


# Exploring Tax Avoidance In Indonesian Energy Companies Between 2018-2022

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Article Info	ABSTRACT
<p><b>Keywords:</b> Tax Avoidance, Transfer Pricing, CEO Tenure, Fraudulent Financial Reporting.</p>	<p>Taxes are essential for national development, but they can also tempt companies to avoid paying their fair share. Although legal, aggressive tax avoidance raises concerns about declining tax income and hindered development. This study investigates the impact of transfer pricing, CEO tenure, and indications of fraudulent financial reporting on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange from 2018 to 2022. This research uses a combination of quantitative, verification and descriptive approaches to determine its effect by analyzing secondary data. Utilizing panel data regression analysis, the research explores the extent to which these variables influence tax avoidance practices. Samples were obtained from 27 companies with a total of 135 observation data using purposive sampling techniques, then analyzed using panel data regression with Eviews 12 software. Partially, the findings reveal that transfer pricing has a positive effect on tax avoidance, while CEO tenure and indications of fraudulent financial reporting have no effect on tax avoidance. Empirical findings indicate that transfer pricing has a significant impact on tax avoidance behavior, while CEO tenure and indicators of fraudulent financial reporting do not exhibit substantial effects. Specifically, the results suggest that companies employ transfer pricing strategies to avoid taxes and reduce their tax burden. Additionally, the length of a CEO's tenure and the presence or absence of indicators of fraudulent financial reporting do not consistently determine whether a company engages in tax avoidance. However, all three variables simultaneously influence tax avoidance. This study contributes to the broader understanding of tax avoidance dynamics within the energy sector, providing a foundation for future research and policy formulation.</p>
<p>This is an open access article under the <a href="https://creativecommons.org/licenses/by-nc/4.0/">CC BY-NC</a> license</p> 	<p><b>Corresponding Author:</b> Delfira Mutia Zahrah Department of Accounting, Telkom University <a href="mailto:delfiramutia@student.telkomuniversity.ac.id">delfiramutia@student.telkomuniversity.ac.id</a></p>

## INTRODUCTION

Taxes, as mandated by Law No. 28 of 2007 of the Republic of Indonesia, are a compulsory obligation for all taxpayers, encompassing both individuals and businesses. They serve as a vital component for a nation's sustainability, with adequate tax contributions acting as the primary engine of national development (Astrina et al., 2022). Tax revenue plays a pivotal role in supporting the State Budget (APBN), accounting for a staggering 78.2% of total revenue. This figure far exceeds the contribution of non-tax revenue and grants, which stand at 21.3% and 0.5%, respectively. Given this significance, taxation has become a primary focus of the

government in ensuring taxpayer compliance and fulfillment of their tax obligations. The energy sector, as a key pillar of economic growth and societal well-being, also contributes significantly to state revenue through taxation. Companies in this sector, engaged in energy extraction and sales, including renewable energy and fossil fuels, are bound by tax obligations.

The fluctuating GDP growth of the energy sector from 2018-2022 exhibits an overall upward trend, despite a significant decline in 2020. This decline is primarily attributed to the COVID-19 pandemic's impact on energy demand and commodity prices, as evidenced by the benchmark coal price dropping to USD 58 per ton (Kementrian ESDM, 2023). As Sugiyanto (2017) suggests, reduced energy consumption can lead to lower production and economic output. Furthermore, an analysis of tax revenue realization from 2018-2022 reveals similar fluctuations compared to set targets. The 2020 decline stemmed from the combined impact of the pandemic and the Omnibus Law, which implemented a gradual reduction in corporate income tax rates (Government Regulation No. 30/2020). Additionally, Indonesia's self-assessment tax system allows for flexibility in determining tax liabilities, potentially encouraging tax avoidance practices (Nurrahmi & Rahayu, 2020). This combined effect of economic downturn and potential tax avoidance raises concerns about the energy sector's contribution to national tax revenue.

PT Adaro Energy Tbk, a major Indonesian coal company, is allegedly involved in tax avoidance practices. According to a Global Witness (2019), Adaro is suspected of shifting significant profits from its coal mining operations in Indonesia to its network of overseas companies and utilizing tax havens, resulting in a reduction of its tax obligations in Indonesia by approximately USD 14 million per year. Meanwhile, PT Bumi Resources Tbk (BUMI), as the largest mining company in Indonesia that is part of the Bakrie business group, is also suspected of manipulating financial reports. According to a report by Rifky (2012) in *Harian Ekonomi Neraca*, Bapepam-LK suspected deviations and manipulation of the 2012 financial statements by the Bakrie Group management in BUMI. This issue has been further exacerbated by the continuous decline in coal prices in the international market, leading to a drop in BUMI's shares. The Bakrie group's debt also continues to increase, prompting the company to engage in financial report manipulation, including financing from high-interest funds.

Previous studies have examined various factors influencing tax avoidance. For instance, Rini et al. (2022) found that transfer pricing practices can be employed by companies as a strategy to minimize their tax burden or avoid taxes, negatively affecting tax avoidance. However, other studies (Napitupulu et al., 2020; Hasibuan & Gultom, 2021; Wardana & Asalam, 2022) suggest no effect. The impact of a CEO tenure on decision-making can be shaped by conflicts of interest between shareholders and management. Research by Doho & Santoso (2020) and Ulfa et al. (2021) indicates a positive effect of CEO tenure on tax avoidance, while others (Karina & Jeksen, 2021; Pratomo et al., 2022; Annisa & Hasnawati, 2023) found no significant relationship. Financial statements, essential for reflecting a company's financial and operational condition, influence decision-making by various stakeholders (Sagala & Siagian, 2021). Oktaviani (2017) found that pressure can drive

companies to engage in tax avoidance using the fraud diamond theory approach. Other factors such as oversight, industry characteristics, rationalization, and capability did not significantly influence the indication of tax avoidance.

Referring to the above explanation and considering the background and phenomena occurring, it is still relevant to conduct research related to tax avoidance practices with transfer pricing, CEO tenure, and indications of fraudulent financial reporting as influencing factors in energy sector companies listed on the Indonesia Stock Exchange for the period 2018-2022.

### Literature Review

Agency theory, initially introduced by Jensen & Meckling (1976), sheds light on the contractual relationship between a principal and an agent. In this dynamic, the agent, often the company's management, possesses the potential to act in ways that may not align with the principal's best interests due to differing objectives. This can lead to conflicts of interest, where managers may prioritize short-term gains over the long-term well-being of shareholders (Aya et al., 2022). In addition, managers who do not fully bear the risk of their decisions may act recklessly or suboptimally, and even seek personal gain that harms shareholders (Biduri & Tjahjadi, 2024). In the context of tax avoidance, the government, as the principal through the tax authority, has a vested interest in maximizing its revenue from tax receipts. On the other hand, companies, as the agents through their management, have an interest in maximizing their profits, which can include minimizing their tax liabilities. Company management plays a pivotal role in providing information related to financial and tax matters to various stakeholders, including the government, which serves as a primary user of this information. This inherent information asymmetry creates opportunities for company management to engage in tax avoidance practices. Agency theory effectively explains how the divergence of interests and information asymmetry between the government and companies can drive tax avoidance practices.

The theory of fiscal psychology, first introduced by Schmolders (1958), explains the influence of tax perception and government expenditure on individual economic behavior, where psychological, emotional, and social factors such as fear of loss and hope for gain play a role in economic decisions. According to the benefit paradigm of Devos (2014), this theory refers to a model that considers the potential costs and benefits of an action before choosing that action. The approach combining economics and psychology in this theory is considered more effective in explaining tax compliance (Hasseldine & Bebbington, 1991). Viewing tax enforcement as a behavioral issue, this theory emphasizes positive policies and collaboration between the government and taxpayers (Damayanti et al., 2015). The relationship between taxpayers and the government is likened to a contract with rights and obligations, reflecting the fiscal between individuals and the government (Feld & Frey, 2007).

Tax avoidance is a legal strategy used by taxpayers to minimize their tax burden by exploiting loopholes or ambiguities (grey areas) in tax regulations, thereby reducing their tax liability without violating applicable laws (Pohan, 2014). Freedman (2004:336) in (Hashimzade & Epifantseva, 2017) similarly defines tax avoidance as any arrangement that does not violate the law to reduce, eliminate, or defer tax obligations. Barry Bracewell-Milnes

argues that as tax rates increase, taxpayers are increasingly motivated to find loopholes and reduce their tax liabilities, as they can avoid higher tax rates while still fulfilling their obligations using lower rates (Lubis, 2013). Cash ETR is a better measure of tax avoidance than GAAP ETR, as it considers cash tax payments and tax shields, and thus provides a more accurate picture of a company's tax strategies (Almiranti & Koerniawan, 2023).

Transfer pricing, defined by the United Nations (2017), involves pricing cross-border transactions within a group of companies for goods, intangible assets, or services. This practice ensures compliance with the arm's length principle, ensuring transactions are conducted at market prices. According to Anggiyanti & Sormin (2024), transfer pricing involves manipulating prices for sales, cost allocation, commissions, rents, royalties, and assets purchases between affiliated companies to minimize tax liabilities. Kumar et al. (2021) note that transfer pricing serves various reasons, including efficient resource allocation, organizational structure sharing, increased integration and differentiation, and strategic needs influenced by accounting mechanisms. Astrina et al. (2022) suggest that higher transfer pricing values indicate greater potential for tax avoidance, while lower values suggest reduced potential for tax avoidance.

The Chief Executive Officer (CEO) is pivotal in determining a company's success and is accountable for its performance (Saputri, 2021). Hambrick & Mason (1984) argue that the length of a CEO's tenure offers insights into their capabilities and behavior during their tenure (Darouichi et al., 2021). According to Naseem et al. (2019), CEO tenure influences decision-making and shareholder wealth. CEOs with longer tenures possess more experience and are adept at communicating company information and cultivating strong financial relationships. This can affect the choice of capital structure and other strategic decisions, including decisions to engage in tax avoidance practices.

Fraud in financial reporting is the intentional falsification of statements to mislead users (Arens et al., 2012). SAS No. 99 identifies two types: fraudulent reporting and asset misappropriation. Misstatements arising from fraudulent financial reporting involve the intentional manipulation of financial statements to deceive users, thereby influencing their assessments and decisions. Misstatements arising from misappropriation of assets involve the unauthorized use of company assets for personal gain (AICPA, 2002).

## METHODS

This research combines quantitative, verification, and descriptive approaches to analyze secondary data from energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022. Descriptive statistics were used for nominal and ratio data, while panel data regression was employed for the analysis. Panel data, which combines cross-sectional (across sectors) and time series (over time) data, allows for more comprehensive insights. A purposive sampling technique was used, resulting in 135 observational data points from 27 companies that met the research criteria: 1) Consistent publication of financial statements meeting study requirements from 2018-2022; 2) Use of foreign currency values in financial reporting during this period; 3) Financial reporting periods ending on December 31.

**Table 1.** Variable Measurement

Variables	Measurements	Sources
Tax Avoidance	$Cash\ Effective\ Tax\ Rate = \frac{Cash\ Paid\ for\ Taxes}{Earning\ Before\ Tax}$	(Ulfa et al., 2021)
Transfer Pricing	$TP = \frac{Account\ Receivable\ to\ Related\ Parties}{Total\ Receivables}$	(Anggiyanti & Sormin, 2024)
CEO Tenure	<i>CEO Tenure</i> = The number of years a CEO has served at the company	(Baatwah et al., 2015)
Indications of Fraudulent Financial Reporting	$F - Score = Accrual\ Quality + Financial\ Performance$ If F-score is $\geq 1 = 1$ , and if F-score $< 1 = 0$	(Ismawati & Krisnawati, 2019)

Source: Data processed by researchers, 2024

## Hypothesis Development

### The Effect of Transfer Pricing on Tax Avoidance

Transfer pricing is a method used to establish prices for goods or services exchanged between affiliated companies, whether domestic or international. Multinational corporations often manipulate these prices by increasing (marking up) or decreasing (marking down) them, influencing transfer pricing practices as a strategy to minimize taxes. Research by Astrina et al. (2022), indicates that higher transfer pricing values significantly correlate with increased tax avoidance practices. This suggests that companies with higher transfer pricing values are more likely to engage in tax avoidance.

**H<sub>1</sub>:** Transfer pricing partially has a positive effect on tax avoidance.

### The Effect of CEO Tenure on Tax Avoidance

CEO tenure refers to the time spent by an individual in the CEO position. According to Naseem et al. (2019), CEO tenure influences decision-making. Longer-tenured CEOs have more experience and are better able to communicate company-related information. Greater CEO tenure is associated with a higher likelihood of the company engaging in tax avoidance practices. This aligns with Ulfa et al. (2021), which suggests that CEO tenure positively correlates with tax avoidance, indicating that longer CEO tenure increases the likelihood of tax avoidance.

**H<sub>2</sub>:** CEO Tenure partially has a positive effect on tax avoidance.

### The Effect Indications of Fraudulent Financial Reporting on Tax Avoidance

In financial statement auditing, fraud refers to intentionally making financial statements inaccurate (Arens et al., 2012). In taxation, fraudulent financial reporting practices can provide opportunities for companies to avoid taxes. For example, by manipulating financial statements to show higher income than actual, companies can exploit tax loopholes or shift profits to jurisdictions with lower tax rates to reduce their tax obligations. Research by Lembut & Oktariani (2023) suggest that book-tax differences result from real earnings management

practices, making them an indicator if a company is involved in earnings manipulation. Companies engaging in real earnings management are likely to have larger book-tax differences, which can serve as indicators of tax avoidance.

H<sub>3</sub>: Indications of Fraudulent Financial Reporting partially has a positive effect on tax avoidance.

### The Effect of Transfer Pricing, CEO Tenure, and Indications of Fraudulent Financial Reporting on Tax Avoidance

Tax is one of the major costs for firms. Transfer pricing lowers taxes by selling below-market, shifting profits (Rini et al., 2022). CEOs with longer tenures may have different tax risk preferences compared to CEOs with shorter tenures. The longer the CEO's tenure, the higher the potential for the company to engage in tax avoidance practices (Ulfa et al., 2021). Pressure to meet high performance targets and financial incentives can drive individuals to manipulate financial statements. This can lead the company to lower tax liabilities or enhance financial performance to appear better. A company has a high potential for tax avoidance if it engages in fraudulent financial reporting practices.

H<sub>4</sub>: Transfer pricing, CEO tenure, and indications of fraudulent financial reporting simultaneously influence tax avoidance.

## RESULTS AND DISCUSSION

### Descriptive Statistics Analysis

**Table 2.** Descriptive Statistics Results for Ratio Scale Variables

	TA	TP	TENURE
Mean	0.655541	0.222593	7.407407
Maximum	30.06419	0.985081	34.00000
Minimum	-5.222281	0.0000007	0.000000
Std. Dev.	3.271082	0.230664	9.043259
Observations	135	135	135

Source: Data processed by researchers, 2024

In table 2, Tax Avoidance varies significantly, with a mean of 0.655541 and a standard deviation of 3.271082. PT Darma Henwa Tbk (DEWA) had the highest value of 30.06419 in 2020, while PT Dian Swastatika Sentosa Tbk (DSSA) had the lowest at -5.222281 in the same year. Transfer Pricing also shows notable variability, averaging 0.222593 with a standard deviation of 0.230664. PT Darma Henwa Tbk (DEWA) recorded the highest at 0.985081 in 2020, and PT Samindo Resources Tbk (MYOH) the lowest at 0.0000007 in 2020 and 2021. CEO Tenure averages 7.407407 with a standard deviation of 9.043259. PT Wintermar Offshore Marine Tbk (WINS) held the longest tenure at 34 years in 2022, while 23 companies, including PT Perusahaan Gas Negara Tbk (PGAS), reported 0 years from 2018 to 2021.

**Table 3.** Descriptive Statistics Results for Nominal Scale Variable

Indications of Fraudulent Financial Reporting	Total	%
Indicated	5	3,7%
Not Indicated	130	96,3%
Total	135	100%

Source: Data processed by researchers, 2024

Based on table 3, there are 5 data points (3.7%) indicating fraudulent financial reporting and 130 data points (96.3%) not indicating fraudulent financial reporting out of 135 observational data. These results indicate that the majority of energy sector companies did not indicate fraudulent financial reporting during the study period.

### Results

The heteroskedasticity test results show that there is a varying relationship between the error variance and the independent variable. This is indicated by the Transfer Pricing variable having a probability value less than 0.05. Consequently, the data was transformed using the square root method before conducting the panel data regression analysis using Eviews version 12.

### Multicollinearity Test

**Table 4.** Results of Multicollinearity Test After Data Transformation

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.126258	71.37359	NA
X1	0.052582	22.66467	1.006238
X2	0.001365	20.51533	1.006240
X3	0.049599	27.00011	1.000004

Source: Eviews 12 Output, data processed by researcher (2024)

Based on the results from the multicollinearity test in table 4, all VIF (Variance Inflation Factor) values for the independent variables—transfer pricing, CEO tenure, and indications of fraudulent financial reporting, are less than 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in this study.

### Heteroskedasticity Test

**Table 5.** Results of Heteroskedasticity Test After Data Transformation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.3332370	0.263084	5.0677190	0.0000
X1	-1.4696270	0.169688	-8.6607820	0.0531
X2	0.0196350	0.027327	0.7185180	0.4737
X3	-0.0035180	0.164717	-0.0213570	0.9830

Source: Eviews 12 Output, data processed by researcher (2024)

Based on the results of the heteroskedasticity test using the Glejser method in Table 5, it is noted that the probability values of the variables transfer pricing, CEO tenure, and

indications of fraudulent financial reporting are greater than 0.05. Therefore, it can be concluded that there is no heteroskedasticity present in this study, indicating that the data used meets the assumptions for classical tests and can proceed to estimation method testing.

### Chow Test

**Table 6.** Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.458203	(26,105)	0.9877
Cross-section Chi-square	14.508725	260	0.9657

Source: Eviews 12 Output, data processed by researcher (2024)

Based on Table 6, the Chow test results indicate a cross-section chi-square probability value of 0.9657 > 0.05. Thus,  $H_0$  is accepted and  $H_1$  is rejected, confirming that the model used is the Common Effect Model (CEM).

### Hausman Test

**Table 7.** Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.489288	3	0.9212

Source: Eviews 12 Output, data processed by researcher (2024)

Based on table 7, the Hausman test results indicate a cross-section random probability value of 0.9212 > 0.05. Thus,  $H_0$  is accepted and  $H_1$  is rejected, indicating that the model employed is the Random Effects Model (REM).

### Lagrange Multiplier Test

**Table 8.** Lagrange Multiplier Results

Null (no rand. effect)	Cross-section		Both
	One-sided	Period One-sided	
Breusch-Pagan	4.244308 (0.0394)	0.057007 (0.8113)	4.301315 (0.0381)

Source: Eviews 12 Output, data processed by researcher (2024)

Based on table 8, the Lagrange multiplier test results indicate a Breusch-Pagan probability value of 0.0394 < 0.05. Therefore,  $H_0$  is rejected and  $H_1$  is accepted, indicating that the model applied is the Random Effects Model (REM).

### Partial Test

**Table 9.** Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.745087	0.376470	12.60416	0.0000
X1	1.042998	0.242821	4.295343	0.0000
X2	-0.020704	0.039104	-0.529461	0.5974
X3	-0.138344	0.235708	-0.586930	0.5583

Source: Eviews 12 Output, data processed by researcher (2024)



Based on the partial test results in Table 9, the panel data regression model equation obtained is as follows:

$$\sqrt{Y} = \sqrt{4,745087 + 1,042998 TP - 0,020704 CT - 0,138344 FFR + \varepsilon}$$

1. The constant value of 4.745087 can be interpreted as follows: when the values of transfer pricing, CEO tenure, and indications of fraudulent financial reporting are zero, the tax avoidance conducted by the sample companies is 0.137950.
2. The regression coefficient of transfer pricing is 1.042998 with a probability value of  $0.0000 < 0.05$ , indicating rejection of  $H_{01}$  and acceptance of  $H_{a1}$ , suggesting that transfer pricing variable has a significant positive partial effect on tax avoidance.
3. The regression coefficient of CEO tenure is -0.020704 with a probability value of  $0.5974 > 0.05$ , indicating acceptance of  $H_{02}$  and rejection of  $H_{a2}$ , indicating that CEO tenure variable does not have a significant partial effect on tax avoidance.
4. The regression coefficient of indications of fraudulent financial reporting is -0.138344 with a probability value of  $0.5583 > 0.05$ , indicating acceptance of  $H_{03}$  and rejection of  $H_{a3}$ , suggesting that indications of fraudulent financial reporting variable do not have a significant partial effect on tax avoidance.

#### Simultaneous Test

**Table 10.** Simultaneous Test Results

R-squared	0.143427	Mean dependent var	5.397926
Adjusted R-squared	0.123810	S.D. dependent var	0.521987
S.E. of regression	0.488606	Sum squared resid	31.27437
F-statistic	7.311644	Durbin-Watson stat	2.786657
Prob(F-statistic)	0.000143		

Source: Eviews 12 Output, data processed by researcher (2024)

Based on table 10, the simultaneous test results indicate a probability value (F-statistic) of  $0.000143 < 0.05$ , leading to the rejecting  $H_0$  and acceptance of  $H_a$ . This suggests that transfer pricing, CEO tenure, and indications of fraudulent financial reporting collectively influence tax avoidance.

#### Coefficient of Determination ( $R^2$ )

**Table 11.** Coefficient of Determination

R-squared	0.143427	Mean dependent var	5.397926
Adjusted R-squared	0.123810	S.D. dependent var	0.521987
S.E. of regression	0.488606	Sum squared resid	31.27437
F-statistic	7.311644	Durbin-Watson stat	2.786657
Prob(F-statistic)	0.000143		

Source: Eviews 12 Output, data processed by researcher (2024)

Based on table 11, the coefficient of determination ( $R^2$ ) results indicate an Adjusted R-squared value of 0.123810 or 12.38%. This means that transfer pricing, CEO tenure, and indications of fraudulent financial reporting collectively explain 12.38% of the variation in tax

avoidance measured by Cash Effective Tax Rate (Cash ETR) in this study. The remaining 87.62% of the variation can be attributed to factors or variables not included in this study.

## Discussions

### Transfer Pricing on Tax Avoidance

Table 9 shows that the transfer pricing variable (X1) has a probability value of  $0.0000 < 0.05$ , rejecting  $H_0$  and accepting  $H_a$ . This indicates a significant positive effect of transfer pricing on tax avoidance with a coefficient value of 1.042998. Multinational companies use transfer pricing to shift profits to low-tax jurisdictions, impacting tax revenue in high-tax countries. Although not illegal, this practice often conflicts with fair business principles, potentially disadvantaging high-tax countries in terms of tax revenue and hindering funding for public services. Furthermore, above-average transfer pricing data is dominated by tax avoidance practices in 30 observations, while 27 other observations show no indication of tax avoidance. On the other hand, below-average transfer pricing observations are dominated by tax avoidance practices in 40 instances, with 38 other observations showing no indication of tax avoidance. These data supporting the partial test results in table 9 and the findings of (Astrina et al., 2022).

### CEO Tenure on Tax Avoidance

Table 9 shows that the probability value of the CEO tenure variable (X2) is  $0.5974 > 0.05$ , accepting  $H_0$  and rejecting  $H_a$ . This means CEO tenure does not significantly influence tax avoidance. Whether CEOs have long or short tenures, the propensity for tax avoidance remains balanced. CEO experience rather than tenure likely plays a greater role. Newer CEOs may prioritize performance and reputation over aggressive tax strategies, whereas experienced CEOs may navigate legal avenues for tax minimization. Furthermore, CEO tenure data above the average are dominated by tax avoidance practices in 26 observations, while 19 other observations show no indication of tax avoidance. Conversely, observations of CEO tenure below the average are dominated by tax avoidance practices in 46 observations, with 44 other observations showing no indication of tax avoidance. This balanced proportion of data supports the partial test results in table 9 and studies by (Karina & Jeksen, 2021); (Pratomo et al., 2022); (Annisa & Hasnawati, 2023).

### Indications of Fraudulent Financial Reporting on Tax Avoidance

Table 9 shows that indications of fraudulent financial reporting (X3) has a probability value of  $0.5583 > 0.05$ , accepting  $H_0$  and rejecting  $H_a$ . This indicates that fraudulent financial reporting does not significantly affect tax avoidance. This indicates that tax avoidance is not dependent on fraudulent financial reporting (FFR). Although often associated, companies may engage in FFR for other motives, such as profit enhancement or asset concealment. FFR carries serious consequences, whereas tax avoidance is generally legal if conducted in a lawful or semi-legal manner. Additionally, among the data indicated by fraudulent financial reporting, the majority (4 observations) did not engage in tax avoidance, and only 1 observation did engage in tax avoidance. Conversely, among the observations not indicated by fraudulent financial reporting, the majority (69 observations) engaged in tax avoidance, while 61 observations did not engage in tax avoidance. The difference between those

indicated and not indicated in tax avoidance is relatively small. Thus, fraudulent financial reporting does not reliably predict tax avoidance behaviors.

### **Transfer Pricing, CEO Tenure, and Indications of Fraudulent Financial Reporting on Tax Avoidance**

The F-test results in table 10 show a probability value (F-statistic) of  $0.000143 < 0.05$ , indicating that the variables transfer pricing, CEO tenure, and indications of fraudulent financial reporting collectively have a significant impact on tax avoidance in energy sector companies listed on the IDX during 2018-2022. With an Adjusted R-squared value of 0.123810 in table 11, it can be stated that the independent variables in this study can explain only 12.38% of the dependent variable (tax avoidance). The remaining 87.62% suggests that there are many other factors outside the scope of this study influencing tax avoidance behavior in the energy sector.

## **CONCLUSION**

The research outcomes and the following discussion suggest that transfer pricing has a partial and significant positive influence on tax avoidance, while CEO tenure and indicators of fraudulent financial reporting did not exhibit a significant partial effect on tax avoidance, a simultaneous analysis revealed that all three variables collectively influence tax avoidance practices in these companies. Although this study contributes to the understanding of tax avoidance practices in the energy sector, it does have limitations. The explanatory power of the model is one such limitation, as evidenced by the adjusted R-squared value of only 12.38%. For future research development, it is hoped that future researchers can expand the scope of research by updating and extending the research period, researching sectors other than the energy industry, and including other variables that have the potential to influence tax avoidance practices. In addition, an in-depth analysis of transfer pricing documentation (TP Doc) is recommended to gain a more comprehensive understanding of this phenomenon. Scaling up a responsible energy sector hinges on a multi-stakeholder approach that fosters collaboration between government, companies, and investors. The government can play a pivotal role by strengthening tax regulations, increasing financial transparency, and conducting regular audits. Public awareness campaigns can further improve tax compliance. On the other hand, companies must prioritize legal and ethical tax strategies, appropriate transfer pricing, and strong internal controls. Then investors must be vigilant, analyze risk factors and remain alert to signs of danger. This approach is expected to encourage a compliant energy sector and minimize tax avoidance.

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