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THE EFFECT OF TRANSFER PRICING, PROFITABILITY, AND CAPITAL INTENSITY ON TAX AVOIDANCE (EMPIRICAL STUDY OF PROPERTY AND REAL ESTATE COMPANIES ON THE INDONESIA STOCK EXCHANGE IN 2020-2023

Putu Eka Sri Wahyuni[1]
Universitas Muhammadiyah Surakarta, Surakarta, Indonesia
b200210089@student.ums.ac.id

Nursiam[2]
Universitas Muhammadiyah Surakarta, Surakarta, Indonesia
nur183@ums.ac.id

Abstract

This study aims to examine the effect of transfer pricing, profitability, and capital intensity on tax avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. Tax avoidance refers to strategies used by companies to reduce their tax liabilities through legal means, while transfer pricing involves setting prices for transactions between related entities to allocate income across different jurisdictions. Capital intensity refers to the amount of capital invested in assets relative to the company's total assets. Profitability is measured by the company's ability to generate earnings relative to its revenue or assets. The sample consisted of 51 companies, selected using purposive sampling, with 21 outliers removed based on predetermined criteria. Data was analyzed using classical assumption testing, followed by hypothesis testing with multiple regression analysis (F-test, t-test, and coefficient of determination) using SPSS version 25. The results show that transfer pricing and capital intensity do not have a significant impact on tax avoidance, while profitability significantly influences tax avoidance. These findings suggest that more profitable companies may engage in higher levels of tax avoidance, possibly due to greater opportunities or incentives to minimize tax payments. The study highlights the importance of profitability as a key determinant in tax avoidance strategies in the property and real estate sector.

Keywords: Capital Intensity, Profitability, Tax Avoidance, Transfer Pricing

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INTRODUCTION

Taxes are a vital source of state revenue, financing government needs and supporting national development. According to Law No. 28 of 2007 on General Provisions and Taxation Procedures, taxes are mandatory financial obligations that individuals and business entities must fulfill. For the government, high tax revenues are essential for managing the state budget, while companies often view taxes as a burden that reduces net profits. As a result, many companies employ tax avoidance strategies to legally minimize tax obligations (Kusumaningsih & Mujiyati, 2024).

Tax avoidance, through strategies like transferring funds to jurisdictions with lower tax rates, helps companies reduce their tax burdens within the boundaries of legal tax regulations. While tax avoidance benefits companies by minimizing tax obligations, it also reduces state tax revenues, potentially hindering the provision of public services (Putri, 2024). For example, PT Matahari Department Store Tbk (MDS), owned by the Lippo Group, sold 90.76% of PT Matahari Putra Prima Tbk shares to a subsidiary of CVC Capital Partners, resulting in tax avoidance worth IDR 7.164 trillion (Source: www.ortax.com). Another case involved PT Karya Deka Alam Lestari, which sold luxury homes at lower prices to reduce tax obligations (Putra et al., 2024) (Source: www.jateng.jpnn.com). These examples illustrate how companies strategically reduce their taxable income through tax avoidance practices, impacting the government's tax revenue.

One common strategy used by companies is transfer pricing, which involves shifting costs to countries with lower tax rates in order to improve tax efficiency (Anthony & Govindarajan, 2011). Previous studies have examined the

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relationship between transfer pricing and tax avoidance. For instance, Fitri & Pratiwi (2021) found a significant influence of transfer pricing on tax avoidance, while Adelia & Asalam (2024) contradicted this by asserting that there is no correlation between the two. Additionally, corporate profitability is closely tied to tax avoidance, as higher profits lead to higher tax obligations. Byannur & Nursiam (2021) confirmed that profitability influences tax avoidance, while Kusumaningsih & Mujiyati (2024) argued otherwise.

Capital intensity is another factor that companies can leverage to minimize tax obligations. According to Law No. 7 of 2021 on the Harmonization of Tax Regulations (UU HPP), companies can use asset depreciation methods to reduce taxable income, thereby lowering their tax obligations (Sumantri & Kurniawati, 2023). Research by Cahyamustika & Oktaviani (2024) found a positive correlation between capital intensity and tax avoidance, whereas Rozan et al. (2023) found no significant relationship.

While prior studies have explored various strategies of tax avoidance, a gap exists in understanding how these strategies specifically apply to companies in the property and real estate sector, particularly those listed on the Indonesia Stock Exchange (IDX) (Prasetyo & Toha, 2023). This research seeks to fill that gap by examining the role of transfer pricing, profitability, and capital intensity in tax avoidance practices in the property and real estate industry. By focusing on this sector, the study aims to provide insights into the factors influencing tax avoidance and offer recommendations for policy improvements.

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LITERATURE REVIEW

Agency Theory

Agency theory explains the relationship between principals (shareholders) and agents (management), where the principal delegates decision-making to the agent with the expectation that the agent acts in the principal's best interest. However, agents may pursue their own interests, leading to agency costs, which can be mitigated through monitoring or incentives. In the corporate context, management may use strategies like transfer pricing, capital intensity, and profit optimization to reduce tax liabilities while maximizing shareholder wealth. In developing countries like Indonesia, where corporate governance structures differ from Western models, weaker enforcement of tax laws may allow management to exploit these strategies more freely, aligning with the principals' goal of profit maximization but sometimes at the expense of tax compliance. Thus, agency theory helps explain why management engages in tax avoidance as a means to enhance financial performance and shareholder value, particularly in environments with less stringent governance.

Transfer Pricing

Transfer pricing is a mechanism for determining prices in internal transactions between divisions within a business entity. These prices are crucial in recording revenue and expenses for each involved unit, thereby affecting overall profitability(Siti Yunita Sari, 2025). Accurate pricing is essential to avoid potential conflicts of interest and ensure objective performance evaluation (Hansen & Mowen, 2016). The Directorate General of Taxes Regulation No. PER-32/PJ/2011 stipulates that transfer pricing applies to transactions between entities with special relationships. This practice can be used as a tax-saving strategy but

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is often misused to evade tax obligations that should be paid (Fitri & Pratiwi, 2021).

Profitability

Profitability reflects a company's ability to generate profits from its available resources. This indicator is often evaluated through financial ratios to assess asset utilization efficiency and profit achievement (Martono & Harjito in Sumantri & Kurniawati, 2023). Companies with low profitability tend to have lighter tax burdens and may even avoid tax obligations by utilizing loss compensation from previous periods. Furthermore, profitability serves as a measure of managerial effectiveness in managing revenue from operational and investment activities (Hardana & Hasibuan, 2023).

Capital Intensity

Capital intensity refers to the level of a company's investment in fixed assets such as property, machinery, and equipment. A significant investment in fixed assets implies increased depreciation expenses, which can reduce taxable income (Kurniawan & Triyono, 2024). Fixed assets that undergo depreciation can lower tax liabilities since depreciation is categorized as a deductible expense from revenue. Thus, the higher a company's capital intensity, the greater the potential tax reduction, ultimately affecting its financial condition (Dwilopa & Jatmiko in Rozan et al., 2023).

Tax Avoidance

Indonesia's tax system adopts a self-assessment principle, where taxpayers are fully responsible for calculating, paying, and reporting their taxes. The Directorate General of Taxes functions only as a compliance supervisor to ensure adherence to tax regulations. Under this system, companies have opportunities

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to engage in tax planning to optimize financial efficiency, including legal strategies to reduce tax burdens (Cahyamustika & Oktaviani, 2024). Tax avoidance is a practice that leverages gaps in tax regulations without violating the law. This strategy requires an in-depth understanding of applicable regulations to be implemented correctly without breaching legitimate tax rules (Anggraeni & Oktaviani in Fitri & Pratiwi, 2021).

Hypothesis Formulation

The Effect of Transfer Pricing on Tax Avoidance

Transfer pricing is a practice of setting prices in transactions between related entities within a business group, primarily aiming to shift taxable income from high-tax jurisdictions to countries with lower tax rates to reduce tax liabilities (Pohan in Adelia & Asalam, 2024). From the perspective of agency theory, the divergence of interests between managers and owners encourages managers to utilize transfer pricing as a tax avoidance tool for personal gain. Companies often set lower transfer prices in transactions with affiliated entities than with independent parties, thereby reducing the reported profits in high-tax jurisdictions and lowering tax burdens (Istiqomah & Cahyono, 2024). Previous studies (Fitri & Pratiwi, 2021; Hardana & Hasibuan, 2023) have shown that transfer pricing significantly influences tax avoidance. Therefore, the proposed hypothesis is:

H_1: Transfer Pricing influences Tax Avoidance.

The Effect of Profitability on Tax Avoidance

Profitability reflects a company's effectiveness in managing resources to generate profits and serves as an indicator of managerial performance (Sari & Kinasih in Cahyamustika & Oktaviani, 2024). In the context of agency theory,

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highly profitable companies tend to have incentives for tax planning strategies to optimize net profits by minimizing taxes payable (Kurniawan & Triyono, 2024). The higher a company's profitability, the greater its tax burden, leading management to adopt more aggressive tax avoidance strategies. Previous research (Byannur & Nursiam, 2021; Putri Aisyah et al., 2024) has indicated a significant relationship between profitability and tax avoidance. Thus, the proposed hypothesis is:

H_2: Profitability influences Tax Avoidance.

The Effect of Capital Intensity on Tax Avoidance

According to agency theory, managers tend to allocate funds into fixed assets as a strategy to enhance company value while utilizing asset depreciation to reduce corporate tax burdens (Muzakki & Darsono in Rozan et al., 2023). High capitalization allows companies to benefit from annual asset depreciation, which directly lowers tax liabilities (Kurniawan & Triyono, 2024). The larger the proportion of fixed assets in a company's structure, the higher the potential tax savings achieved through depreciation mechanisms. Previous studies (Cahyamustika & Oktaviani, 2024; Hardana & Hasibuan, 2023) support the notion that capital intensity positively contributes to tax avoidance. Therefore, the proposed hypothesis is:

H_3: Capital Intensity Influences Tax Avoidance.

RESEARCH METHOD

This study employs a quantitative method with a positivist approach to analyze the relationships between variables using statistical techniques. The research population consists of all property and real estate companies listed on

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the Indonesia Stock Exchange (IDX) between 2020 and 2023. A purposive sampling method is applied to select the sample, based on criteria including the use of the Indonesian rupiah, the availability and completeness of financial statements, and the publication of annual reports. These criteria are chosen to ensure the relevance and consistency of data across all companies in the sample, particularly with respect to financial reporting practices and currency usage. The number of companies excluded during the sampling process will be detailed in the full analysis section. The selected timeframe of 2020–2023 is chosen to capture the effects of post-pandemic economic recovery and any regulatory changes impacting tax practices, which could influence companies' tax strategies.

The dependent variable in this study is tax avoidance, which will be calculated based on the effective tax rate (ETR). The independent variables include transfer pricing, profitability, and capital intensity. Transfer pricing is measured using the ratio of related-party receivables to total receivables, as it serves as a proxy for intercompany pricing arrangements, though it is acknowledged that this ratio may not fully capture the complexity of all transfer pricing strategies. The choice of this proxy is based on its use in previous studies that align with the objectives of this research. Profitability is determined by the return on assets (ROA), and capital intensity is calculated as the ratio of net fixed assets to total assets.

Data analysis is conducted using descriptive statistics to summarize the data and classical assumption tests, such as normality, multicollinearity, and heteroscedasticity tests, to ensure model validity. Multiple linear regression is used to examine the influence of independent variables on the dependent variable. Hypothesis testing is carried out using both F-tests and t-tests to assess

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whether the independent variables collectively (F-test) or individually (t-test) affect tax avoidance. The model will be considered valid if the results indicate significant relationships, and additional diagnostic tests (e.g., residual analysis, R^2, and adjusted R^2) will be used to assess model robustness and ensure reliable results.

RESULTS AND DISCUSSION

Data Collection Results

The sample selection results based on predetermined criteria, which yielded 51 research data samples, can be seen in the following table.

Table 1.
Sample Selection Results

No	Criteria	Number
1.	Population: Property and real estate companies listed on the IDX for the period 2020-2023	95
2.	Property and real estate companies that do not present financial reports in rupiah currency	0
3.	Companies that do not present complete financial data during the period 2020-2023	(60)
4.	Companies that do not publish complete annual reports during the period 2020-2023	(17)
Total companies that meet the criteria		18
Total sample (n × research period) (18 × 4 years)		72
Outlier data		(21)
Total sample of research data after outliers		51

Source: Processed secondary data, 2025

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Descriptive Statistical Analysis

Table 2.
Descriptive Statistical Analysis Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Tax Avoidance	51	-.13	.14	.0080	.04633
Transfer Pricing	51	.00	.21	.0357	.04656
Profitability	51	-.13	.08	.0062	.04642
Capital Intensity	51	.00	.23	.0563	.06574
Valid N (listwise)	51				

Source: Processed secondary data, 2025

Based on Table 2, the descriptive statistical results show that the tax avoidance variable (Y) has a minimum value of -0.13 (PT Agung Podomoro Land Tbk, 2020) and a maximum value of 0.14 (PT Pollux Hotels Group Tbk, 2022), with an average of 0.0080 and a standard deviation of 0.04633, indicating data variation. The transfer pricing variable (X1) has a minimum value of 0.00 and a maximum of 0.21 (PT Cahayasakti Investindo Sukses Tbk, 2020), with an average of 0.0357 and a standard deviation of 0.04656, indicating data variation. The profitability variable (X2) has a minimum value of -0.13 (PT Bakrieland Development Tbk, 2023) and a maximum of 0.08 (PT Agung Podomoro Land Tbk, 2022; PT Jaya Real Property Tbk, 2023), with an average of 0.0062 and a standard deviation of 0.04642, also reflecting variation. The capital intensity variable (X3) has a minimum value of 0.00 and a maximum of 0.23 (PT Bakrieland Development Tbk, 2020), with an average of 0.0563 and a standard deviation of 0.06574, indicating that the research data is fairly varied.

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Classical Assumption Tests

Normality Test

The normality test aims to determine whether the data follows a normal distribution. In this study, normality was tested using the Central Limit Theorem (CLT), which states that if the number of observations is sufficiently large (n > 30), the normality assumption can be ignored (Gujarati, 2015, in Byannur & Nursiam, 2021). With a total sample of 51 > 30, the data in this study can be considered normally distributed and categorized as a large sample.

Multicollinearity Test

Table 3.
Multicollinearity Test Results

Variabel	Collinearity Statistics		Description
	Tolerance	VIF	
Transfer Pricing	.939	1.065	No multicollinearity
Profitability	.873	1.146	No multicollinearity
Capital Intensity	.919	1.089	No multicollinearity

Source: Processed secondary data, 2025

Based on Table 3, all independent variables have a tolerance value ≥ 0.10 and a variance inflation factor (VIF) ≤ 10, indicating that multicollinearity is not present in this study.

Autocorrelation Test

Table 4.
Autocorrelation Test Results

Variable	Durbin-Watson	Description
Unstandardized Residual	1.792	No autocorrelation

Source: Processed secondary data, 2025

Based on Table 4, the Durbin-Watson value is 1.792. The difference between the DW value and the table value is assessed using a confidence level of

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5% (α), a sample size of 51 (n), and three independent variables (k). The obtained DU value is 1.6754, and since DU < DW < 4-DU (1.6754 < 1.792 < 2.5727), it can be concluded that the regression model does not exhibit autocorrelation.

Heteroscedasticity Test

Table 5.
Heteroscedasticity Test Results

Variable	Correlation Coefficient	Sig. (2-tailed)	Description
Transfer Pricing	-.101	.479	No heteroscedasticity
Profitability	-.109	.447	No heteroscedasticity
Capital Intensity	-.020	.891	No heteroscedasticity

Source: Processed secondary data, 2025

Based on Table 5, the heteroscedasticity test results indicate that all independent variables have a significance value > 0.05 or 5%, leading to the conclusion that the regression equation is free from heteroscedasticity issues.

Hypothesis Testing

Multiple Linear Regression Analysis

Table 6.
Results of Multiple Linear Regression Analysis

Variabel	Unstandardized coefficients	t	Sig.
	B		
(Constant)	.007	.769	.446
Transfer Pricing	-.183	-1.391	.171
Profitability	.417	3.040	.004
Capital Intensity	.084	.887	.380

Source: Processed secondary data, 2025

Based on Table 6, the results of multiple linear regression analysis yield the following regression equation along with the interpretation of the research test results:

$$TA = 0{,}007 - 0{,}183\ TP + 0{,}417\ PB + 0{,}084\ CAPIN + \varepsilon$$

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The regression equation above has a constant value of 0.007. This indicates that if the independent variables (transfer pricing, profitability, and capital intensity) are assumed to be constant or equal to 0, then the likelihood of tax avoidance is 0.007.

The transfer pricing regression coefficient has a negative value of -0.183. This implies that a 1% increase in transfer pricing will decrease tax avoidance by 0.183, assuming other variables remain constant. Conversely, a 1% decrease in transfer pricing will increase tax avoidance by 0.183.

The profitability regression coefficient has a positive value of +0.417. This indicates that a 1% increase in profitability will increase tax avoidance by 0.417, meaning that the higher the company's profitability, the greater the tendency for tax avoidance. Conversely, a 1% decrease in profitability will reduce tax avoidance by 0.417, implying that companies with lower profitability tend to engage less in tax avoidance.

The capital intensity regression coefficient has a positive value of +0.084. This suggests that a 1% increase in capital intensity will increase tax avoidance by 0.084, assuming other variables remain constant. Conversely, a 1% decrease in capital intensity will reduce tax avoidance by 0.084.

F-Test

Table 7.
Results of the F-Test

Model	F	Sig.	Description
1	4.603	.007b	The model is suitable for use

Source: Processed secondary data, 2025

Based on Table 7, the F-test results show a significance value of 0.007. Since this value is smaller than the significance level of 0.05 (0.007 < 0.05), it can be

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concluded that the variables transfer pricing, profitability, and capital intensity collectively have a significant influence on tax avoidance, making the regression model fit.

T-Test

Table 8.
Results of T-Test

Variabel	t	Sig	Description
Transfer Pricing	-1.391	.171	H_1 rejected
Profitability	3.040	.004	H_2 accepted
Capital Intensity	.887	.380	H_3 rejected

Source: Processed secondary data, 2025

Based on Table 8, the interpretation of the t-test results is as follows:

The first hypothesis states that transfer pricing influences tax avoidance. Based on data processing results in Table 8, the t-value is -1.391 < t-table 2.010, and the significance value is 0.171. Since this value is greater than the predetermined significance level (α) of 0.05, H1 is rejected. This means that the transfer pricing variable does not influence tax avoidance in property and real estate companies listed on the IDX from 2020 to 2023.

The second hypothesis states that profitability influences tax avoidance. Based on data processing results in Table 8, the t-value is 3.040 > t-table 2.010, and the significance value is 0.004. Since this value is smaller than the predetermined significance level (α) of 0.05, H2 is accepted. This means that the profitability variable significantly influences tax avoidance in property and real estate companies listed on the IDX from 2020 to 2023.

The third hypothesis states that capital intensity influences tax avoidance. Based on data processing results in Table 8, the t-value is 0.887 < t-table 2.010, and the significance value is 0.380. Since this value is greater than the predetermined

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significance level (α) of 0.05, H3 is rejected. This means that the capital intensity variable does not influence tax avoidance in property and real estate companies listed on the IDX from 2020 to 2023.

Coefficient of Determination (R^2) Test

Table 9.
Results of R^2 Test

Model	R	R Square	Adjusted R Square	Conclusion
1	.477a	.227	.178	Independent variables can explain dependent variables.

Source: Processed secondary data, 2025

Based on Table 9, the results of the coefficient of determination (R^2) test show that the Adjusted R Square value is 0.178. This value is considered weak as it is close to 0, indicating that tax avoidance is influenced by independent variables (transfer pricing, profitability, and capital intensity) by 17.8%. Meanwhile, the remaining 82.2% is influenced by other variables outside the regression equation.

The Effect of Transfer Pricing on Tax Avoidance

Based on the statistical test results, it was found that transfer pricing has no effect on tax avoidance. This is evidenced by a t-value of -1.391, which is less than the t-table value of 2.010, and a significance value of 0.171, which is greater than 0.05. Thus, H1 is rejected, meaning that there is no significant relationship between transfer pricing and tax avoidance.

Several factors may explain this finding, such as increasingly strict tax regulations, the implementation of more transparent tax policies, and the tendency of companies to conduct transactions with domestic entities that have similar tax rates. Additionally, the COVID-19 pandemic may have influenced

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companies' financial management strategies, making transfer pricing less of a primary factor in tax avoidance efforts. Therefore, although transfer pricing is often associated with tax avoidance strategies, this study indicates that in the property and real estate sector, this relationship is not empirically proven (Dasman, 2024).

This result aligns with the study conducted by Adelia & Asalam (2024), which found that transfer pricing does not affect tax avoidance. However, it contradicts the findings of Fitri & Pratiwi (2021) and Suherman, (2024), who stated that transfer pricing does influence tax avoidance.

The Effect of Profitability on Tax Avoidance

The statistical test results indicate that profitability has an effect on tax avoidance. This is supported by a t-value of 3.040, which is greater than the t-table value of 2.010, and a significance value of 0.004, which is less than 0.05. Thus, H2 is accepted, meaning there is a significant relationship between profitability and tax avoidance.

This finding can be linked to the growing public awareness of the importance of fulfilling tax obligations. A high Return on Assets (ROA) indicates that a company has managed its assets optimally, efficiently, and productively, making it capable of covering various operational costs, including taxes. However, a high ROA does not necessarily indicate the presence of tax avoidance practices. On the contrary, highly profitable companies tend to be more capable of fulfilling their tax obligations rather than engaging in tax avoidance strategies. Consistent tax compliance can serve as an example for other businesses and enhance the company's image, reputation, and public trust (Sumantri & Kurniawati, 2023).

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This result is consistent with the study by Byannur & Nursiam (2021), which found that profitability affects tax avoidance. However, it contradicts the findings of Kusumaningsih & Mujiyati (2024) and Nurwati et al., (2023) , who stated that profitability does not influence tax avoidance.

The Effect of Capital Intensity on Tax Avoidance

The statistical test results show that capital intensity has no effect on tax avoidance. This is evidenced by a t-value of 0.887, which is less than the t-table value of 2.010, and a significance value of 0.380, which is greater than 0.05. Thus, H3 is rejected, indicating that there is no significant relationship between capital intensity and tax avoidance. This means that an increase in capital intensity does not lead to a higher likelihood of tax avoidance within a company.

According to agency theory, there is a divergence of interests between agents and principals, where managers strive to improve company performance by investing company funds in fixed assets. However, a high level of fixed asset ownership is not always utilized as a tax avoidance strategy. Instead, it is often intended to support company operations and serve as a form of long-term investment (Maula et al., 2019, as cited in Rozan et al., 2023).

This result is in line with the study conducted by Sumantri & Kurniawati (2023), which found that capital intensity does not affect tax avoidance. However, it contradicts the findings of Cahyamustika & Oktaviani (2024), who stated that capital intensity positively influences tax avoidance.

CONCLUSION

This study found that transfer pricing does not significantly affect tax avoidance, while profitability has a statistically significant positive effect. Capital

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intensity, however, does not show a significant influence. The study is limited by its focus on property and real estate companies listed on the Indonesia Stock Exchange, which may not be representative of other industries, given the sector's unique characteristics such as asset-heavy structures and regulatory specifics. The analysis period (2020–2023), which includes the COVID-19 pandemic, may also have influenced financial behavior in ways not typical of other periods. Additionally, the study focuses on a limited set of financial variables, potentially overlooking other factors like intangible assets, audit quality, and ownership structure. Future research should expand the industry scope, extend the study period, and include more variables to better understand tax avoidance, particularly in the context of agency theory.

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