



**THE EFFECT OF SUSTAINABILITY REPORTING AND TRANSFER PRICING ON
TAX AVOIDANCE WITH PROFITABILITY AS A MODERATING VARIABLE IN
MULTINATIONAL COMPANIES IN INDONESIA**

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Abstract

This study examines the effect of sustainability reporting and transfer pricing on tax avoidance, with profitability as a moderating variable in multinational companies in Indonesia. Tax avoidance is a critical issue because it potentially reduces government revenue, particularly in firms with opportunities to shift profits across jurisdictions. The inclusion of profitability as a moderating variable provides a broader understanding of corporate tax behavior, while the use of recent data from 2022–2024 increases the relevance of the study amid growing global attention toward sustainability disclosure and tax transparency. Sustainability reporting is expected to enhance transparency and discourage aggressive tax practices, whereas transfer pricing is commonly used to minimize tax burdens. This study employs a quantitative approach using secondary data from annual and sustainability reports of multinational companies listed on the Indonesia Stock Exchange during 2022–2024. A total of 43 companies were selected through purposive sampling, resulting in 108 observations after outlier treatment. The data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA), which are appropriate methods for testing the proposed relationships among variables. The results show that sustainability reporting has a negative and significant effect on tax avoidance, while transfer pricing has a positive and significant effect on tax avoidance. Furthermore, profitability weakens the negative effect of sustainability reporting and strengthens the positive effect of transfer pricing on tax avoidance. These findings indicate that both non-financial and financial factors play an important role in influencing corporate tax behavior.

Keywords: Sustainability Reporting, Transfer Pricing, Tax Avoidance, Profitability



INTRODUCTION

Taxes are a key instrument in supporting the sustainability of the state, particularly as a source of funding for national development, the provision of public services, and the equitable distribution of public welfare. In the modern economic context, the role of taxes is increasingly crucial as development needs and demands for sustainable fiscal governance increase. Indonesia implements a self-assessment system, a mechanism that empowers taxpayers to independently calculate, pay, and report their tax obligations in accordance with statutory provisions (Sari & Chairunisa, 2025). While this system encourages independence and responsibility, tax avoidance remains a significant challenge.

Tax avoidance is a legal effort by companies to minimize their tax burden by exploiting loopholes in tax regulations, such as transaction manipulation or financial statement manipulation. While not illegal like tax evasion, this practice still has negative impacts because it reduces potential state revenue and creates fiscal inequity (Iriyadi et al., 2024). Therefore, tax avoidance is a key concern in fiscal policy and corporate governance, which emphasize transparency and tax compliance.

Globally, tax avoidance practices are becoming increasingly complex, particularly among multinational companies that exploit regulatory differences between countries. This has led to the introduction of the Base Erosion and Profit Shifting (BEPS) policy by the OECD/G20, which aims to close the gap in tax avoidance across jurisdictions. One implementation is a global minimum tax of 15 percent, which will be implemented in Indonesia in 2025 for multinational companies with a certain level of revenue (Reuters, 2025). Tax avoidance is generally carried out through mechanisms such as transfer pricing and thin capitalization, which allow companies to shift profits to countries with lower tax rates. Research shows that the level of multinationality and transfer pricing practices influence tax avoidance (Ananta, 2024; Alexander, 2022), while thin capitalization policies can suppress this practice, although they are not yet fully effective (Arndt-Corden, 2023). Therefore, the implementation of BEPS is expected to strengthen the fairness of the tax system (Belianto & Rahayu, 2024).

In Indonesia, transfer pricing practices can be seen in multinational companies such as PT Adaro Energy Tbk and PT Bentoel Internasional Investama Tbk. In the Adaro case, tax avoidance is suspected to have occurred through the sale of coal to affiliated entities abroad at low prices, resulting in lower reported profits in Indonesia. Profits are then recorded abroad through resale at higher market prices, reflecting profit shifting practices (Overesch & Willkomm, 2025). Meanwhile, Bentoel engaged in transfer pricing through the payment of royalties,



loan interest, and service fees to affiliated entities, which increased operating expenses and reduced taxable profit (Lubis et al., 2025). Both cases demonstrate how the multinational corporate structure can be exploited for tax efficiency (Gultom et al., 2025), while the company continues to implement Corporate Social Responsibility (CSR) programs to maintain a positive image.

In addition to taxation issues, companies also face demands to demonstrate social and environmental responsibility through sustainability reporting. This reporting reflects transparency and accountability to stakeholders and plays a role in enhancing a company's reputation. Research shows that companies with high Environmental, Social, and Governance (ESG) scores tend to have lower levels of tax avoidance (Sian et al., 2024; Yoon et al., 2021). A global meta-analysis also confirms that ESG plays a moderating role in tax avoidance practices, although its effects vary (Kitsantas et al., 2025).

In Indonesia, the trend of sustainability reporting has increased since the enactment of the Financial Services Authority (OJK) regulations and the implementation of the GRI 207 standard, which emphasizes tax disclosure (Aulia, 2024). One important component is CSR, which from a tax perspective can be recognized as a deductible expense from taxable income according to Article 6 paragraph (1) of the Income Tax Law. This demonstrates that CSR not only reflects social responsibility but can also be a legal tax planning strategy.

Transfer pricing remains a major factor in tax avoidance, especially for multinational companies. Research has yielded mixed results regarding the effect of transfer pricing on tax avoidance. Maheswari et al. (2024) found no significant effect on transfer pricing in the mining sector, while Adiguna and Ritonga (2024) showed a positive effect in the industrial sector. Internal factors such as leverage, corporate governance, and institutional ownership also influence this relationship (Putri & Santoso, 2023). This variation suggests that the effect of transfer pricing is not independent but rather influenced by the company's internal conditions.

One of these important factors is profitability. Companies with high profitability tend to maintain their reputation through tax compliance or engage in aggressive tax planning to maximize profits. Previous research has shown inconsistencies, with profitability not always directly influencing tax avoidance but acting as a moderating variable (Safira Dewi & Thareq, 2025.; Kolondam & Permatasari, 2024).

In this study, profitability is proxied by Return on Assets (ROA), which reflects a company's ability to generate profits from its assets (Singh et al., 2024;



Syafitri & Rutlan, 2026). ROA was chosen because it is relevant in explaining corporate behavior in tax planning. Companies with a high ROA have a greater incentive to engage in tax avoidance, including through transfer pricing (Mulya & Anggraeni, 2022). Furthermore, profitability also influences the level of sustainability reporting disclosure as an effort to maintain corporate legitimacy (Wulandari & Supriyadi, 2025).

This research uses agency theory and legitimacy theory as theoretical foundations. Agency theory explains that managers have an interest in improving company performance, including through tax efficiency (Margaret & Daljono, 2023). Meanwhile, legitimacy theory explains that companies seek to gain public acceptance through sustainability reporting disclosure (Pebrina & Dewi, 2025). Both theories are relevant in explaining the relationship between sustainability reporting, transfer pricing, and tax avoidance.

The 2022–2024 research period was chosen because it represents the post-COVID-19 pandemic recovery phase, characterized by increased profitability and changes in corporate strategy (Zawitri et al., 2024). Furthermore, this period is also characterized by increased pressure on tax transparency and ESG implementation (El Ghoul et al., 2026), as well as stricter oversight of transfer pricing in Indonesia (Fajriyati et al., 2025). These conditions make this period relevant for examining the dynamics of tax avoidance.

Previous research has shown mixed results. Prasetyo et al. (2022) found that profitability negatively impacts tax avoidance, while transfer pricing has no effect. Conversely, Ivano et al. (2025) found that both significantly influence tax avoidance. Other studies also show varying results depending on the industry sector (Rahma Dewi et al., 2025; Purwanti et al., 2025). This inconsistency indicates a research gap.

These gaps include the lack of research that simultaneously combines sustainability reporting and transfer pricing, the limited use of profitability as a moderating variable, and the limited focus of research on specific sectors. Therefore, this study is crucial for providing a more comprehensive understanding.

The purpose of this study is to analyze the influence of sustainability reporting and transfer pricing on tax avoidance and to examine the role of profitability as a moderating variable in multinational companies in Indonesia. Theoretically, this research is expected to enrich the literature by integrating financial and non-financial factors. Practically, this research is useful for the government in strengthening tax policies, for companies in increasing



transparency, and for investors in assessing tax risks as part of sustainable investment decisions.

LITERATURE REVIEW

Agency Theory

Agency theory was first proposed by Jensen and Meckling (1976), explaining the contractual relationship between company owners (principals) and managers (agents). Owners expect managers to act in their best interests to maximize company value, but differences in goals and information create a conflict known as agency conflict (Ross, 1973). This conflict can influence a company's financial decisions and tax policies.

In the context of taxation, agency theory explains that managers may be motivated to engage in tax avoidance as a strategy to reduce the company's tax burden in order to display higher net profits, which in turn leads to increased management compensation or improved company performance in the eyes of investors (Desai & Dharmapala, 2006). Transfer pricing is one instrument frequently used by multinational corporations to shift profits to low-tax jurisdictions, thereby reducing the effective tax burden (Maheswari et al., 2024). Thus, agency theory is relevant to explaining managers' motivations for engaging in tax avoidance through transfer pricing strategies and optimizing sustainability reporting to maintain the company's image.

The strength of agency theory is its ability to explain the motivation of managerial behavior in the face of complex incentives and conflicts of interest, while its weakness lies in the assumption of economic rationality which often ignores ethical factors and social pressures (Eisenhardt, 1989; Chrisman et al., 2007). Therefore, agency theory provides a relevant foundation for explaining managerial incentives in conducting tax planning strategies, including transfer pricing and other tax avoidance practices.

Legitimacy Theory

Legitimacy theory is based on the assumption that companies operate within a social system whose values, norms, and beliefs must be respected for their continued existence (Suchman, 1995). Companies require societal legitimacy to maintain business continuity. If a company is perceived as non-compliant with taxes or overly aggressive in tax avoidance practices, social legitimacy can be compromised, impacting its reputation, relations with the government, and even investor decisions.



Menicacci & Simoni (2024) in their study “Negative Media Coverage of ESG Issues and Corporate Tax Avoidance” found that when companies face negative coverage of ESG issues in the media, they tend to reduce tax avoidance practices, as a legitimacy response (to restore reputation).

Legitimacy theory offers strong strengths in explaining social pressure and reputational responses, particularly through media and public perception. However, its weaknesses lie in its normative nature and difficulty in quantitative measurement, as well as the possibility that sustainability disclosures remain symbolic without substantial change. In this context, sustainability reporting can be viewed as a legitimacy mechanism used by companies to maintain public trust and reduce reputational risk associated with aggressive tax behavior. Several recent empirical studies have also examined the relationship between sustainability reporting, transfer pricing, profitability, and tax avoidance, although the findings remain inconsistent.

Sustainability Reporting on Tax Avoidance

Sustainability reporting reflects corporate transparency and alignment with social norms, including tax compliance, as explained by legitimacy and stakeholder theory (Freeman, 1984; Suchman, 1995). Higher disclosure increases external pressure on firms to avoid aggressive tax practices. Empirical studies show that sustainability reporting is negatively associated with tax avoidance (Iriyadi et al., 2024; Toly et al., 2025.).

H1: Sustainability reporting negatively affects tax avoidance.

Transfer Pricing on Tax Avoidance

Agency theory explains that managers are incentivized to maximize after-tax profits (Jensen & Meckling, 1976). One strategy used is transfer pricing, which allows multinational firms to shift profits to lower-tax jurisdictions. Empirical evidence finds that transfer pricing has a positive effect on tax avoidance (Maheswari et al., 2024; Kolondam & Permatasari, 2024).

H2: Transfer pricing positively affects tax avoidance.

Profitability as a Moderating Variable in the Relationship between Sustainability Reporting and Tax Avoidance

Profitability indicates a firm’s financial performance and may influence how sustainability reporting affects tax behavior. Firms with higher profitability may rely less on sustainability reporting for legitimacy purposes (Suchman, 1995). Prior studies suggest that profitability weakens the negative relationship between sustainability reporting and tax avoidance (Safira Dewi & Thareq, 2025.; Maheswari et al., 2024).



H3: Profitability weakens the negative effect of sustainability reporting on tax avoidance.

Profitability as a Moderating Variable in the Relationship between Transfer Pricing and Tax Avoidance

From an agency perspective, high profitability may drive more aggressive tax avoidance, while signaling theory suggests it promotes tax compliance to maintain reputation. Thus, profitability can strengthen or weaken the link between transfer pricing and tax avoidance.

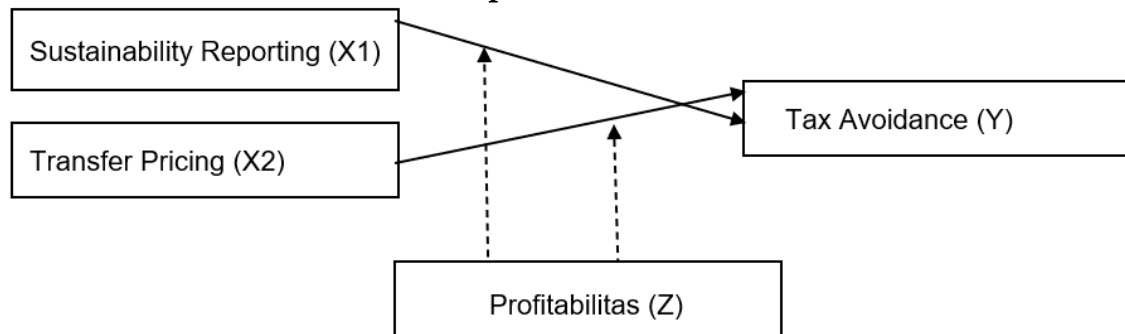
Maheswari et al. (2024) find that profitability weakens this relationship, supported by Maharani et al. (2025), who show that profitable firms have better resources for effective and compliant tax management, reducing reliance on risky transfer pricing.

H4: Profitability weakens the positive effect of transfer pricing on tax avoidance.

Based on the theoretical explanations and previous empirical findings, this study develops hypotheses regarding the relationship between sustainability reporting, transfer pricing, profitability, and tax avoidance.

Figure 1.

Conceptual Framework



Source: Developed by Author (2025)

RESEARCH METHOD

This study uses a quantitative approach, focusing on multinational companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The selection of locations was based on the availability of secondary data in the form of annual reports and sustainability reports, which are publicly accessible through the IDX and the companies' official websites. Furthermore, the requirement to prepare sustainability reports under POJK No. 51/POJK.03/2017 makes this context relevant for examining sustainability reporting, transfer



pricing, and tax avoidance. Multinational companies were selected because they are more likely to engage in cross-border transactions and implement sustainability reporting practices, making them relevant for examining corporate tax behavior.

The study population included all multinational companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. The sample was determined using a purposive sampling technique with specific criteria: companies publishing complete annual and sustainability reports, having adequate financial data, recording positive pre-tax profit and equity, and using the rupiah as the currency. Based on these criteria, 43 companies were selected as samples, with a total of 129 observations over three years. The purposive sampling technique ensured that the data obtained was relevant and aligned with the research objectives (Sugiyono, 2019). The use of purposive sampling also ensures that only companies meeting the criteria relevant to the research variables are included in the analysis.

The type of data used is quantitative secondary data. Data were obtained from annual reports, sustainability reports based on the 2021 GRI standards, and the official IDX website. The data collection technique used documentation by downloading, reviewing, and recording information related to research variables such as sustainability reporting, transfer pricing, tax avoidance, and profitability. This method was chosen because it can produce objective and measurable data (Sugiyono, 2019).

The data analysis technique used inferential statistics with the help of SPSS. The analysis stages included descriptive statistics to describe the characteristics of the data (Ghozali, 2018), classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation) to ensure the model meets the BLUE criteria (Gujarati, 2015), and multiple linear regression analysis. Furthermore, Moderated Regression Analysis (MRA) was used to test the role of profitability as a moderating variable in the relationship between sustainability reporting and transfer pricing on tax avoidance. The use of Moderated Regression Analysis (MRA) is considered appropriate because this method allows the study to examine whether profitability strengthens or weakens the relationship between the independent and dependent variables.

Hypothesis testing was conducted using the coefficient of determination (R^2) test to determine the model's ability to explain the dependent variable (Ghozali, 2018), the F-test to test for simultaneous effects, and the t-test to test for partial effects of each variable. With this approach, the research is expected to



produce more valid, reliable, and comprehensive findings regarding the relationships among variables.

RESULTS AND DISCUSSION

1. Descriptive Research

This study uses quantitative data from secondary sources from multinational companies in Indonesia. The variables used in this study consist of sustainability reporting, transfer pricing, and tax avoidance, moderated by profitability. This study was conducted by collecting research data from multinational companies in Indonesia listed on the Indonesia Stock Exchange from 2022 to 2024 through the official Indonesia Stock Exchange website. The sampling method used was purposive sampling or using criteria. This resulted in 43 company samples with 129 observational data. The 129 observational data used did not meet the requirements for using a regression model, which would then reduce the data to 108 outliers. The use of outlier treatment was intended to improve data normality and enhance the accuracy of the regression model in explaining the relationships among variables. According to Ghazali (2019), outlier data is a case or data with unique characteristics that appear very different from other observations and appear in the form of extreme values for either a single variable or a combination. There are four causes of outlier data: (1) errors in data entry, (2) failure to specify missing values in the computer program, (3) outliers are not members of the population we take as a sample, and (4) outliers come from the population we take as a sample, but the distribution of the variables in the population has extreme values and is not normally distributed.

a. Descriptive Research Variables

The descriptive testing of the research variables used 108 observational data sets. The descriptive statistical analysis aimed to describe the data for each variable. This description can be seen from the average value (mean), standard deviation, maximum variance, and minimum variance. The results of the descriptive statistical testing for each research variable can be seen in Table 1 below:

Table 1. Results of Descriptive Statistical Tests

Variables	N	Minimum	Maximum	Mean	Std. Deviation
CETR (Y)	108	7.90	140.20	27,4236	16,40101
SRDI (X ₁)	108	30.77	80.34	54,2024	11.63418
TPR (X ₂)	108	0.00	95.90	20,3556	26.75145
ROA (Z)	108	0.30	32.10	9,0561	7,01350

Source: Secondary data processed in 2026



Based on the results of the descriptive statistical tests in Table 1, the following points can be explained:

- 1) Based on the descriptive analysis of the tax avoidance variable measured by CETR in multinational companies in Indonesia, the minimum value is 7.90 in PT Temas Tbk (TMAS) in 2022 and the maximum value is 140.20 in PT Alam Sutera Realty Tbk (ASRI) in 2024. The average value (mean) of the tax avoidance variable is 27.4236 and the standard deviation is 16.40101, where the standard deviation value has a lower value than the average value. This shows that the tax avoidance variable in multinational companies in Indonesia has a small level of data variation or even data distribution, which shows that tax avoidance in multinational companies in Indonesia is quite uniform.
- 2) Based on the descriptive analysis of the sustainability reporting variable measured by SRDI in multinational companies in Indonesia, the minimum value is 30.77 in PT Ekadharma International Tbk (EKAD) in 2022 and the maximum value is 80.34 in PT Bank Rakyat Indonesia (Persero) Tbk (BBRI) in 2024. The average value (mean) of the sustainability reporting variable is 54.2024 and the standard deviation is 11.63418, where the standard deviation value has a lower value than the average value. This shows that the sustainability reporting variable in multinational companies in Indonesia has a small level of data variation or an even distribution of data, which shows that sustainability reporting in multinational companies in Indonesia is quite uniform.
- 3) Based on the descriptive analysis of transfer pricing variables measured by TPR in multinational companies in Indonesia, the minimum value is 0.00 in PT Bank Rakyat Indonesia (Persero) Tbk (BBRI) from 2022 to 2024, PT Ciputra Development Tbk (CTRA) from 2022 to 2024, PT Gudang Garam Tbk (GGRM) from 2022 to 2024, PT Sampoerna Agro Tbk (SRGO) from 2022 to 2024 and PT United Tractors Tbk (UNTR) in 2022, and the maximum value is 95.90 in PT Mayora Indah Tbk (MYOR) in 2023. The average value (mean) of the transfer pricing variable is 20.3556 and the standard deviation is 26.75145, where the standard deviation value has a higher value compared to the average value, this shows that the transfer pricing variable in multinational companies in Indonesia has a high level of variation. large data or uneven data distribution, which shows that transfer pricing in multinational companies in Indonesia is not uniform.
- 4) Based on the descriptive analysis of profitability variables measured by ROA in multinational companies in Indonesia, the minimum value is 0.30 in PT Alam Sutera Realty Tbk (ASRI) in 2024 and the maximum value is 32.10 in PT



Temas Tbk (TMAS) in 2022. The average value (mean) of the profitability variable is 9.0561 and the standard deviation is 7.01350, where the standard deviation value has a lower value than the average value. This shows that the profitability variable in multinational companies in Indonesia has a small level of data variation or even data distribution, which shows that profitability in multinational companies in Indonesia is quite uniform.

2. Results of the Classical Assumption Test

Before conducting a regression analysis, it is necessary to conduct a classical assumption test to ensure that the regression model meets the BLUE (Best Linear Unbiased Estimator) criteria. According to Gujarati (2015), a good model must be free from violations of basic assumptions so that the resulting parameter estimates are valid and reliable. The classical assumption tests performed include: Each classical assumption test is described as follows:

a. Normality Test Results

The normality test was conducted to determine whether the regression model and confounding variables or residuals were normally distributed. The normality test in this study used the Kolmogorov-Smirnov test to determine whether the residuals were normally distributed. Residual data can be said to be normally distributed if the Asymp.sig (2-tailed) value is more than 0.05, and residual data can be said to be non-normally distributed if the Asymp.sig (2-tailed) value is less than 0.05. The results of the normality test can be seen in Table 2 below.

Table 2. Normality Test Results

		Unstandardized Residual
N		108
Normal Parameters ^{a,b}	Mean	0.0000000
	Standard Deviation	0.41972120
Most Extreme Differences	Absolute	0.069
	Positive	0.069
	Negative	-0.033
Test Statistics		0.069
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Source: Secondary data processed in 2026

Based on Table 2, it can be seen that the Kolmogorov-Sminarnov (KS) value is 0.069, while the Asymp. Sig. (2-tailed) value is 0.200. These results indicate that



the regression equation model is normally distributed because the Asymp. Sig. (2-tailed) value is 0.200. greater than the alpha value of 0.05.

b. Multicollinearity Test

The multicollinearity test aims to determine whether a regression model detects correlation between independent variables (Ghozali, 2019) . A good regression model should have no correlation between independent variables. Data can be said to be free of multicollinearity, as indicated by a Tolerance value > 0.1 and a VIF of each independent variable < 10. As seen in Table 3 below:

Table 3. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
SRDI (X ₁)	0.946	1,057
TPR (X ₂)	0.987	1,014
ROA (Z)	0.942	1,061

Dependent Variable: CETR (Y)

Source: Secondary data processed in 2026

Based on Table 3, the multicollinearity test results show that the tolerance value for each variable is greater than 0.10. The variance inflation factor (VIF) for each variable is below 10, thus concluding that there is no multicollinearity in this regression model.

c. Heteroscedasticity Test

A regression model is considered good if it does not experience heteroscedasticity or has the same or homogeneous variance from one observation's residuals to another. The Glejser test is conducted to determine the presence or absence of heteroscedasticity. This test is carried out by regressing the absolute value of the residuals against the independent variable . The regression equation is free from heteroscedasticity if the significance value of the regression of the independent variable with the absolute residual is greater than the 0.05 significance level. The results of the heteroscedasticity test can be seen in Table 4 below:

Table 4. Heteroscedasticity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig,
	B	Std.Error	Beta		
(Constant)	4,115	3,497		1,177	0.242
SRDI (X ₁)	-0.451	0.849	-0.051	-0.531	0.596
TPR (X ₂)	0.456	0.231	0.188	1,976	0.051



ROA (Z)	-0.049	0.026	-0.180	-1,874	0.064
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Dependent Variable: ABS_RES

Source: Appendix 4, Secondary data processed in 2026

Table 4 shows that the significance value of the sustainability reporting variable is 0.596, followed by the transfer pricing variable at 0.051 and the profitability variable at 0.064. These values are greater than 0.05, indicating no influence between the independent variables on the absolute residual. Therefore, the model does not contain heteroscedasticity.

d. Autocorrelation Test

This test is used to ensure there is no relationship between the residuals of one observation and the residuals of another observation. Autocorrelation generally occurs in time series data. Test Method: Durbin– Watson (DW Test). DW values are between -2 and +2 → No autocorrelation. The results of the autocorrelation test can be seen in Table 5, as follows:

Table 5. Autocorrelation Test Results

R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
0.328 ^a	0.108	0.082	0.42573	1,751

Predictors: (Constant), ROA (Z), TPR (X₂), SRDI (X₁)

Dependent Variable: CETR (Y)

Source: Secondary data processed in 2026

Based on Table 5, the results of the autocorrelation test obtained a Durbin-Watson (dw) value of 1.751, where the value is between -2 to +2, (-2 < 1.751 < +2), so it can be concluded that it is free from autocorrelation symptoms and there is no correlation between the residuals in different observation periods, so the regression model is suitable for further testing. Overall, the classical assumption test results indicate that the regression model satisfies the BLUE criteria and is appropriate for further inferential analysis.

3. Results of Moderated Regression Analysis (MRA)

The results of the Moderated Regression Analysis (MRA) analysis show that the regression model built is able to explain the relationship between sustainability reporting, transfer pricing, profitability, and their interactions with tax avoidance. The resulting regression equation indicates that sustainability reporting (SRDI) has a significant negative effect on tax avoidance ($\beta = -1.959$; sig. 0.000), which means that the higher the sustainability disclosure, the lower the tax avoidance practice. This finding is in line with the view that corporate transparency can suppress opportunistic behavior.



Conversely, transfer pricing (TPR) has a significant positive effect ($\beta = 0.510$; sig. 0.034), indicating that increased transfer pricing practices tend to increase tax avoidance. Profitability (ROA) also has a significant negative effect ($\beta = -4.349$; sig. 0.000), indicating that companies with good financial performance tend to be more compliant with tax obligations.

In the context of moderation, the interaction between sustainability reporting and profitability (SRDIROA) has a significant positive effect ($\beta = 1.245$; sig. 0.000). This indicates that profitability is able to moderate the relationship, although it substantively weakens the negative effect of sustainability reporting on tax avoidance. Meanwhile, the interaction between transfer pricing and profitability (TPRROA) is not significant ($\beta = -0.044$; sig. 0.093), so profitability is unable to moderate the relationship.

The coefficient of determination (R^2) value of 0.309 indicates that 30.9% of the variation in tax avoidance can be explained by the variables in the model, while the rest is influenced by other factors outside the study (Ghozali, 2018). The model feasibility test (F test) produced an F value of 9.114 with a significance of 0.000 (<0.05), which means the model is feasible to use and all independent variables simultaneously influence tax avoidance.

The results of the hypothesis (t-test) confirm that the first, second, third, and fourth hypotheses are accepted. Overall, these findings highlight the importance of transparency and financial performance in reducing tax avoidance practices, and show that profitability influences the relationship between sustainability reporting and transfer pricing on tax avoidance. These findings demonstrate that profitability plays an important role in clarifying how financial performance influences corporate tax behavior, particularly in the context of sustainability disclosure and transfer pricing practices.

4. Moderation Testing

Moderation classification can be identified as in the following example, if X is the independent variable, Y is the dependent variable, and Z is the moderating variable, then the regression equation that can be formed is as follows:

1) Pure Moderation Variable

Pure moderation is a type of moderating variable that can be identified if the influence of the moderating variable on the dependent variable is declared insignificant but the influence of the interaction between the independent variable and the moderating variable on the dependent variable is statistically significant. Pure moderation is a moderating variable that moderates the relationship between the independent variable and the dependent variable where



the pure moderating variable interacts with the independent variable without becoming an independent variable.

2) Quasi Moderation Variable

Quasi-moderation is a type of moderating variable in which the influence of the moderating variable on the dependent variable is significant and the interaction between the independent variable and the moderating variable on the dependent variable is significant. Quasi-moderation is a variable that moderates the relationship between the independent variable and the dependent variable, where the pseudo-moderating variable interacts with the independent variable and acts as an independent variable.

3) Potential Moderating Variables (Moderation Homologizers)

A moderating homologue is a type of moderating variable that can be identified if the moderating variable's effect on the dependent variable is declared insignificant and the interaction between the independent variable and the moderating variable on the dependent variable is insignificant. A moderating homologue is a variable that has the potential to moderate the strength of the relationship between the independent and dependent variables. This variable does not interact with the independent variable and does not have a significant relationship with the dependent variable.

4) Moderating Predictor Variables (Moderating Predictor Variables)

A moderating predictor is a type of moderating variable that can be identified if the moderating variable's effect on the dependent variable is significant, and the interaction between the independent variable and the moderating variable on the dependent variable is insignificant. This means that the moderating variable only acts as an independent variable in the relationship model being formed.

Based on the results of the analysis, moderation in this study can be identified as follows:

Table 6. Moderation Test Results

Model	Coefficient	t	Sig.	Information
ROA (Z)	-4,349	-5,424	0,000	Significant
SRDI (X ₁)*ROA (Z)	1,245	5,298	0,000	Significant
TPR (X ₂)*ROA (Z)	-0.044	-1,694	0.093	Not Significant

Dependent Variable: CETR (Y)

Source: Secondary data processed in 2026



Based on the results of the MRA analysis, the moderation test can be seen as follows:

1) Profitability moderates sustainability reporting on tax avoidance

Based on Table 6, the results can be seen The test found that the effect of profitability on tax avoidance has a significance value of $0.000 < 0.05$, this result indicates that profitability has a significant effect on tax avoidance. The interaction between profitability and sustainability reporting on tax avoidance has a significant value of $0.000 < 0.05$, this result indicates that the interaction of profitability and sustainability reporting has a significant effect on tax avoidance. Based on the moderation test, it can be seen that profitability is Quasi Moderation.

2) Profitability moderates transfer pricing on tax avoidance

Based on Table 6, the results can be seen The effect of profitability on tax avoidance has a significance value of $0.000 < 0.05$, this result indicates that profitability has a significant effect on tax avoidance. The interaction between profitability and transfer pricing on tax avoidance has a significance value of $0.093 > 0.05$, this result indicates that the interaction between profitability and transfer pricing does not have a significant effect on tax avoidance. Based on the moderation test, it can be seen that profitability is a moderating predictor.

4. Discussion of Research Results

The discussion section further interprets the statistical findings by linking them with relevant theories and previous empirical studies to provide a more comprehensive understanding of corporate tax behavior.

1) The Influence of Sustainability Reporting on Tax Avoidance in Multinational Companies in Indonesia

The first hypothesis states that sustainability reporting has a significant negative effect on tax avoidance in multinational companies in Indonesia. Based on the analysis results obtained a regression coefficient value of -1.959 and a significance value of $0.000 < 0.05$, it can be concluded that the first hypothesis in this study is accepted. This result means that multinational companies in Indonesia that have a higher level of sustainability reporting disclosure tend to engage in lower tax avoidance practices. Sustainability reporting reflects the level of transparency and accountability of the company in disclosing economic, social, and environmental performance to stakeholders. The higher the level of sustainability reporting disclosure, the greater the moral and social pressure on the company not to engage in tax avoidance practices. This condition encourages companies to be more compliant with regulations. The findings of this study indicate that multinational companies in Indonesia that disclose sustainability



reports tend to have a higher commitment to transparency and accountability. Sustainability reporting not only serves as a means of communication to stakeholders but also reflects the company's integrity in carrying out ethical operational activities, including in terms of compliance with tax obligations, so that the company will avoid tax avoidance practices that have the potential to damage its reputation and public trust. Theoretically, the results of this study align with legitimacy theory, which states that companies seek to gain legitimacy from society by demonstrating that their activities conform to prevailing social norms and values. Fair tax payments are a form of corporate contribution to the state. Companies with high levels of sustainability reporting tend to reduce tax avoidance practices to maintain this legitimacy. These results align with research conducted by Toly et al., 2025., which found that tax disclosure in sustainability reporting has a significant negative effect on tax avoidance. Similar results were also shown by Iriyadi et al., 2024, which stated that the better a company's sustainability reporting, the lower its tax avoidance rate.

2) The Effect of Transfer Pricing Regarding Tax Avoidance in Multinational Companies in Indonesia

The second hypothesis states that transfer pricing has a significant positive effect on tax avoidance in multinational companies in Indonesia. Based on the analysis results, a regression coefficient value of 0.510 and a significance value of $0.034 < 0.05$ was obtained. It can be concluded that the second hypothesis in this study is accepted. This result means that multinational companies in Indonesia that have higher levels of transfer pricing practices tend to engage in higher tax avoidance practices. Transfer pricing reflects the pricing mechanism in transactions between companies within the same business group or have affiliated relationships. This policy is not only used for operational purposes but can also be utilized as a tax planning strategy by shifting profits to countries with lower tax rates. The findings of this study indicate that multinational companies in Indonesia utilize transactions between companies within one business group as a means of tax planning. Transfer pricing allows companies to determine internal transaction prices in such a way that profits can be shifted to companies located in countries with lower tax rates, thereby minimizing the overall tax burden, which ultimately increases tax avoidance practices. Theoretically, the results of this study align with agency theory, which explains that management, as an agent, tends to maximize its own interests, including by implementing tax efficiency measures to increase corporate profits. Multinational companies, with complex organizational structures and differing tax regulations across countries,



provide greater opportunities for management to utilize transfer pricing as a tool to reduce tax burdens. These results align with research conducted by Maheswari et al. (2024), which shows that transfer pricing has a positive relationship with tax avoidance, as the higher the transaction intensity between related parties, the greater the potential for tax avoidance. Research by Yoshe Kolondam & Kurnia Permatasari (2024) also found that transfer pricing has a significant positive effect on tax avoidance.

3) Profitability Impact as a Moderation Between Sustainability Reporting and Tax Avoidance in Multinational Companies in Indonesia

The third hypothesis states that profitability weakens the relationship between sustainability reporting and tax avoidance in multinational companies in Indonesia. Based on the test results, a regression coefficient of 1.245 was obtained with a significance value of $0.000 < 0.05$. Therefore, it can be concluded that profitability can moderate by weakening the influence of sustainability reporting on tax avoidance. Therefore, the third hypothesis in this study is accepted. This result means that the higher the level of profitability of multinational companies in Indonesia, the weaker the influence of sustainability reporting in suppressing tax avoidance practices. Profitability describes a company's ability to generate profits from its operational activities. The level of profitability can influence how strongly a company utilizes sustainability reporting as a means of legitimacy. The findings of this study indicate that multinational companies in Indonesia with high levels of profitability tend to have a greater incentive to implement tax efficiency to maintain and increase their profits. Although multinational companies in Indonesia have widely disclosed sustainability reporting as a form of transparency and accountability, the pressure to maintain optimal financial performance can encourage management to continue practicing tax avoidance, thereby weakening the negative influence of sustainability reporting on tax avoidance. Theoretically, the results of this study can be linked to legitimacy theory, where companies strive to gain legitimacy from the public through sustainability reporting disclosures. However, in companies with high profitability, the focus on achieving financial performance can become more dominant than efforts to maintain legitimacy, thereby reducing the effectiveness of sustainability reporting in reducing tax avoidance. These results are supported by research conducted by (Safira Dewi & Thareq, 2025.) which states that profitability has a negative effect on tax avoidance, indicating that more profitable companies tend to be more tax compliant. On the other hand,



research by (Maheswari et al., 2024) found that profitability can weaken the negative effect of sustainability reporting on tax avoidance.

4) Profitability Impact as a Moderation Between Transfer Pricing Regarding Tax Avoidance in Multinational Companies in Indonesia

The fourth hypothesis states that profitability weakens the relationship between transfer pricing and tax avoidance in multinational firms in Indonesia. The results show a regression coefficient of -0.044 and a significance value of 0.093 (>0.05), indicating that profitability moderates and weakens this relationship; thus, the fourth hypothesis is rejected. This implies that highly profitable firms are less aggressive in using transfer pricing for tax avoidance due to greater concern for compliance, audit risk, and reputation. With stronger financial capacity, they tend to adopt safer and more compliant tax strategies. Although transfer pricing remains part of operations, its impact on tax avoidance becomes weaker at higher profitability levels. This finding aligns with agency theory and is supported by Maheswari et al. (2024) and Maharani et al. (2025), which show that profitable firms have better resources to manage taxes effectively and reduce reliance on risky transfer pricing practices.

CONCLUSION

Based on the research results and discussion in the previous chapter, several things can be concluded as follows:

- 1) Sustainability reporting has a significant negative effect on tax avoidance among multinational companies in Indonesia. These results suggest that increasing sustainability reporting will lead to a decrease in tax avoidance among multinational companies in Indonesia.
- 2) Transfer pricing has a significant positive effect on tax avoidance among multinational companies in Indonesia. These results suggest that increasing transfer pricing will lead to increased tax avoidance among multinational companies in Indonesia.
- 3) Profitability moderates the effect of sustainability reporting on tax avoidance in multinational companies in Indonesia, and the resulting moderating effect weakens the relationship. The results of this study demonstrate that the higher the profitability of multinational companies in Indonesia, the smaller the role of sustainability reporting in reducing tax avoidance.



4) Profitability does not significantly moderate the effect of transfer pricing on tax avoidance in multinational companies in Indonesia. This result indicates that the level of profitability does not strengthen or weaken the relationship between transfer pricing and tax avoidance practices. Overall, these findings indicate that both financial and non-financial factors play important roles in influencing corporate tax behavior. Sustainability reporting reflects corporate transparency and legitimacy, while transfer pricing remains a mechanism that may increase tax avoidance practices among multinational companies.

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