.comor 114.9 percent of the 2021 State Budget target of Rp1,743.6 trillion. This achievement grew 21.6 percent higher compared to the 2020 State Budget of Rp1,647.8 trillion. Meanwhile, in 2019 and 2020, tax revenue did not reach the target. From a target of Rp1,557.56 trillion, realization only reached 85.56%. In 2020, tax revenue contracted by 19.6% due to the impact of the Covid-19 pandemic. The achievement of tax revenue, which is obtained entirely from the combination of domestic taxes and international trade taxes, is in accordance with the regulation of the Minister of Finance. In 2018, tax revenue reached 92.38% with a realization of Rp1,424.00 trillion. Compared to 2017, tax revenue performance was better than the 89.67% achievement recorded in 2017 (https://www.kemenkeu.go.id/).

The reason tax realization has not been carried out optimally is the low compliance of taxpayers in making payments, reporting, and complying with applicable tax regulations (Supriyati & Hapsari, 2021). Therefore, there are taxpayers who still commit fraudulent acts by conducting tax management in the form of tax avoidance because this act is legal and still in accordance with prevailing tax regulations (Tebiono & Sukandan, 2019). This can occur because Indonesia implements a self-assessment tax collection system, where individual and corporate taxpayers are given authority to calculate, deposit, and report their payable taxes based on applicable tax regulations (Yuni & Setiawan, 2019).

Tax avoidance is considered a complex and unique phenomenon because, on one hand, it does not violate tax regulations, but on the other hand, it is undesirable because it can erode tax revenues (Fauzan et al., 2019). A suspected case of tax avoidance was conducted by a coal mining company, one of which was PT Adaro Energy Tbk, which was suspected of engaging in tax avoidance using transfer pricing from 2009 to 2017 to its subsidiary in Singapore (Coaltrade Service International). PT Adaro's subsidiary allegedly bought coal from PT Adaro at a low price and resold it on the international market at a high price, resulting in lower tax burdens for PT Adaro Energy Tbk than what should have been paid. This tax avoidance effort caused PT Adaro to be charged taxes amounting to $125,000,000 or, if converted into Rp14,000, equivalent to Rp1.75 trillion—lower than what should have been imposed on PT Adaro (www.cnbcindonesia.com).

Tax avoidance is often carried out by multinational companies through transfer pricing practices. Transfer pricing is a special selling price set in inter-divisional exchanges to record revenue for the selling division and costs for the buying division, according to Hansen in Situngkir, et al. (2020). This allows multinational companies to shift their profits to countries with low tax rates, thereby reducing their tax burdens as an effort to maximize profits without violating existing tax laws by practicing tax avoidance.

Therefore, multinational manufacturing companies conduct transfer pricing practices to manipulate profit levels so tax payments to the state become lower. Prior studies by Wardana & Asalam (2022) and Kamila, Khasanah, & Nuryati (2023) state that transfer pricing affects tax avoidance. These results contradict studies by Nurrahmi & Rahayu (2020) and Widiyantoro & Sitorus (2019), which state that transfer pricing has no effect on tax avoidance.

Tax avoidance is also influenced by financial distress. Financial distress is a condition where a company is unable to maintain its going concern due to continuous losses, high debt, and insufficient cash to pay debts, leading to delisting by the Indonesia Stock Exchange (Nugroho & Firmansyah, 2018). Agency theory explains that each party acts to meet their personal needs, especially the agent.

Agents will always find ways to maintain the company's image and ensure the company survives despite being in a state of financial distress. However, shareholders or investors worry that if the company experiences distress, the funds or capital they invested will be lost. This concern arises because of the high possibility that the company will go bankrupt. Previous research by Fadhila & Andayani (2022) and Putri & Yanti (2022) showed that financial distress affects tax avoidance. These results contradict studies by Estevania & Peng Wi (2022) and Ferawati & Bimantoro (2022), which state that financial distress does not affect tax avoidance.

The next factor influencing tax avoidance is business strategy. Business strategy is a decision made by managers before business processes are carried out. A company's business strategy influences its activities because all business decisions, business processes, operational activities, and transactions must be aligned with the business strategy (Arieftiara, 2015). Business strategies may include geographical expansion, acquisitions, diversification, market penetration, product development, divestment, liquidation, and joint ventures. The competitiveness of companies in the market is highly determined by their business strategies. Taxes influence companies' business strategy decisions, both directly and indirectly.

Business decisions may be unfavorable if related to taxes. Hanif, Silalahi, & Odiatma (2021) and Harjito, Kurniawan, & Siddiq found that companies adopting prospector strategies tend to have a higher likelihood of tax avoidance compared to companies using defender strategies. Meanwhile, studies by Hendrani, Adhitia, & Septyanto (2022) and Anggraini, Astri, & Minovia (2020) show that business strategy has no effect on tax avoidance.

Another factor affecting tax avoidance is institutional ownership. Institutional ownership in a company is closely related to the level of company supervision. The greater the institutional ownership, the tighter the supervision; conversely, lower institutional ownership leads to weaker supervision and potential fraud. The higher the institutional ownership, the higher the tax burden the company must pay because the possibility of tax avoidance practices decreases (Putri & Lawita, 2019). Studies by Wardana & Asalam (2021) and Anindya & Pane (2022) show that institutional ownership significantly affects tax avoidance. In contrast, studies by Dewi & Oktaviani (2021) and Windaryani & Jati (2020) show no effect of institutional ownership on tax avoidance.

Based on these phenomena and the differing results of prior studies, the researcher is interested in re-examining "The Effect of Transfer Pricing, Financial Distress, Business Strategy, and Institutional Ownership on Tax Avoidance."

Problem Formulation

Based on the background above, the problems examined in this study are:

1. Do transfer pricing, financial distress, business strategy, and institutional ownership simultaneously affect tax avoidance?
2. Does transfer pricing affect tax avoidance?
3. Does financial distress affect tax avoidance?
4. Does business strategy affect tax avoidance?
5. Does institutional ownership affect tax avoidance?

Research Objectives

The objectives of this study, based on the problem formulation above, are to identify and provide empirical evidence on:

1. The simultaneous effect of transfer pricing, financial distress, business strategy, and institutional ownership on tax avoidance.
2. The effect of transfer pricing on tax avoidance.
3. The effect of financial distress on tax avoidance.
4. The effect of business strategy on tax avoidance.
5. The effect of institutional ownership on tax avoidance.

THEORY

Agency Theory

Agency Theory, originally introduced by Michael C. Jensen and William H. Meckling (1976), explains the contractual relationship between principals (shareholders) and agents (management). In this relationship, conflicts of interest arise because agents may pursue personal objectives that are not fully aligned with the interests of principals.

In the taxation context, agency conflicts occur when managers attempt to minimize corporate tax payments to improve reported profits and managerial compensation. Since managers have more access to internal information than shareholders (information asymmetry), they may engage in tax avoidance strategies that are legally permissible but potentially risky. Tax avoidance practices such as transfer pricing, earnings manipulation, and aggressive tax planning can therefore be interpreted as managerial actions driven by self-interest.

Agency theory also explains the role of corporate governance mechanisms, including institutional ownership, in monitoring managerial behavior. Strong institutional ownership is expected to reduce opportunistic actions, including aggressive tax avoidance, by increasing oversight and monitoring effectiveness.

Thus, agency theory provides the primary theoretical foundation for explaining how transfer pricing, financial distress, business strategy, and institutional ownership influence tax avoidance.

Tax Avoidance

Tax avoidance refers to managerial actions aimed at minimizing tax liabilities through legal means by exploiting loopholes or weaknesses in tax regulations. Unlike tax evasion, tax avoidance does not violate explicit tax laws; however, it reduces government tax revenues and may contradict the spirit of taxation regulations.

According to Rego and Richardson, tax avoidance reflects a company's level of tax aggressiveness, which can be measured using proxies such as the Effective Tax Rate (ETR) or Book-Tax Differences (BTD). Companies with lower effective tax rates are generally considered more aggressive in tax avoidance practices.

Tax avoidance is considered a complex phenomenon because it lies within the legal framework but may generate reputational and regulatory risks. Companies must balance tax efficiency and compliance to maintain legitimacy and long-term sustainability.

Transfer Pricing

Transfer pricing refers to the pricing of goods, services, or intangible assets exchanged between affiliated entities within the same multinational group. According to Hansen and Mowen, transfer pricing is an internal pricing mechanism used to allocate revenues and costs among divisions.

From a tax perspective, multinational corporations may use transfer pricing to shift profits from high-tax jurisdictions to low-tax jurisdictions. This practice reduces overall tax burdens while remaining formally compliant with tax regulations.

Agency theory explains that managers may use transfer pricing as a strategic instrument to achieve profit maximization objectives. When monitoring mechanisms are weak, managers may exploit pricing flexibility to conduct tax avoidance. Therefore, transfer pricing is theoretically expected to have a positive relationship with tax avoidance.

Financial Distress

Financial distress refers to a condition in which a company experiences financial difficulties, including declining profitability, liquidity problems, and high leverage, which may threaten its going concern status.

Based on signaling theory, companies experiencing financial distress may attempt to send positive signals to investors by maintaining profitability. One possible strategy is engaging in tax avoidance to preserve cash flow. However, financial distress may also increase scrutiny from regulators and auditors, thereby limiting aggressive tax behavior.

From the agency perspective, managers of financially distressed firms may face pressure to improve short-term performance. This pressure could encourage tax avoidance practices, although the associated risks might outweigh potential benefits. Therefore, the relationship between financial distress and tax avoidance remains theoretically ambiguous.

Business Strategy

Business strategy refers to a company’s long-term plan to achieve competitive advantage. According to Miles and Snow’s typology, business strategies can be categorized into prospector, defender, analyzer, and reactor strategies.

Companies adopting a prospector strategy emphasize innovation and market expansion, which may involve higher risk-taking behavior, including aggressive tax planning. In contrast, defender-type firms focus on efficiency and cost control, potentially reducing exposure to tax-related risks.

Tax considerations often influence strategic decisions. Strategic management theory suggests that taxation can shape corporate operational and investment decisions. Therefore, business strategy may determine the extent to which firms engage in tax avoidance activities.

Institutional Ownership

Institutional ownership refers to the proportion of a company’s shares owned by institutional investors such as banks, insurance companies, pension funds, and investment firms.

Institutional ownership is a key component of Good Corporate Governance (GCG). According to monitoring theory, institutional investors have stronger incentives and greater capacity to monitor management compared to individual shareholders. Higher institutional ownership is expected to reduce opportunistic managerial behavior, including aggressive tax avoidance.

However, institutional investors may also tolerate certain tax planning strategies if they enhance shareholder value. Therefore, the influence of institutional ownership on tax avoidance may vary depending on monitoring effectiveness and investment orientation.

Conceptual Framework

Based on Agency Theory and supporting theoretical perspectives, the conceptual relationship in this study can be described as follows:

- Transfer Pricing → Tax Avoidance
- Financial Distress → Tax Avoidance
- Business Strategy → Tax Avoidance
- Institutional Ownership → Tax Avoidance

Simultaneously, these independent variables are expected to influence corporate tax avoidance behavior.

METHOD

Research Design

This study employs a **quantitative research approach** using an associative (causal) design. The quantitative approach is used to examine the relationship and causal effects between independent variables—transfer pricing, financial distress, business strategy, and institutional ownership—and the dependent variable, tax avoidance.

The associative method aims to determine whether and to what extent the independent variables influence tax avoidance, both partially and simultaneously.

Population and Sample

The population of this study consists of companies included in the **LQ45 Index** listed on the Indonesia Stock Exchange during the period 2018–2023.

The sampling technique used is **purposive sampling**, with the following criteria:

1. Companies consistently listed in the LQ45 Index during 2018–2023.
2. Companies publishing complete annual financial statements for the observation period.
3. Companies providing sufficient data related to all research variables.
4. Companies reporting financial statements in Rupiah.

Based on these criteria, 9 companies were selected as the final research sample from a total population of 45 companies. With a six-year observation period, the total number of panel data observations amounted to 54 firm-year data.

Type and Source of Data

This study uses **secondary data** obtained from:

- Annual financial reports published by each company
- Official website of the Indonesia Stock Exchange
- Supporting data from corporate disclosures and financial statement notes

The data are documented and processed using Microsoft Excel and EViews version 10.

Operational Definition and Measurement of Variables

Dependent Variable

Tax Avoidance (Y)

Tax avoidance is measured using the **Effective Tax Rate (ETR)** proxy:

$$ETR = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

A lower ETR indicates a higher level of tax avoidance.

Independent Variables

Transfer Pricing (X1)

Transfer pricing is proxied by the proportion of related party transactions to total receivables:

$$\mathbf{TP} = \frac{\mathbf{Related\ Party\ Receivables}}{\mathbf{Total\ Receivables}}$$

Higher related-party transactions indicate greater potential for transfer pricing practices.

Financial Distress (X2)

Financial distress is measured using the Altman Z-Score model:

Z=1.2X1+1.4X2+3.3X3+0.6X4+1.0X5Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5Z=1.2X1 +1.4X2 +3.3X3 +0.6X4 +1.0X5

Where:

- X_1 = Working Capital / Total Assets
- X_2 = Retained Earnings / Total Assets
- X_3 = EBIT / Total Assets
- X_4 = Market Value of Equity / Book Value of Liabilities
- X_5 = Sales / Total Assets

Lower Z-scores indicate a higher probability of financial distress.

3. Business Strategy (X3)

Business strategy is measured using a strategy typology approach (prospector vs defender), proxied through financial ratio indicators such as sales growth and capital intensity, following strategic classification methods in prior studies.

4. Institutional Ownership (X4)

Institutional ownership is measured by:

IO=Number of Shares Owned by InstitutionsTotal Outstanding SharesIO = \frac{Number\ of\ Shares\ Owned\ by\ Institutions}{Total\ Outstanding\ Shares}IO=Total Outstanding SharesNumber of Shares Owned by Institutions

Higher institutional ownership reflects stronger external monitoring mechanisms.

5. Data Analysis Technique

This study uses **Panel Data Regression Analysis** because the data consist of cross-sectional (companies) and time-series (2018–2023) components.

The general regression model is formulated as follows:

TAit=α+β1TPit+β2FDit+β3BSit+β4IOit+εitTA_{it} = \alpha + \beta_1 TP_{it} + \beta_2 FD_{it} + \beta_3 BS_{it} + \beta_4 IO_{it} + \varepsilon_{it}TAit =α+β1 TPit +β2 FDit +β3 BSit +β4 IOit +εit

Where:

- TAitTA_{it}TAit = Tax Avoidance
- TPitTP_{it}TPit = Transfer Pricing
- FDitFD_{it}FDit = Financial Distress
- BSitBS_{it}BSit = Business Strategy
- IOitIO_{it}IOit = Institutional Ownership

- α\alphaα = Constant
- β1−β4\beta_1 - \beta_4β1 −β4 = Regression coefficients
- εit\varepsilon_{it}εit = Error term

Model Selection Test

To determine the appropriate panel regression model, the following tests were conducted:

1. **Chow Test** – to compare the Common Effect Model (CEM) and Fixed Effect Model (FEM).
2. **Hausman Test** – to determine whether FEM or Random Effect Model (REM) is more appropriate.
3. **Lagrange Multiplier (LM) Test** – to compare CEM and REM.

The best model selected based on these tests was then used for hypothesis testing.

Hypothesis Testing

Hypothesis testing was conducted at a **5% significance level (α = 0.05)** using:

- **F-test (Simultaneous Test)**
  To examine whether all independent variables simultaneously influence tax avoidance.
- **T-test (Partial Test)**
  To examine the individual effect of each independent variable on tax avoidance.
- **Coefficient of Determination (R^2)**
  To measure the explanatory power of the independent variables in explaining variations in tax avoidance.

Software Used

Data processing and statistical analysis were conducted using:

- Microsoft Excel (data tabulation and preliminary processing)
- EViews version 10 (panel regression analysis and hypothesis testing)

RESULT AND DISCUSSION

The discussion in this study explains the research results obtained after statistical calculations. The following are the research results obtained:

1. **The Effect of Transfer Pricing, Financial Distress, Business Strategy, and Institutional Ownership on Tax Avoidance**

   The results of the simultaneous F-test indicate that the F-statistic has a value of 2.905035. This can be seen in the statistical table at a significance level of 0.05 with df 1 (number of variables - 1) = 4 and df 2 (n - k) or 54 - 4 = 50 (n is the number of data and k is the number of independent variables). The F-table result is 2.56. F-calculated > F-table (2.905035 > 2.56) with a probability (f-statistic) of 0.030995, which is less than the significance level of 0.05, or (0.030995 < 0.05). This concludes that transfer pricing, financial distress, business strategy, and institutional ownership simultaneously influence tax avoidance. Therefore, H1 is accepted.

   Multinational corporations can shift their profits to other countries with low tax rates, thus minimizing their tax burden in an effort to maximize profits without violating applicable tax laws through tax avoidance. Therefore, multinational manufacturing companies engage in transfer pricing practices to manipulate profits and thus lower tax payments to the government. Agency theory explains that each party, particularly the agent, is considered to act to fulfill their own personal needs (Nurrahmi & Rahayu, 2020).

Agency theory explains that each party, particularly the agent, is considered to act to fulfill their own personal needs. The agent will always seek ways to maintain a positive corporate image and ensure the company's survival even when experiencing financial distress. However, shareholders or investors worry that if the company experiences distress, the money or capital they invested in the company will be lost. This concern arises because of the high possibility of the company going bankrupt (Putri & Yanti, 2022).

Business strategy influences tax avoidance because one strategy that can be used is a defender strategy, which emphasizes cost efficiency in competition, thus affecting the costs of tax avoidance. A company's size, as measured by its asset value, indicates a greater ability and stability in generating profits (Putri & Yanti, 2022). Institutional ownership, in agency theory, is a structure of good corporate governance that plays a crucial role in minimizing agency conflicts between managers and shareholders. Institutional ownership plays a crucial role in monitoring management because institutional ownership encourages optimal oversight (Adella and Larasati, 2021).

2. The Effect of Transfer Pricing on Tax Avoidance

The transfer pricing variable (X1) has a calculated t value > t table (3.086600 > 1.67591), with a significance value of 0.0033, or less than the significance value of 0.05, i.e., (0.0033 < 0.05). Therefore, it can be concluded that transfer pricing has an effect on tax avoidance. Therefore, H2 is accepted. Transfer pricing is often referred to as a normal practice in tax avoidance activities, as companies engage in transfer pricing practices to manipulate profits and thus lower tax payments to the government. Based on the research results, it can be seen that transfer pricing has an effect on tax avoidance. It can be concluded that companies utilize transfer pricing activities as an effort to avoid taxes.

In relation to agency theory and transfer pricing, the resulting conflict of interest can be detrimental to the principal, who only has limited access to information. This is because the owner or principal is not directly involved in managing the company. Agents can override the interests of their principals because they have the authority to manage and run the company's operations as a whole. Agents can more easily leverage their incentives to take actions aimed at reducing their tax burden, and one such practice is transfer pricing.

Multinational corporations can shift their profits to other countries with lower tax rates, thus minimizing their tax burden in an effort to maximize profits without violating applicable tax laws through tax avoidance. Therefore, multinational manufacturing companies engage in transfer pricing practices to manipulate profits and thus lower tax payments to the government. This research is supported by Wardana & Asalam (2022) and Kamila, Khasanah, & Nuryati (2023), who state that transfer pricing influences tax avoidance.

3. The Effect of Financial Distress on Tax Avoidance

The financial distress variable has a t-value < t-table (0.611085 < 1.67591), with a significance value of 0.5440, or greater than the 0.05 threshold (0.5440 < 0.05). Therefore, it can be concluded that financial distress has no effect on tax avoidance. Therefore, H3 is rejected. The lack of effect of financial distress on tax avoidance provides input to management that tax avoidance is not an appropriate strategy when a company is experiencing financial difficulties. This is because engaging in tax avoidance increases the risk of further deteriorating the company's image and sends a negative signal to investors regarding the tax avoidance, which can increase the company's cost of debt (Masri and Martani, 2012).

The results of this study support the research conducted by Pen Wi & Dharma (2022) and Ferawati & Bimantoro (2022), which stated that financial distress in a company will not lead to tax avoidance. Companies experiencing financial difficulties will attempt to minimize their cash burden or expenditure to mitigate or overcome financial problems. This may be due to the tendency for companies experiencing financial difficulties to consistently experience losses, thus reducing the need for tax avoidance.

4. The Effect of Business Strategy on Tax Avoidance

Based on Table 4.18, the business strategy variable has a t-value < t-table (0.111644 < 1.67591), with a significance value of 0.9116, or greater than the 0.05 threshold (0.9116 > 0.05). Therefore, it can be concluded that business strategy has no effect on tax avoidance. Therefore, H4 is rejected. This means that any business strategy implemented by a company will not affect the company's tax payments. Business strategy is a decision formulated by management before the company begins operations; all company business activities must align with its business strategy.

A company's competition in the market will be influenced by its business strategy. Taxes are a company's business decision; whether directly or indirectly, any business decision will be unfavorable if it relates to taxes. The results of this study align with research conducted by Anggraini et al. (2020); Hendrani et al. (2022), which showed that business strategy has no effect on companies' tax avoidance. This indicates that the average company is still unable to establish a consistent competitive strategy pattern over time. Due to this inconsistent implementation of corporate strategy, any business strategy employed by the company will have no impact on corporate tax avoidance. In other words, the business strategy conceived and designed by the company is not solely aimed at avoiding tax payments. However, research conducted by Hanif, Silalahi, & Odiatma (2021) and Harjito, Kurniawan, & Siddiq (2023) indicates that business strategy influences tax avoidance.

5. The Effect of Business Strategy on Tax Avoidance

The institutional ownership variable has a t-value < t-table (0.227119 < 1.67591), with a significance value of 0.8213, or greater than the 0.05 value (0.8213 > 0.05). Therefore, it can be concluded that institutional ownership has no effect on tax avoidance. Therefore, H5 is rejected. Higher or lower institutional ownership will not affect a company's tax avoidance practices. Companies are responsible for their shareholders, so institutional owners can ensure their welfare.

The results of this study do not confirm Agency Theory, which states that institutional ownership can control and monitor management actions. Institutional owners cannot be guaranteed to be in control of the company and effectively control management actions. Institutional owners who lack adequate oversight can potentially contribute to the persistence of tax avoidance. Institutional ownership is one of the components of Good Corporate Governance to oversee management actions.

The results of this study align with those of Arianandini and Dewi & Oktaviani (2021) and Windaryani & Jati (2019), which found that institutional ownership had no effect on tax avoidance. This finding contradicts the findings of Wardana & Asalam (2021) and Anindya & Pane (2022), which found that institutional ownership significantly impacted tax avoidance.

CONCLUSION

This study aims to determine the effect of transfer pricing, financial distress, business strategy, and institutional ownership on tax avoidance. This study focused on companies listed on the LQ45 Index over the 2018-2023 period. Based on the data analysis and discussion, the following conclusions can be drawn:

1. Transfer pricing, financial distress, business strategy, and institutional ownership simultaneously influence tax avoidance.
2. Transfer pricing has a partial effect on tax avoidance.
3. Financial distress has no partial effect on tax avoidance.
4. Business strategy has no partial effect on tax avoidance.
5. Institutional ownership has no partial effect on tax avoidance.

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