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THE EFFECT OF FINANCIAL PERFORMANCE, FIRM SIZE, AND TRANSFER PRICING ON TAX AVOIDANCE

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ABSTRACT

This study aims to analyze the effect of financial performance, firm size, and transfer pricing on tax avoidance. Using 19 mining companies in the energy sector listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, this research collected 95 observations and applied purposive sampling. The analysis was conducted using path analysis with SmartPLS. The findings indicate that financial performance and transfer pricing have no significant effect on tax avoidance, whereas firm size has a significant effect on tax avoidance. Theoretical Implications: This study contributes to agency theory by demonstrating that larger firms tend to engage in tax avoidance due to increased resources and strategic tax planning opportunities. Additionally, it provides insights into the limitations of profit-based financial performance as a predictor of tax avoidance, challenging traditional perspectives on corporate tax behavior. Practical Implications: The results offer valuable insights for regulators, tax authorities, and corporate managers. Policymakers should enhance tax regulations to address size-based disparities in tax avoidance. Companies should ensure compliance with tax regulations while optimizing their financial strategies to balance tax efficiency and corporate responsibility. Tax authorities can use these findings to refine monitoring mechanisms, particularly for larger firms with higher tendencies for tax avoidance. This research highlights the complexity of tax avoidance strategies and the necessity for balanced regulatory and corporate governance approaches to ensure fair and transparent tax practices
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Keywords: Financial Performance, Firm Size, Transfer Pricing, Tax Avoidance, and SmartPLS

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh financial performance, firm size, dan transfer pricing terhadap penghindaran pajak pada 19 perusahaan pertambangan di sektor energi yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2019 hingga 2023. Penelitian ini menerapkan purposive sampling. Analisis ini menggunakan analisis jalur SmartPLS. Temuan menunjukkan bahwa financial performance dan transfer pricing tidak berpengaruh terhadap penghindaran pajak, sedangkan ukuran perusahaan berpengaruh terhadap penghindaran pajak. Implikasi Teoritis: Penelitian ini berkontribusi pada teori keagenan dengan menunjukkan bahwa perusahaan yang lebih besar cenderung terlibat dalam penghindaran pajak karena peningkatan sumber daya dan peluang perencanaan pajak yang strategis. Penelitian ini memberikan wawasan tentang keterbatasan financial perfomance berbasis laba sebagai prediktor penghindaran pajak, menentang perspektif tradisional tentang perilaku pajak perusahaan. Implikasi Praktis: Hasilnya menawarkan wawasan bagi regulator, otoritas pajak, dan manajer perusahaan. Pembuat kebijakan harus meningkatkan peraturan pajak untuk mengatasi disparitas berbasis ukuran dalam penghindaran pajak. Perusahaan harus memastikan kepatuhan terhadap peraturan perpajakan sekaligus mengoptimalkan strategi keuangan mereka untuk menyeimbangkan efisiensi pajak dan tanggung jawab perusahaan. Otoritas pajak dapat menyempurnakan mekanisme pemantauan, terutama untuk perusahaan besar dengan kecenderungan lebih tinggi untuk melakukan penghindaran pajak. Penelitian ini menyoroti kompleksitas strategi penghindaran pajak dan perlunya pendekatan regulasi dan tata kelola perusahaan yang seimbang untuk memastikan praktik perpajakan yang adil dan transparan.

Kata Kunci: *Kinerja Keuangan, Ukuran Perusahaan, Transfer Pricing, Penghindaran Pajak, dan SmartPLS*

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INTRODUCTION

Taxes are a source of state revenue, almost every country in the world levies taxes on its citizens, which play an important role in helping to finance state spending. The financial and economic management policies of each country determine the amount of tax levied. Law Number 6 of 1983 concerning General Provisions and Tax Procedures states that taxes are mandatory contributions to the state that must be paid by individuals or bodies based on statutory regulations. Taxes do not directly harm any individual or organization; instead, the state uses taxes to finance its needs in order to maximize public welfare. The state is highly dependent on taxes, and the government seeks to obtain more money from this source. This is done in different ways, where business actors try harder to reduce all their expenses, including tax obligations (Anjas & Anisa, 2022).

Tax avoidance is an attempt made legally by taxpayers to avoid paying taxes by exploiting loopholes in tax regulations and provisions. In its implementation, taxpayers' non-compliance with applicable regulations can lead to tax avoidance. According to (Anjas & Anisa, 2022) because tax avoidance does not violate any tax laws or regulations and exploits weaknesses in the laws and regulations themselves to reduce the amount of tax payable, tax avoidance is a legitimate and safe effort for taxpayers. The tax avoidance case that occurred in 2019 was carried out by the company PT. Adaro Energy Tbk. PT. Adaro Energy Tbk is suspected of carrying out transfer pricing, namely by transferring large profits from Indonesia to companies in countries with low tax rates or tax exemptions. This practice is suspected of occurring between 2009 and 2017. It is believed that PT. Adaro Energy Tbk carried out this activity to pay taxes of IDR 1.75 trillion, or US$ 125 million, less than required in Indonesia. According to this case, transfer pricing was used to avoid corporate taxes (www.globalwitness.org).

Financial performance is reflected in the company's profitability, the greater the company's profitability, the higher the net profit. In proportion to the amount of profit obtained by the company, the company's tax burden also becomes greater. This is one of the reasons why companies avoid taxes (Febriyanti & Sudarto, 2023). In this study, financial performance was measured using Return On Asset (ROA) and Return On Equity (ROE). Firm size is the sum of all the company's assets. According to (Syahputra, 2023) firm size is a metric that can be used in various ways to classify companies as large or small. The more operations a company carries out, the greater its profits. Thus, companies can take advantage of existing weaknesses to avoid taxes. According to (Hanafi & Suparna, 2021) companies use transfer pricing in an effort to avoid taxes, especially multinational companies involved in international transactions. Setting transaction prices between related companies in other countries or taking advantage of legislative, financial, and economic disparities in various jurisdictions is a method of transfer pricing that can be used to avoid taxes.

This study aims to obtain evidence of whether financial performance affects tax avoidance, whether firm size affects tax avoidance, and whether transfer pricing affects tax avoidance. Based on the description above, the meaning of each variable has been explained, so this study aims to determine the effect of these three variables.

Several questions are needed to limit the problem in order to find the best solution to the core of the problem. Discussion of the problem is carried out to stay within the right scope and ensure that the problem is always focused. Thus, the problem is formulated as follows in this study: 1) Does financial performance affect Tax Avoidance?; 2) Does firm size affect Tax Avoidance?; 3) Does transfer pricing affect Tax Avoidance?.

LITERATURE REVIEW

Agency theory Jensen & Meckling (1976) explains that in a corporate entity there are two elements, namely the company owner and the manager who are bound by a contract, large companies have higher agency costs than small companies. According to Mahdiana & Amin (2020) the concept of agency theory is the relationship or contact between the principal and the agent. Agency theory assumes that each part is motivated by individual interests so that it can cause conflict between the principal and the agent. Agency theory is closely related to tax avoidance practices, because agency theory or agency theory explains the relationship between stakeholders and company management, namely profit. Stakeholders or shareholders are referred to as principals, while company management is referred to as agents in agency theory. Management tends to try to increase the company's net profit, including by reducing the tax burden through tax avoidance strategies. Firm size in large companies usually has larger assets to carry out aggressive tax planning, while transfer pricing is often used to move profits to jurisdictions with lower taxes.

Tax is a contribution from the people to the state treasury based on the law, so it can be enforced without receiving direct compensation. Taxes are collected by the authorities based on legal norms to cover the production costs of collective goods and services to achieve general welfare (Sutedi, 2022). Taxes are freely said to be a citizen's obligation in the form of devotion as an active role of citizens and members of society to finance various state needs in the form of national development, the implementation of which is regulated in laws and regulations for the purpose of the welfare of the nation and state (Deslivia & Christine, 2021).

Tax avoidance is an obstacle that occurs in tax collection resulting in reduced state cash receipts. Resistance to taxes consists of active resistance and passive resistance. Tax avoidance is supported by the development of information technology and the increasingly open economy of a country will provide opportunities for companies to develop their businesses (Anjas & Anisa, 2022). Tax avoidance to avoid taxes by taxpayers without violating applicable tax provisions by exploiting weaknesses in the tax regulations (Napitupulu, et., al., 2020).

Financial performance is an analysis that aims to see the extent to which a company implements its financial implementation rules properly and correctly so that it can measure the company's success in generating profits (Ranti & Ajimat, 2022). In line with the argument (Mardiana & Setiyowati, 2024) financial performance is a measure of how a company generates profits using its internal and external capital. The level of profit obtained also has an impact on the amount of tax that must be paid by the company. The results of research conducted Wulandari, et al. (2023) state that financial performance shows a positive effect on tax avoidance. The bigger the company, the greater the opportunity for the company to avoid taxes. In line with research by Ranti & Ajimat (2022) financial performance has an effect on tax avoidance.

ROA is one approach that can show profitability in a company. The greater the level of profitability of the company, the greater the profit obtained by the company, which results in an increase in the tax burden borne by the company (Suryani, 2020). ROA is a company's ability to measure the level of profit or profit where all resources work in it. ROA is able to reflect the company's operating ability to make a profit (Gultom, 2021). Companies with good financial performance can be assumed not to be avoiding taxes because the company is able to generate profits and pay taxes. Noviyani & Mu'id (2019) stated that the higher the company's ROA, the higher the effective tax rate. This is because the basis for imposing income tax is the income earned and received by the company. A high effective tax rate indicates a low level of corporate tax avoidance because the company pays taxes in accordance with

statutory provisions. This is supported by the stakeholder theory or shareholders are referred to as principals. Stakeholders are interested in being able to see the company's performance. One ratio that helps stakeholders is through ROA which in this study shows the comparison between net profit and the amount of assets owned by the company. The ROA ratio is useful for seeing the company's performance where the principal measures the extent to which the company is effective in utilizing all of its resources (Akbar et al., 2020). The assumption is that the higher the ROA, the better the performance of a company entity. This ratio also describes the company's ability to be taxed. In line with research Gultom (2021), ROA has a negative and significant effect on tax avoidance. The higher the company's ability to generate profits using its assets, the lower the tax avoidance practices carried out by the company. According to Hutajulu & Hutabarat (2020) ROE can be called return on equity. This ratio reviews the company's ability to generate returns on equity from existing resources. ROE aims to assess how much profit the owner has from capital. The result of ROE is a ratio that indicates the role of capital in generating net profit. In calculating ROE, the company uses net profit and equity. This ratio includes profitability from the perspective of shareholders, if ROE is high, it indicates that the company has the opportunity to provide profits. The higher the profitability in the company, the more investors are encouraged to take or look for existing shares. And it is hoped that one day it will produce high returns from large involvement. When the profits obtained by the industry swell, so that the amount of income tax will increase in accordance with the increase in the industry's profits obtained, so that the company is likely to apply tax avoidance to avoid increasing the tax burden, until finally high ROE will generate high profits, creating companies to avoid taxes (Nyman, 2022). This assumption in line with research conducted by Hutajulu & Hutabarat (2020) ROE has a significant influence on tax avoidance.
Based on this description, the hypothesis proposed is:
H1: It is suspected that financial performance has an effect on tax avoidance

Firm size is a description of the total assets owned by the company. With a large company size, the assets owned by the company also increase and the expenses incurred in operational activities increase. The decision made by management in funding to obtain the ideal company value is seen from how big the company is (Hutajulu & Hutabarat, 2020). Firm size describes a scale that can divide companies into small and large companies with the level of sales, number of assets, and the amount of equity owned by the company itself (Nyman, 2022). The larger the firm size, the greater the tax avoidance activity, because companies that have relatively large total assets tend to be more profitable, so they try to minimize their tax needs. Companies with a large scale will certainly incur large burdens, including tax burdens. Large companies will pay more taxes than small companies (Syahputra, 2023). This argument is in line with the results of research Yantri (2022) firm size has a positive but insignificant effect on corporate tax avoidance. Tiong & Rakhman (2021) firm size has an impact on tax avoidance, this shows that the larger the company size, the higher or greater the cash effective tax rate will be. With a higher cash effective tax rate value, it shows that the level of tax avoidance carried out by the company will decrease. Based on the description above, the hypothesis proposed is:
H2: It is suspected that firm size has an effect on tax avoidance

According to Hanafi & Suparna (2021) Transfer pricing is an effort made by companies for the purpose of tax avoidance, especially for multinational companies that conduct international transactions. Tax avoidance with transfer pricing can be done by setting transaction prices between related companies in different countries or by taking advantage of economic, financial and regulatory differences between different jurisdictions. Multinational companies transfer their profits to other countries with low tax rates, so they can reduce the tax burden as an effort to maximize profits without having to violate applicable tax laws by avoiding taxes (Suyanto & Sujannah, 2021). An unfair pricing mechanism for transactions of delivery of goods or services by parties with special relationships. This mechanism can be done by raising prices or lowering prices which are mostly done by multinational companies. Research conducted by (Wulandari, et al., 2023) transfer pricing can have a positive effect on tax avoidance. In line with research conducted by Hanafi & Suparna (2021) transfer pricing has a positive effect on tax avoidance. Based on the description above, the hypothesis proposed is:
H3: It is suspected that transfer pricing has an effect on tax avoidance.

Based on the literature review, Figure 1 illustrates the context of the relationship between variables:

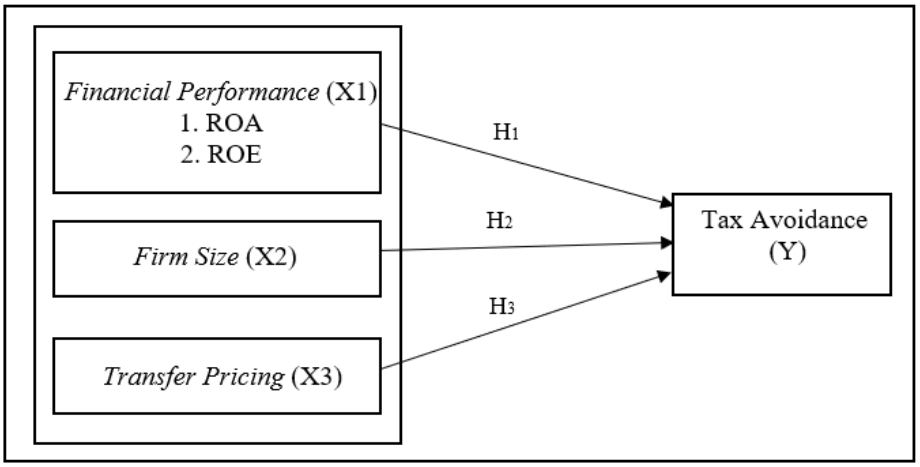


Figure 1: Research Framework
Source: Author's Elaboration, 2025

METHODS

This study uses quantitative methods, with secondary data. Data collection procedures using documentation methods, library studies and internet searching. The population used for the study was the Energy Sector Mining Companies Listed on the Indonesia Stock Exchange (IDX) in 2019 - 2023. The object of this study was using the Energy Sector Mining Companies included in the Sector, there are 88 companies. The sample used by the author is a mining company, because mining companies have a good image in society, the author wants to know whether mining companies comply with taxes or not. The sampling technique used purposive sampling, so that the number of research samples processed was 19 companies.

Table 1: Operational Variables

No	Variable	Indicators	Sources
1.	Tax Avoidance (Y)	CETR= Tax Burden / Profit Before Tax	Napitupulu et., al., (2020)
2.	Financial Perfomance (X1)	ROA= Net Profit After Tax x 100 / Total Assets	Gultom, 2021
		ROE= Net Profit After Tax x 100 / Total Equity	Hutajulu & Hutabarat (2020)
3	Firm Size (X2)	Size=LN Total Assets	Nyman (2022)
4	Transfer Pricing (X3)	TP = Receivables from Related Parties x 100% / Total Receivables	Suyanto & Sujannah, (2021)

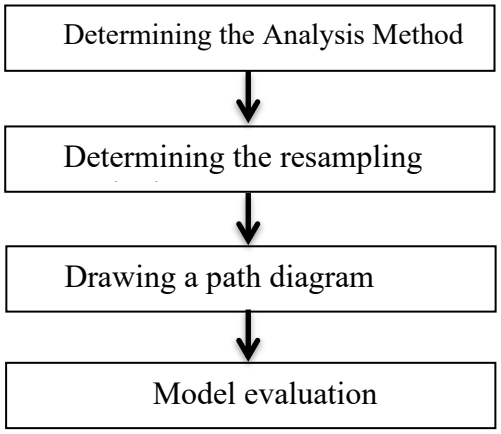
Purposive sampling is a technique used in quantitative research and in determining the sample is carried out in accordance with the provisions to be taken by the researcher and in its determination is carried out precisely on target (Amir & Rahman, 2023). The following are the criteria used in measuring the sample in this study as follows:

1. Energy Sector Mining Companies listed on the Indonesia Stock Exchange (IDX).
2. Energy Sector Mining Companies that publish complete annual reports during the 2019-2023 period.
3. Energy Sector Mining Companies that make a profit during the 2019-2023 period.
4. Energy Sector Mining Companies whose annual reports have complete data required for the 2019-2023 period.

After the data is considered sufficient, the next step is to process the data and analyze the research data based on the model structure between the research variables. The analysis method used in this study is path analysis using SmartPLS. PLS is a multivariate statistical technique that compares multiple dependent variables and multiple independent variables. The selection of the PLS method is based on the consideration that in this study there is a causal relationship between financial performance, firm size, and transfer pricing with tax avoidance. So that the focus of the analysis shifts from only estimating and interpreting significant parameters to the validity and accuracy of predictions.

The analysis stages using Partial Least Squares (PLS) must go through at least 4 (four) stages, where each stage will affect the next stage (Hair, et., al., 2022), namely: 1) Determining the algorithm analysis method; 2) Determining the resampling method; 3) Drawing a path diagram; and 4) Model evaluation.

Table 2: Analysis Stages



From table 2, the description for each analysis stages as stated below.

1. Determining the algorithm analysis method
   Research methods that have passed the model conceptualization stage must determine what algorithm analysis method will be used for model estimation. In PLS using the SmartPLS 3.0 program, the algorithm analysis method provided is only the PLS algorithm with 3 (three) scheme options, namely: factorial, centroid and path or structural weighting.

2. Determining the resampling method
   Generally, there are 2 (two) methods used to carry out the resampling process, namely: bootstrapping and jackknifing. Bootstrapping uses the entire original sample to carry out the resampling process, while jackknifing only uses a subsample of the original sample that is grouped into groups to carry out the resampling process. PLS can only estimate the magnitude of the regression coefficient value (beta) while the statistical significance value is estimated using the bootstrapping or jackknifing method. PLS requires a large number of samples to obtain a normal distribution of the sample and then calculate the standard error (SE) value. The beta value divided by the standard error value is obtained by the calculated t value. The results of a stable t statistic value require a large number of resampling processes between 500 - 1,000. The 95% confidence level and the 5% significance level are important concepts in statistical analysis. The 95% confidence level means that we have 95% confidence that the results obtained from the research sample reflect the actual conditions in the population. In other words, there is only a 5% chance that the results occurred by chance. A significance level of 5% (or 0.05) is used as the threshold to determine whether the results of the study are statistically significant. If the p-value of a statistical test is less than 0.05, then the results are

considered significant, meaning that there is strong evidence to reject the null hypothesis and accept the alternative hypothesis.

3. Drawing a path diagram

After performing the resampling process method, the next step is to draw a path diagram. Reticular Action Modeling (RAM) with the following provisions:

- Theoretical constructs that show latent variables must be drawn in the form of circles or ellipses;
- Observed variables or indicators must be drawn in the form of squares;
- Asymmetrical relationships are depicted with a single-headed arrow, and
- Symmetrical relationships are depicted with a double-headed arrow.

PLS provides additional benefits in graphically depicting relationships between variables with the reticular action modeling (RAM) nomogram through the following four features:

- Ordering of theoretical constructs,
- Specifying of arrows,
- Specifying of inner model,
- Blocking the manifest, theoretical variables and establishing their directions.

4. Model evaluation.

PLS model evaluation based on prediction orientation that has non-parametric properties. PLS evaluation model is done by assessing the outer model and inner model. The outer model is a measurement model to assess the significance of the model. Through the algorithm iteration process, the measurement model parameters (convergent validity, discriminant validity, composite reliability and cronbach's alpha) are obtained, including the R2 value as a parameter of the accuracy of the prediction model. The inner model is a structural model to predict causal relationships between latent variables. The bootstrapping process, the T-statistic test parameters are obtained to predict the existence of a causal relationship (Jogiyanto, 2019).

RESULT AND DISCUSSION

Data Description

This study involves one dependent variable, namely Tax Avoidance, and three independent variables, namely Financial Performance, Firm Size, and Transfer Pricing. The data analysis method used in this study is the path analysis method. Data processing using Microsoft Excel is the first step in data analysis, and SmartPLS 3.2.6 software is used for data testing. This study uses 19 (nineteen) Energy Sector Mining Companies in 2019 to 2023. This study applies the purposive sampling method, namely a sample selection technique based on the suitability of sample characteristics with predetermined criteria. Therefore, the sample in this study consists of companies that meet the criteria relevant to the research objectives. The sample selection process that is in accordance with the predetermined criteria can be seen in table 3.

Table 3: Determination of Research Samples

No.	Criteria	Does Not Meet Criteria	Amount
1	Energy Sector Mining Companies Listed on the Indonesia Stock Exchange		88
2	Energy Sector Mining Companies that publish complete annual reports for the period 2019-2023	31	57
3	Energy Sector Mining Companies that made profits during the period 2019-2023	28	29
4	Energy Sector Mining Companies whose annual reports contain complete data required for the 2019-2023 period	10	19

Source: Author’s Elaboration, 2025

Tax avoidance is one of the strategies used by taxpayers to avoid taxes that involves exploiting tax loopholes. CETR compares tax burden to pre-tax profit to determine how well a company plans its tax

rate. The ability of a business to measure income or profit from assets over a period of time is known as ROA. In this study, ROA is calculated by dividing net income after tax by total assets. ROE is the company's ability to calculate income or profit using equity in a certain period of time. In this study, ROE is calculated by dividing net income after tax by total equity. Firm size is a scale that measures the size of a company based on its total assets over a certain period of time. Size = Ln(total assets).

Hypothesis Testing and Discussion

The measurement model determines the relationship between latent variables and manifest variables. Each manifest variable (indicator) for each latent variable is checked for validity and reliability and in addition, the level of influence of each manifest variable on the latent variable is also ascertained. This study has 1 (one) latent variable and 4 (four) manifest variables. By using the estimation method of SmartPLS 3.0 software, a full model path diagram of full model financial performance, firm size and transfer pricing on tax avoidance is obtained, as shown in Figure 2 below:

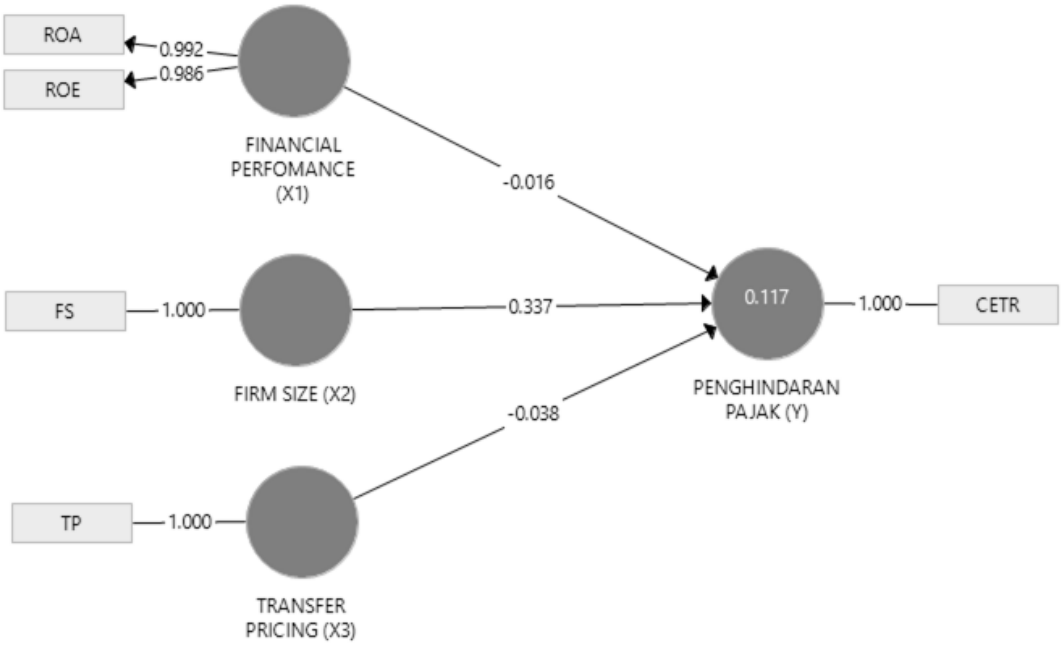


Figure 1: Full Model Path Diagram Structural Equation Modelling

This study evaluates the internal model's reliability by applying the convergent validity test. Convergent validity is assessed using the Average Variance Extracted (AVE) value, with a minimum threshold of 0.5. Additionally, the model's reliability is verified by examining the Composite Reliability value, which should surpass 0.7 to confirm the model's robustness (Hair, et., al., 2022).

Table 4: Collinearity Statistics (VIF)

No.	Outer VIF Values	Inner VIF Values
1	CETR	1.000
2	FS	1.000
3	ROA	11.538
4	ROE	11.538
5	TP	1.000

Source: Author's Elaboration, 2025

Based on Table 4 above, it can be seen that the collinearity statistics (VIF) value shows multicollinearity (red) because the VIF value is > 10, namely the ROA indicator (11,538), and ROE (11,538). While the other indicators (green) are CETR (1,000), FS (1,000), and TP (1,000) which means that there is no multicollinearity. As a result, the researcher removed one of the indicators, namely ROE, and then retested. The results of removing the ROE indicator are as follows:

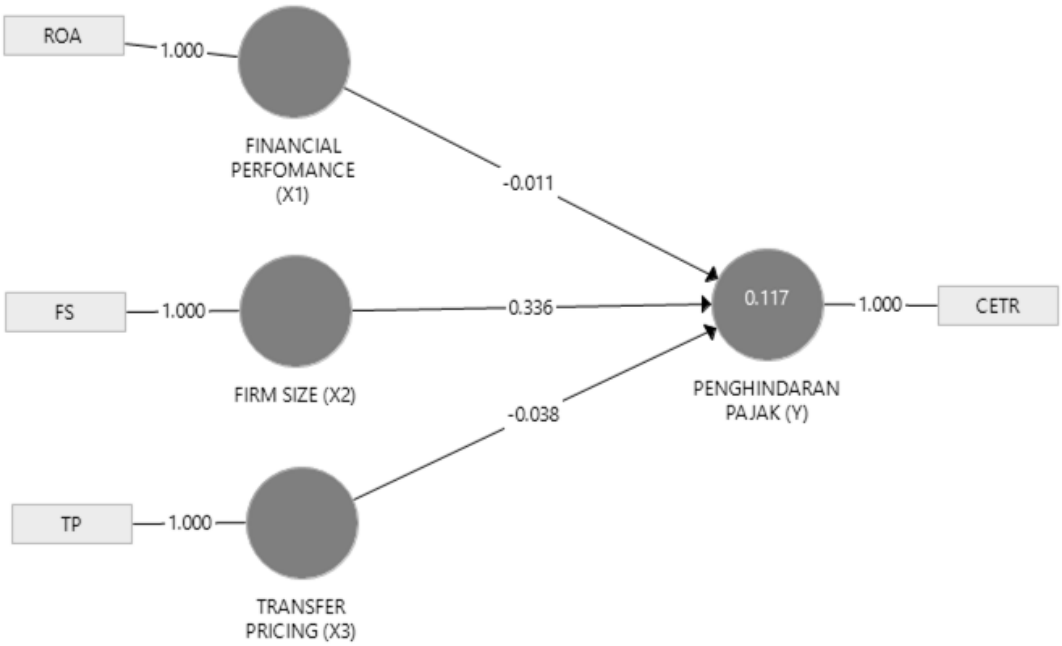


Figure 2: Invalid Indicator Removal

Table 5: Drop Indicator, Collinearity Statistics (VIF)

No.	Outer VIF Values	Inner VIF Values
1	CETR	1.000
2	FS	1.000
3	ROA	1.000
4	TP	1.000

Source: Author's Elaboration, 2025

Based on Table 5 above, it can be seen that the collinearity statistics (VIF) values of the variable indicators are already green, which means that there is no multicollinearity, namely CETR (1,000), FS (1,000), ROA (1,000), and TP (1,000). As a result, the indicators used are valid indicators or in other words are useful for measuring the factors that researchers want to study (valid).

Table 6: Results for Outer Loadings

No.	Matrix	Financial Performance	Firm Size	Tax Avoidance	Transfer Pricing
1	CETR			1.000	
2	FS		1.000		
3	ROA	1.000			
4	TP				1.000

Source: Author's Elaboration, 2025

Based on Table 6 above, it can be seen that the outer loading values of the variable indicators are in accordance with the criteria where the outer loading value should be above 0.70, namely CETR (1,000), ROA (1,000), FIRM SIZE (1,000), and TP (1,000). These indicators are good for measuring the variables that researchers want to test (Valid).

Table 7: Discriminant Validity

No.	Fornell-Larcker Criterion	Financial Performance	Firm Size	Tax Avoidance	Transfer Pricing
1	Financial Performance	1.000			
2	Firm Size	-0.038	1.000		
3	Tax Avoidance	-0.019	0.340	1.000	
4	Transfer Pricing	-0.131	-0.083	-0.064	1.000

Source: Author's Elaboration, 2025

The Average Variance Extracted (AVE) value is another way to evaluate construct validity; if the AVE of each construct is more than 0.50, a good model is needed. The composite reliability indicator, which assesses the construct, is used to measure the construct reliability test in addition to the construct validity test. If the composite reliability value is more than 0.6 and 0.70, then the model is considered reliable.

Table 1: Test Results Cronbach Alpha, Composite Reliability and AVE

No.	Matrix	Cronbach's Alpha	Sho_A	Composite Reliability	Average Variance Extracted
1	Financial Performance	1.000	1.000	1.000	1.000
2	Firm Size	1.000	1.000	1.000	1.000
3	Tax Avoidance	1.000	1.000	1.000	1.000
4	Transfer Pricing	1.000	1.000	1.000	1.000

Source: Author's Elaboration, 2025

As a result, it can be said that all constructions are reliable. The output of cronbach alpha, composite reliability, and AVE of all variables have values above 0.70 and 0.50.

Table 2: R Square

No.	Matrix	R Square	R Square Adjusted
1	Transfer Pricing	0.117	0.088

Source: Author's Elaboration, 2025

Based on table 9 above, it is known that financial performance, firm size, and transfer pricing can explain 11.7% of the tax avoidance variable, while other factors not in the model cannot explain the remaining portion.

Table 3: Path Coefficients

No.	Matrix	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
1	Financial Performance	-0.011	-0.002	0.073	0.156	0.876
2	Firm Size	0.336	0.338	0.088	3.823	0.000
3	Transfer Pricing	-0.038	-0.038	0.381	0.381	0.704

Source: Author's Elaboration, 2025

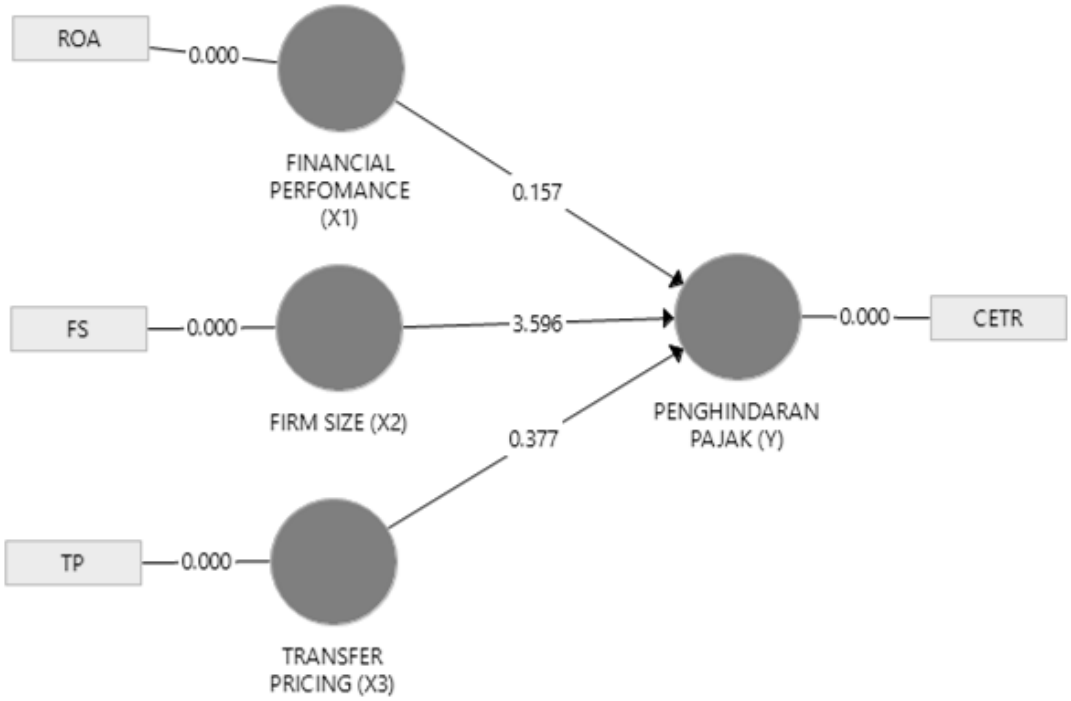


Figure 3: Research Result

The image above is the final result of the study, where only firm size has an effect on tax avoidance based on the P Value which shows processed data <0.05 of 0.001. This is because large firm sizes can dominate the 19 companies that are the Energy Sector Mining samples so that the assets owned can support efficient business operations and help solve problems that may arise. According to agency theory (Jensen & Meckling, 1976), large companies have higher agency costs than small companies. According to (Syahputra, 2023) the number of activities carried out will increase with the size of the company. As a result, this will allow companies to exploit existing weaknesses to reduce tax revenues or avoid taxes.

Other indicators such as ROE cannot represent financial performance because the ROE value has multicollinearity, the collinearity statistics (VIF) value has multicollinearity (red) because the VIF value is > 10, namely the ROA indicator (11,538), and ROE (11,538). After removing one of the indicators (ROE), the ROA value is below 10 = 1. And the financial performance variable has no effect on tax avoidance because the P Value value showing the processed data <0.05 is 0.876. Other variables such as transfer pricing have no effect on tax avoidance because the P Value value showing the processed data <0.05 is 0.704.

Table 4: Recapitulation of Calculation Results

	Path	Path Coefficients	t-statistics	R^2	VIF
Tax Avoidance	Financial Perfomance	-0.011	0.156		1.000
	Firm Size	0.336	3.823	0.117	1.000
	Transfer Pricing	-0.038	0.381		1.000

Source: Author's Elaboration, 2025

Financial Performance test results t-statistic = 0.156 while the critical value of the t-distribution table 1.985, then t-statistic <t table. It can be concluded that there is not enough evidence to conclude that the independent variable has no effect on the dependent variable. This result is also shown by P Value = 0.876. The results of this study are in line with research conducted by (Napitupulu et al., 2020) ROA has no effect on tax avoidance. A company's decision to engage in tax avoidance tactics is not influenced by its level of profit; instead, companies must consider their advantages and disadvantages, because tax

avoidance requires significant costs. ROA is an approach that can show profitability in a company, so the greater the level of profitability of the company, the greater the profit obtained by the company. Thus, companies that make large profits are not always related to tax avoidance. Different from the results of research conducted by (Ismi, Mohamad, et., al., 2022) that ROA has an effect on tax avoidance. In line with research (Gultom, 2021) ROA has a negative and significant effect on tax avoidance. The higher the company's ability to generate profits using its assets, the lower the tax avoidance practices carried out by the company.

Firm Size, the statistical test results = 3.823 while the critical value of the t-distribution table is 1.985, so the t statistic> t table. It can be concluded that there is sufficient evidence to conclude that the independent variable has an influence on the dependent variable. This result is also shown by P Value = 0.000. This result is in line with the research conducted by (Tiong & Rakhman, 2021) firm size has an impact on tax avoidance, this shows that the higher the firm size, the greater the cash effective tax rate. A higher value for the cash effective tax rate indicates that corporations will do less tax avoidance. From the perspective of agency theory, firm size in large companies usually has larger assets to carry out aggressive tax planning. The number of operations carried out increases with firm size. As a result, this will allow companies to exploit existing weaknesses to avoid taxes. This argument is in line with the research results Yantri (2022) that firm size has a positive but insignificant effect on corporate tax avoidance. In contrast to the research conducted by (Syahputra, 2023), firm size has no effect on tax avoidance.

Transfer Pricing statistical test results = 0.381 while the critical value of the t distribution table = 1.985, then t statistic < t table. It can be concluded that there is insufficient evidence to conclude that the independent variable has no effect on the dependent variable. This result is also shown by P Value = 0.704. This result is in line with research conducted by Napitupulu et al. (2020) transfer pricing has no effect on tax avoidance. The average value of transfer pricing in 2019 is 0.200514. The average value of transfer pricing in 2020 has increased by 0.161074. The average value of transfer pricing in 2021 decreased by 0.173605. The average value of transfer pricing in 2022 decreased by 0.109689. The average value of transfer pricing in 2023 decreased again by 0.107441. This shows that an increase or decrease in the transfer pricing value does not affect changes in the tax avoidance value. According to agency theory, management may prefer to use interest expense rather than setting transaction prices between connected companies located in different countries. Different from the research conducted by Wulandari et al. (2023) transfer pricing can have a positive effect on tax avoidance. In line with the research conducted by Hanafi & Suparna (2021) transfer pricing has a positive effect on tax avoidance.

CONCLUSION

The results of data analysis and discussion allow researchers to draw several conclusions about Tax Avoidance as follows:1) Financial Performance does not affect tax avoidance. This is because if a company wants to practice tax avoidance, it requires significant costs, the level of profit obtained also has an impact on the amount of tax the company must pay; 2) Firm Size affects tax avoidance. Because the more activities carried out in a large company, the more it will allow the company to take advantage of existing weaknesses; 3) Transfer Pricing does not affect tax avoidance. Because a decrease in the transfer pricing value does not affect changes in the tax avoidance value. According to agency theory, management may prefer to use interest expenses rather than setting transaction prices between connected companies located in different countries.

Research Limitations

The limitations of this study are the limitations of indicators in the financial performance variable. This study only uses 2 (two) indicators in the financial performance variable. The selection of these variables is influenced by the limitations of the author's knowledge and research, as well as the few references and articles that support the hypothesis used in this study.

Suggestion

In further research, it is necessary to develop indicators on other financial performance variables that affect tax avoidance such as EPS (Earning per Share), PER (Price to Earning Ratio), DER (Debt to Equity Ratio), DY (Dividend Yield), ROI (Return On Investment), ROS (Return On Sales Ratio), GPM (Gross Profit Margin), PMR (Profit Margin Ratio) and ROCE (Return On Capital Employed). And add the observation period so that the results drawn are more comprehensive.

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