

Determinants of tax avoidance: Related party transactions, foreign ownership, and tax disclosure

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ABSTRACT

This study aims to examine the effect of related party transactions, foreign ownership, and tax disclosure on tax avoidance in multinational companies listed on the Indonesia Stock Exchange. The study employs a quantitative approach using secondary data obtained from corporate financial statements and sustainability reports for the period 2018–2024. The sample was selected using a purposive sampling method, resulting in 98 firm-year observations that met the research criteria. Panel data regression was applied as the analytical method. The results indicate that related party transactions have a positive effect on tax avoidance, suggesting that the higher the intensity of transactions with related parties, the greater the tendency of firms to engage in tax avoidance practices. Foreign ownership is also found to have a positive effect on tax avoidance, indicating that firms with higher foreign ownership tend to implement more aggressive tax planning strategies. Meanwhile, tax disclosure has a negative effect on tax avoidance, implying that higher levels of tax transparency are associated with lower levels of tax avoidance. These findings suggest that related party transactions and foreign ownership increase the risk of tax avoidance, while tax disclosure plays an important role in mitigating such practices. This study contributes to the literature on corporate taxation and provides insights for policymakers in formulating regulations that enhance transparency and improve tax compliance among multinational companies in Indonesia. This study is particularly relevant in the context of Indonesia's recent tax reforms, including the Harmonization of Tax Regulations Law, which emphasizes improved tax compliance, transparency, and the prevention of tax avoidance practices among corporate taxpayers.

Keywords: Tax avoidance, related party transactions, foreign ownership, tax disclosure, multinational companies.

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INTRODUCTION

The era of economic globalization has substantially intensified the activities of multinational enterprises across countries, including Indonesia (OECD, 2021; UNCTAD, 2023). According to data from the Investment Coordinating Board (Badan Koordinasi Penanaman Modal/BKPM), realized Foreign Direct Investment (FDI) in 2023 reached IDR 744 trillion, representing a 14.2% increase compared to the previous year. This upward trend underscores the strategic role of multinational corporations in fostering national economic development, consistent with the findings of Meivitananli (2021) and Budiono & Purba (2023), who highlight the significant contribution of FDI inflows to economic growth and development in Indonesia. As illustrated in Figure 1, the steady increase in FDI from 2018 to 2023 reflects the growing intensity of cross-border economic activities and the expanding presence of multinational firms in the domestic economy. However, alongside these positive contributions, substantial challenges arise for tax authorities, particularly in relation to fiscal transparency and tax compliance (OECD, 2021; IMF, 2022). The increasing complexity of cross-border ownership structures, coupled with a high volume of related party transactions, heightens the risk of tax avoidance through transfer pricing and profit-shifting practices (Beer et al., 2020; Mashiri et al., 2021; Beuselinck & Pierk, 2022). These conditions suggest that while the expansion of multinational enterprises plays an important role in supporting economic growth, it simultaneously necessitates stronger tax oversight and more robust regulatory frameworks to ensure

corporate tax compliance and to mitigate the erosion of the domestic tax base (OECD, 2021; UNCTAD, 2023).

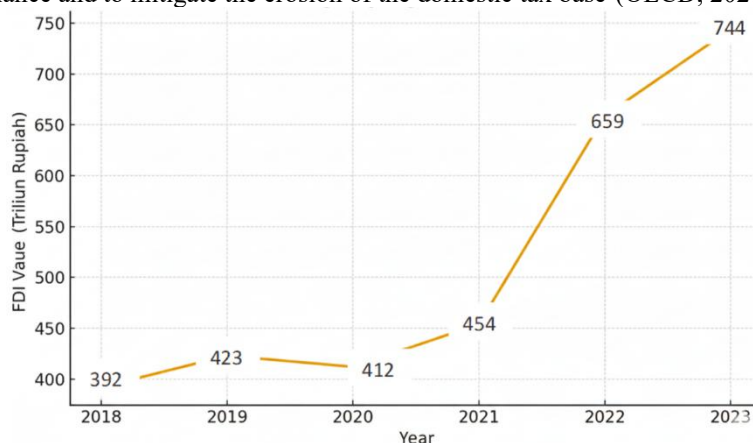


Figure 1. Trend of Foreign Direct Investment (FDI) in Indonesia, 2018–2023 (Source: Investment Coordinating Board/BKPM, processed by the author, 2025).

One of the most critical issues arising from the increasing presence of multinational enterprises is tax avoidance. Tax avoidance refers to corporate efforts to reduce tax liabilities by exploiting loopholes within existing tax regulations while remaining legally compliant (Budiman et al., 2025). Such practices are commonly implemented through transfer pricing mechanisms, whereby profits are shifted among related entities within a corporate group to take advantage of differences in statutory tax rates across jurisdictions (Mashiri et al., 2021; Beuselinck & Pierk, 2022). The international literature consistently highlights profit shifting as a major source of tax base erosion, particularly among multinational corporations operating across multiple tax regimes. By allocating profits to low-tax jurisdictions through intra-group transactions, multinational firms are able to substantially reduce their global tax burdens (Le et al., 2024). This behavior has raised significant concerns among policymakers and tax authorities, as it undermines domestic tax revenues and distorts fair competition. Empirical evidence further supports this argument. Afriani & Utama (2020) as well as Laulita & Yanni (2022) find that a higher intensity of related party transactions significantly increases the likelihood of tax avoidance. Moreover, Kerr et al. (2024) demonstrate that stronger corporate governance mechanisms can mitigate tax avoidance behavior, suggesting that tax avoidance is closely associated with managerial incentives, internal control effectiveness, and the quality of corporate oversight.

In addition to related party transactions, foreign ownership constitutes another important factor influencing corporate tax avoidance. Firms with a higher proportion of foreign ownership typically have access to extensive international networks, cross-border organizational structures, and more sophisticated global tax planning strategies. These conditions enable firms to exploit differences in tax systems and statutory tax rates across countries in order to legally reduce their overall tax burden. Andrialdi et al. (2021) argue that foreign investors possess strong incentives to optimize tax liabilities through the strategic structuring of multinational operations across jurisdictions. This argument is further supported by Ekasari et al. (2023), who find that foreign ownership has a positive effect on tax avoidance, particularly when combined with transfer pricing practices among affiliated entities within the same corporate group. Moreover, recent studies suggest that firms with significant foreign ownership tend to engage more actively in cross-border tax planning due to their ability to leverage international tax arbitrage opportunities (Kovermann & Velte, 2020; Richardson et al., 2022). These findings indicate that foreign ownership not only reflects capital inflows but also plays a critical role in shaping corporate tax behavior, particularly in facilitating tax avoidance strategies among multinational enterprises.

Budiman et al. (2025) explain that multinational companies tend to exploit differences in tax jurisdictions and regulatory loopholes across countries as part of their global tax efficiency strategies. This phenomenon is consistent with findings from international studies indicating that the involvement of foreign investors often increases the complexity of corporate structures, thereby expanding opportunities for profit shifting and aggressive tax avoidance practices (Beuselinck & Pierk, 2022; Le et al., 2024). Accordingly, foreign ownership does not merely reflect the inflow of foreign capital, but also represents a critical factor influencing the tax behavior of multinational firms, particularly in terms of their ability to engage in cross-border tax planning strategies.

On the other hand, tax disclosure serves as an important instrument for enhancing corporate transparency and accountability. Tax disclosure reflects the extent to which firms provide information regarding their tax policies, tax burdens, and tax-related risks, thereby reducing information asymmetry between management and stakeholders. A higher level of transparency is expected to curb managerial opportunism and limit tax avoidance practices by increasing scrutiny from regulators, investors, and the public. Prior studies have demonstrated that greater tax transparency is associated with lower levels of tax avoidance, as it strengthens external monitoring and enhances corporate accountability (Joshi et al., 2020; Martini et al., 2025).

Nevertheless, the current condition in Indonesia indicates that the level of corporate tax disclosure remains relatively low. Aulia (2024) finds that the average tax disclosure index of Indonesian firms reaches only 8.53 out of a maximum score of 18 based on the GRI 207 standard. This finding suggests that most companies have not yet comprehensively disclosed tax-related information. Furthermore, the approach to tax component (GRI 207-1) is the most frequently disclosed item, while country-by-country reporting (GRI 207-4) remains minimally reported. The limited disclosure of CbCR indicates that tax transparency among multinational companies in Indonesia is still inadequate, despite international standards strongly encouraging greater tax transparency as part of efforts to prevent tax avoidance (OECD, 2021; Martini et al., 2025). This condition implies that tax disclosure has not yet been fully utilized as an effective control mechanism to curb tax avoidance practices. Therefore, improving both the quality and scope of tax disclosure is essential, not only to fulfill reporting obligations but also to enhance corporate accountability and strengthen tax compliance among multinational enterprises.

Joshi et al. (2020) document a negative relationship between the level of tax disclosure and tax avoidance practices. The more transparent a company is in disclosing tax-related information, the lower its tendency to engage in tax avoidance. This finding suggests that tax disclosure plays a crucial role in strengthening fiscal accountability and mitigating managerial opportunism through enhanced public and regulatory scrutiny. Tax transparency also functions as an external control mechanism that encourages firms to comply more strictly with applicable tax regulations, thereby limiting aggressive tax planning behavior (Martini et al., 2025).

Nevertheless, although a number of studies have examined the determinants of tax avoidance, empirical research that simultaneously investigates the effects of related party transactions, foreign ownership, and tax disclosure on tax avoidance in Indonesia remains relatively limited (Salihu et al., 2021; Santana & Rezende, 2022). Most prior studies tend to analyze these variables in isolation, thereby failing to provide a comprehensive understanding of how ownership structure, intra-group transactions, and tax transparency interact in shaping tax avoidance behavior among multinational firms (Heckemeyer & Overesch, 2021; De Simone et al., 2020). This limitation highlights a clear research gap, particularly in the Indonesian context, where multinational companies operate under unique ownership structures and a distinct regulatory environment. Accordingly, further empirical investigation is required to capture the combined effects of these factors and to provide more robust evidence on the determinants of tax avoidance in emerging economies such as Indonesia.

The urgency of this study arises from the increasing risk of tax base erosion in Indonesia driven by the rapid expansion of multinational enterprises and the growing complexity of cross-border transactions. Despite the implementation of international tax reforms, such as Base Erosion and Profit Shifting (BEPS), Mandatory Disclosure Rules (MDR), and Country-by-Country Reporting (CbCR), their effectiveness remains limited due to incomplete enforcement and restricted taxpayer coverage. In addition, the relatively low level of tax disclosure among Indonesian firms indicates that transparency mechanisms have not been optimally utilized to mitigate tax avoidance practices, thereby threatening government revenues, creating unfair competition, and weakening the credibility of the tax system. Without a comprehensive understanding of how related party transactions, foreign ownership, and tax disclosure jointly influence tax avoidance, existing policies may fail to address the root causes of the problem. Accordingly, this study offers a novel contribution by developing an integrated empirical framework that simultaneously examines the combined effects of ownership structure, intra-group transactions, and tax transparency on tax avoidance within the context of an emerging economy, thereby providing more comprehensive evidence to support effective policy formulation and corporate governance practices.

From a regulatory perspective, the Indonesian government has adopted the Base Erosion and Profit Shifting (BEPS) framework through the implementation of Mandatory Disclosure Rules (MDR) and Country-by-Country Reporting (CbCR) as efforts to enhance tax transparency and prevent tax avoidance by multinational enterprises. These policies are designed to promote greater tax information disclosure, strengthen tax authority oversight, and reduce opportunities for cross-border profit shifting. However, in practice, the implementation of these measures still faces several limitations. The application of MDR and CbCR remains restricted to specific categories of taxpayers and has not yet comprehensively covered all multinational corporations with significant tax avoidance potential. Consequently, the effectiveness of these policies in curbing tax avoidance practices remains limited (OECD, 2015; Ramadhani et al., 2023). This condition indicates that, although an adequate regulatory framework has been established, stronger enforcement mechanisms and more rigorous supervision are still required to ensure that the objectives of enhancing tax compliance and transparency are fully achieved.

Based on the foregoing discussion, this study aims to examine the effects of related party transactions, foreign ownership, and tax disclosure on tax avoidance among multinational companies listed on the Indonesia Stock Exchange during the period 2018–2024. This study is expected to provide empirical evidence that contributes to the development of the tax avoidance literature, particularly in the context of emerging economies. Furthermore, the findings are expected to serve as a reference for policymakers in formulating regulations that promote greater tax transparency and strengthen corporate tax compliance among multinational enterprises.

LITERATURE REVIEWS

Agency Theory

Agency theory explains the contractual relationship between principals (shareholders) and agents (management), who inherently possess divergent interests (Jensen & Meckling, 1976). In modern corporations, shareholders delegate decision-making authority to managers with the expectation that managers will act in the best interests of the firm and maximize shareholder value. However, differences in objectives and the presence of information asymmetry often give rise to agency conflicts, as managers typically possess superior information and may act opportunistically to pursue personal interests (Eisenhardt, 1989; Desai & Dharmapala, 2006).

In the context of taxation, agency conflicts arise when management seeks to maximize after-tax profits in order to enhance financial performance, managerial compensation, and professional reputation. In contrast, shareholders tend to prioritize regulatory compliance and the long-term sustainability of the firm. These conflicting interests encourage managers to engage in tax avoidance strategies that, while legally permissible, may increase fiscal risk and expose the firm to reputational costs (Desai & Dharmapala, 2009; Hanlon & Heitzman, 2010).

Tax avoidance is commonly executed through complex and difficult-to-detect mechanisms, such as related party transactions, transfer pricing practices, and cross-border ownership structures. Related party transactions allow firms to set non-arm's-length prices to shift profits to affiliated entities located in lower-tax jurisdictions. Similarly, multinational ownership structures provide firms with greater flexibility to exploit differences in tax regulations across countries, thereby facilitating profit shifting and tax minimization strategies (Beuselinck & Pierk, 2022; Mashiri et al., 2021).

From an agency theory perspective, tax avoidance can be viewed as a consequence of weak monitoring mechanisms and insufficient transparency. When oversight by shareholders or regulators is ineffective, managers gain greater discretion to engage in aggressive tax planning. Accordingly, agency theory provides a strong theoretical foundation for explaining the relationship between ownership structure, the intensity of related party transactions, and corporate tax avoidance behavior (Hanlon & Heitzman, 2010; Kerr et al., 2024).

Legitimacy Theory

Legitimacy theory posits that firms seek to obtain, maintain, and restore legitimacy by aligning their operations with prevailing social values, norms, and expectations (Suchman, 1995). Legitimacy is essential for corporate survival because organizational continuity depends not only on economic performance but also on social acceptance by key stakeholders, including governments, investors, and the wider public (Deegan, 2002; Cho et al., 2020). Firms that fail to meet societal expectations face the risk of losing public trust, encountering regulatory pressure, and suffering reputational damage.

In the context of taxation, legitimacy is reflected through regulatory compliance and transparency in tax-related disclosures. Taxes are widely perceived as a corporate contribution to national development; therefore, the level of tax transparency serves as an important indicator of corporate social responsibility (Joshi et al., 2020; Cobham & Janský, 2020). Firms that provide extensive tax disclosures demonstrate a commitment to fiscal accountability and reduce the likelihood of conflicts with tax authorities and the public (Martini et al., 2025).

Tax disclosure also functions as a communication mechanism through which firms convey information regarding tax policies, tax burdens, and tax-related risks to stakeholders. Through such disclosures, companies seek to project an image of compliance and social responsibility. Conversely, low levels of tax disclosure may generate negative perceptions, increase public suspicion, and signal the potential concealment of tax avoidance practices (Hanlon & Heitzman, 2010; Joshi et al., 2020).

Furthermore, legitimacy theory suggests that firms tend to increase the extent of their disclosures when facing heightened external pressure, such as regulatory scrutiny, investor demands, or media attention. In the context of growing global concern over tax avoidance and fiscal transparency, multinational enterprises are increasingly encouraged to expand tax disclosure in order to maintain social legitimacy (Deegan, 2002; Martini et al., 2025). Accordingly, higher levels of tax disclosure are expected to reduce aggressive tax avoidance behavior, as such practices may threaten corporate legitimacy and damage reputational standing.

Related Party Transactions and Tax Avoidance

Related party transactions refer to transactions conducted between entities that have special relationships, either through ownership, control, or managerial and family ties. In practice, such transactions are not always carried out in accordance with the arm's length principle, thereby creating opportunities for firms to shift profits through transfer pricing mechanisms. Pricing arrangements that deviate from market values enable firms to transfer profits to affiliated entities located in lower-tax jurisdictions, ultimately reducing the overall tax burden (Cristea & Nguyen, 2020; Beuselinck & Pierk, 2022; Mashiri et al., 2021).

From an agency theory perspective, related party transactions reflect conflicts of interest between managers as agents and shareholders as principals. Managers possess superior information regarding internal transactions and corporate structures, which provides them with opportunities to behave opportunistically. One form of such opportunistic behavior is the manipulation of intra-group transactions to maximize after-tax profits. This condition

is further exacerbated when corporate monitoring mechanisms are weak, making tax avoidance practices difficult to detect by both shareholders and tax authorities (Jensen & Meckling, 1976; Desai & Dharmapala, 2006).

Empirical evidence supports this argument. Afriani & Utama (2020) find that the intensity of related party transactions significantly affects corporate tax avoidance in Indonesia. Similarly, Laulita & Yanni (2022) report that related party transactions increase the likelihood of tax avoidance through transfer pricing practices. Ramadhani et al. (2023) also demonstrate that a higher proportion of related party transactions is associated with greater tax avoidance, particularly in firms with complex ownership structures. Consistent with these findings, Beuselinck & Pierk (2022) show that intra-group transactions serve as a primary channel for profit shifting among multinational corporations.

Based on the theoretical arguments and empirical evidence, it can be concluded that related party transactions constitute a major driver of tax avoidance behavior. The greater the intensity of related party transactions, the higher the likelihood that firms exploit regulatory loopholes to minimize tax liabilities. Accordingly, the following hypothesis is proposed:

H1: Related party transactions has a positive effect on tax avoidance.

Foreign Ownership and Tax Avoidance

Foreign ownership reflects the proportion of company shares held by foreign investors. The presence of foreign shareholders generally exerts a significant influence on corporate policies and strategic decisions, including tax management. Firms with higher levels of foreign ownership tend to have access to broader international networks, greater financial resources, and more advanced experience in implementing cross-border tax planning strategies. These conditions provide firms with greater flexibility to manage tax burdens strategically (Andrialdi et al., 2021; Beuselinck & Pierk, 2022).

From an agency theory perspective, foreign ownership may intensify conflicts of interest between shareholders and management. Foreign investors are typically oriented toward maximizing firm value and investment returns. To achieve these objectives, management is often encouraged to pursue cost efficiency, including through aggressive tax planning strategies. Such incentives may lead managers to exploit regulatory loopholes by restructuring corporate operations, utilizing differences in tax rates across countries, and implementing international tax planning schemes (Desai & Dharmapala, 2006; Hanlon & Heitzman, 2010). Moreover, firms with substantial foreign ownership possess greater flexibility to engage in profit shifting through transfer pricing practices, the use of low-tax jurisdictions, and the exploitation of tax treaty provisions. Although these strategies may remain within legal boundaries, they significantly increase the likelihood of tax avoidance (Heckemeyer & Overesch, 2021; Beuselinck & Pierk, 2022; Le et al., 2024).

Empirical evidence supports this argument. Andrialdi et al. (2021) find that foreign ownership has a positive effect on tax avoidance, indicating that firms with foreign investors tend to engage more aggressively in tax planning activities. This finding is reinforced by Ekasari et al. (2023), who report that higher levels of foreign ownership are associated with greater tax avoidance, particularly through transfer pricing and cross-jurisdictional tax differentials. Similarly, Budiman et al. (2025) demonstrate that multinational corporations systematically exploit differences in tax regimes to minimize their global tax liabilities.

Based on the theoretical framework and empirical evidence, it can be concluded that foreign ownership constitutes a key determinant of corporate tax avoidance. The greater the proportion of foreign ownership, the stronger the incentive for firms to adopt aggressive tax planning strategies to maximize shareholder value. Accordingly, the following hypothesis is proposed:

H2: Foreign ownership has a positive effect on tax avoidance.

Tax Disclosure and Tax Avoidance

Tax disclosure represents an essential component of corporate transparency in communicating information related to tax policies, tax burdens, and tax-related risks. Such disclosure reflects the extent to which firms are transparent toward stakeholders regarding their tax practices and demonstrates their commitment to good corporate governance. Within the context of sustainability reporting, tax disclosure also serves as an indicator of corporate accountability for its contribution to government revenue and economic development (OECD, 2021; Martini et al., 2025).

According to legitimacy theory, firms seek to obtain and maintain social legitimacy by aligning their operations with prevailing norms, values, and societal expectations (Suchman, 1995). In the taxation context, legitimacy is achieved through regulatory compliance and transparent tax reporting. Firms that provide comprehensive tax disclosures signal that their business activities are conducted responsibly and in accordance with applicable regulations. Conversely, low levels of tax disclosure may generate negative public perceptions and raise suspicions of tax avoidance practices (Deegan, 2002; Hanlon & Heitzman, 2010). Tax disclosure therefore functions as an external monitoring mechanism that constrains managerial opportunism. Greater transparency reduces information asymmetry and limits managers' ability to conceal aggressive tax behavior due to increased scrutiny from regulators, investors, and the public (Joshi et al., 2020; Martini et al., 2025).

Empirical evidence supports this argument. Joshi et al. (2020) find that firms with higher levels of tax disclosure tend to exhibit lower levels of tax avoidance, as transparency enhances fiscal accountability. Similarly, Aulia (2024) reports that the low quality of tax disclosure among Indonesian firms is associated with higher levels of tax avoidance. These findings indicate that tax transparency plays a strategic role in restraining aggressive tax behavior, particularly among multinational firms characterized by complex transactions and cross-border operations.

Based on the theoretical framework and empirical evidence, it can be concluded that tax disclosure serves as an important mechanism for controlling tax avoidance behavior. The higher the level of tax disclosure, the lower the likelihood that a firm engages in tax avoidance practices. Accordingly, the following hypothesis is proposed: H3: Tax disclosure has a negative effect on tax avoidance.

METHODS

The population of this study consists of all multinational companies listed on the Indonesia Stock Exchange (IDX) during the period 2018–2024. The sample was selected using a purposive sampling method, in which observations were chosen based on specific criteria to ensure the relevance and reliability of the data. The selection criteria included multinational firms that were consistently listed during the observation period, published complete annual financial statements, disclosed information on related party transactions and foreign ownership, and provided tax-related information in their annual or sustainability reports. In addition, firms experiencing fiscal losses during the observation period were excluded from the sample. Based on these criteria, a total of 98 firm-year observations were obtained for analysis. The study employs secondary data sourced from corporate financial statements, sustainability reports, and the official website of the Indonesia Stock Exchange (IDX), which were subsequently analyzed using quantitative methods.

TABLE 1. Sample Selection Criteria

No.	Criteria	Number of Observations
1	Multinational companies listed on the Indonesia Stock Exchange (IDX) during 2018–2024	51
2	Firms not consistently listed during the observation period	(1)
3	Firms that do not publish complete annual financial statements	(0)
4	Firms that do not disclose related party transactions and foreign ownership	(12)
5	Firms that do not provide tax-related information (annual/sustainability reports)	(22)
6	Firms experiencing fiscal losses during the observation period	(2)
Final Sample (Firm-Year Observations)		14 x 7 year = 98

Tax Avoidance

Tax avoidance is measured using the Effective Tax Rate (ETR), which reflects the effective level of tax borne by a firm. A lower ETR indicates a higher level of tax avoidance, as it suggests that the company pays a smaller proportion of tax relative to its pre-tax income. The ETR is calculated using the following formula:

$$ETR = \frac{\text{Income tax expense}}{\text{Profit before tax}}$$

This measure is widely used in prior tax avoidance studies because it captures the extent to which firms reduce their tax burden through tax planning strategies.

Related Party Transactions

Related party transactions are measured using the following ratio:

$$RPT = \frac{\text{Total related party transactions}}{\text{Total sales}}$$

This ratio reflects the intensity of transactions conducted with related parties in a firm's operational activities. A higher RPT value indicates a greater reliance on related party transactions, which may increase the potential for profit shifting and tax avoidance through non-arm's length pricing.

Foreign Ownership

Foreign ownership is measured as the proportion of shares held by foreign investors relative to the total outstanding shares of the company. It is calculated using the following formula:

$$FO = \frac{\text{Number of shares held by foreign investors}}{\text{Total outstanding shares}} \times 100\%$$

This measurement reflects the extent of foreign participation in corporate ownership and indicates the degree of foreign influence on corporate decision-making, including tax planning strategies.

Tax Disclosure

Tax disclosure is measured using the Tax Disclosure Index (TDI) based on the GRI 207: Tax (2019) standard. Each disclosure item is scored 1 if the information is disclosed and 0 if it is not disclosed. The index is calculated as follows:

$$TDI = \frac{\text{Number of disclosed items}}{\text{Total GRI 207 items}}$$

This index reflects the extent of a firm's tax transparency, with higher values indicating more comprehensive tax disclosure. The use of the GRI 207 framework allows for a standardized and internationally recognized assessment of corporate tax transparency.

Data Analysis Technique

Data analysis was conducted using panel data regression, as the dataset consists of a combination of cross-sectional data (across firms) and time-series data (across years). Panel data regression is considered appropriate because it allows for controlling individual heterogeneity and provides more efficient and reliable estimation results compared to purely cross-sectional or time-series models. The regression model used in this study is specified as follows:

$$TA_{it} = \alpha + \beta_1 RPT_{it} + \beta_2 FO_{it} + \beta_3 TD_{it} + \varepsilon_{it}$$

The dependent variable in this study is tax avoidance (TA), while the independent variables consist of related party transactions (RPT), foreign ownership (FO), and tax disclosure (TD). The constant term (α) represents the level of tax avoidance when all independent variables are equal to zero. The regression coefficients (β) indicate the magnitude and direction of the effect of each independent variable on tax avoidance. Meanwhile, the error term (ε) captures the influence of other factors not included in the research model. To determine the most appropriate estimation model, several panel data model selection tests were conducted, including the Chow test, Hausman test, and Lagrange Multiplier test. These tests were used to select the most suitable model among the pooled ordinary least squares (OLS), fixed effects model, and random effects model.

RESULTS AND DISCUSSION

Results

Based on the descriptive statistics presented in Table 2, the average Effective Tax Rate (ETR) of 0.2436 indicates that, on average, the sampled firms paid approximately 24.36% of their pre-tax income as tax. The related party transactions (RPT) variable shows a mean value of 0.1098, suggesting a relatively substantial level of affiliated transactions among the sampled firms. Foreign ownership (FO) has an average value of 0.2921, indicating that nearly one-third of the companies' shares are held by foreign investors. Meanwhile, tax disclosure (TD) records an average value of 0.4126, implying that the overall level of tax transparency among the firms remains at a moderate level. Overall, these descriptive statistics demonstrate sufficient variation across all variables, indicating that the data are appropriate for further empirical analysis using regression techniques.

TABLE 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
TA	0.1204	0.3518	0.2436	0.0612
RPT	0.0123	0.2847	0.1098	0.0725
FO	0.2584	0.3240	0.2921	0.0135
TD	0.1120	0.7840	0.4126	0.1689

Source: EViews output (2025)

Based on the model selection tests presented in Table 3, the Chow test yields a probability value of 0.0000, which is lower than the 5% significance level. This result leads to the rejection of the null hypothesis, indicating that the Fixed Effect Model (FEM) is more appropriate than the Pooled Ordinary Least Squares (OLS) model. Furthermore, the Hausman test produces a probability value of 0.0321, which is also below the 0.05 threshold. This finding suggests that the null hypothesis is rejected and that the Fixed Effect Model is more suitable than the Random Effect Model. Accordingly, based on the results of both the Chow and Hausman tests, the Fixed Effect Model (FEM) is selected as the most appropriate estimation model for this study.

TABLE 3. Model Selection Test Results

Test Type	Null Hypothesis (H ₀)	Probability	Decision	Selected Model
Chow test	Pooled OLS model is preferable	0.0000	Reject H ₀	Fixed Effect Model
Hausman test	Random Effect Model is more efficient	0.0321	Reject H ₀	Fixed Effect Model

Source: EViews output (2025)

Based on the regression results presented in Table 4, the F-statistic probability value is 0.0000, which is lower than the 5% significance level. This indicates that the regression model is statistically valid and that all independent variables jointly have a significant effect on tax avoidance. The coefficient of determination (R-squared) is 0.4814, implying that 48.14% of the variation in tax avoidance can be explained by related party transactions, foreign ownership, and tax disclosure, while the remaining 51.86% is explained by other factors not included in the model.

Partially, the related party transactions (RPT) variable exhibits a positive and significant effect on tax avoidance, with a coefficient of 0.6851 and a probability value of 0.0000 (< 0.05). This result indicates that higher levels of related party transactions are associated with greater tax avoidance. Accordingly, Hypothesis 1 (H1) is supported, suggesting that firms with more intensive related party transactions tend to engage more actively in tax avoidance practices.

The foreign ownership (FO) variable also shows a positive and significant effect on tax avoidance, with a coefficient of 0.3124 and a probability value of 0.0160 (< 0.05). This finding indicates that firms with higher foreign ownership are more likely to engage in tax avoidance activities. Therefore, Hypothesis 2 (H2) is accepted, confirming that foreign ownership increases the likelihood of aggressive tax planning.

In contrast, tax disclosure (TD) exhibits a negative and significant effect on tax avoidance, as indicated by a coefficient of -0.2743 and a probability value of 0.0210 (< 0.05). This result suggests that higher levels of tax disclosure reduce the likelihood of tax avoidance. Consequently, Hypothesis 3 (H3) is supported, indicating that greater tax transparency plays a mitigating role in curbing tax avoidance behavior.

Overall, the findings demonstrate that related party transactions and foreign ownership increase the tendency toward tax avoidance, whereas tax disclosure serves as an effective mechanism for reducing such practices. These results highlight the importance of strengthening tax transparency and regulatory oversight to mitigate tax avoidance among multinational companies.

TABLE 4. Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RPT	0.6851	0.1430	4.7913	0.0000
FO	0.3124	0.1291	2.4197	0.0160
TD	-0.2743	0.1188	-2.3223	0.0210
Constant	11.4321	1.7815	6.4177	0.0000
R-squared	0.4814			
Prob (F-statistic)	0.0000			

Source: EViews output (2025)

Discussion

The Effect of Related Party Transactions on Tax Avoidance

The results of this study indicate that related party transactions have a positive effect on tax avoidance. This finding suggests that the higher the proportion of transactions conducted with related parties, the greater the firm's tendency to engage in tax avoidance practices. This result is consistent with agency theory, which explains that

conflicts of interest between managers (agents) and shareholders (principals) encourage opportunistic behavior, including aggressive tax planning (Jensen & Meckling, 1976). Managers possess superior information regarding internal transactions and corporate structures, enabling them to exploit related party transactions as a mechanism for shifting profits and minimizing tax liabilities.

From a regulatory perspective, related party transactions in Indonesia are governed by Directorate General of Taxes Regulation No. PER-22/PJ/2013, which emphasizes the application of the arm's length principle. However, in practice, monitoring related party transactions remains challenging, particularly for multinational firms with complex group structures and cross-border operations. This condition provides opportunities for firms to manipulate transfer prices and shift profits to low-tax jurisdictions.

These findings are consistent with international literature identifying related party transactions as a major channel for base erosion and profit shifting (BEPS). The OECD (2015) highlights transfer pricing manipulation as one of the primary causes of tax base erosion globally. Empirical studies also support this conclusion, showing that firms with higher levels of related party transactions are more likely to engage in tax avoidance (Desai & Dharmapala, 2006; Beuselinck & Pierk, 2022).

Furthermore, this study corroborates prior empirical evidence from Afriani & Utama (2020), Lailita & Yanni (2022), and Ramadhani et al. (2023), all of whom report a positive relationship between related party transactions and tax avoidance. Accordingly, this study reinforces the argument that related party transactions remain one of the primary mechanisms used by firms in Indonesia to engage in tax avoidance, highlighting the need for stronger enforcement of transfer pricing regulations and BEPS-related policies.

The Effect of Foreign Ownership on Tax Avoidance

The results also show that foreign ownership has a positive and significant effect on tax avoidance. This finding indicates that firms with a higher proportion of foreign shareholders tend to engage in more aggressive tax planning. Consistent with agency theory, foreign investors are primarily oriented toward maximizing after-tax returns, which encourages management to pursue tax minimization strategies (Jensen & Meckling, 1976; Desai & Dharmapala, 2006).

In practice, firms with foreign ownership benefit from access to international networks, global tax consultants, and cross-border organizational structures. These advantages enable them to exploit differences in tax systems, tax treaties, and regulatory loopholes to reduce their tax burden legally. The OECD (2015) emphasizes that multinational enterprises possess greater capacity for profit shifting due to their operational flexibility across jurisdictions.

This study's findings align with those of Andrialdi et al. (2021) and Ekasari et al. (2023), who document a positive relationship between foreign ownership and tax avoidance. Firms with dominant foreign ownership tend to apply more aggressive tax strategies, particularly through transfer pricing and international tax structuring. Similarly, Budiman et al. (2025) find that multinational firms systematically exploit cross-country tax differences to minimize global tax liabilities.

Although the Indonesian government has introduced several regulatory measures, including the Harmonization of Tax Regulations Law and Country-by-Country Reporting (CbCR), the results suggest that these policies have not yet been fully effective in curbing tax avoidance by foreign-owned firms. This highlights the need for stronger supervision, enhanced international information exchange, and improved enforcement capacity to ensure the effectiveness of tax regulations.

The Effect of Tax Disclosure on Tax Avoidance

The findings further reveal that tax disclosure has a negative and significant effect on tax avoidance. This implies that higher levels of tax transparency are associated with lower levels of tax avoidance. This result supports legitimacy theory, which posits that firms seek to maintain social legitimacy by aligning their behavior with societal norms and expectations (Suchman, 1995). In the taxation context, legitimacy is achieved through transparency and compliance with tax regulations.

The implementation of GRI 207: Tax (2019) has strengthened tax disclosure practices by encouraging firms to disclose tax strategies, governance structures, and jurisdictional tax contributions. Additionally, the Mandatory Disclosure Rules (MDR) aim to enhance transparency and allow tax authorities to detect aggressive tax planning at an early stage. These initiatives align with the OECD's BEPS agenda, which seeks to reduce tax avoidance by multinational enterprises (OECD, 2015).

The empirical results indicate that firms with more comprehensive tax disclosures are less likely to engage in aggressive tax avoidance. Higher transparency increases scrutiny from regulators, investors, and the public, thereby limiting managerial opportunism. This finding is consistent with prior studies by Joshi et al. (2020) and Martini et al. (2025), which demonstrate that increased tax transparency enhances fiscal accountability and reduces tax avoidance behavior.

Overall, tax disclosure functions as an effective external control mechanism. Greater transparency increases reputational and regulatory pressure, encouraging firms to comply with tax regulations and reducing incentives

for aggressive tax planning.

CONCLUSIONS

This study finds that related party transactions and foreign ownership have a positive effect on tax avoidance, indicating that higher levels of intra-group transactions and foreign ownership increase the likelihood of aggressive tax planning practices. These findings suggest that multinational companies continue to exploit regulatory loopholes, particularly through transfer pricing and complex cross-border organizational structures. In contrast, tax disclosure is found to have a negative effect on tax avoidance, implying that higher levels of transparency reduce firms' incentives to engage in aggressive tax behavior. Overall, these results confirm the relevance of agency theory and legitimacy theory in explaining tax avoidance behavior among multinational firms in Indonesia.

From a practical perspective, this study provides several important implications. For regulators, particularly the Directorate General of Taxes, the findings highlight the need to strengthen supervision of related party transactions and enhance the effectiveness of transfer pricing regulations and Country-by-Country Reporting (CbCR) implementation in order to minimize tax avoidance practices. The government is also encouraged to promote higher-quality tax disclosure through stricter regulatory requirements and more comprehensive reporting standards to improve corporate transparency and accountability. For companies, this study serves as an evaluation tool to enhance tax compliance and strengthen transparency as part of good corporate governance practices. Meanwhile, for investors, the findings offer useful insights for assessing corporate tax risk, especially in firms with high levels of related party transactions and foreign ownership.

Despite its contributions, this study has several limitations. The sample is limited to multinational companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2024, which may restrict the generalizability of the findings to other contexts. In addition, this study relies on secondary data derived from financial statements and corporate reports, which may not fully capture the actual extent of tax avoidance due to potential limitations in disclosure quality. The measurement of tax disclosure is also based on publicly available information, which may be influenced by managerial discretion. Furthermore, this study focuses only on related party transactions, foreign ownership, and tax disclosure, without considering other potentially relevant variables.

Accordingly, future research is encouraged to expand the scope of analysis by including a broader sample, such as non-listed firms or cross-country data, to enhance external validity. Further studies may incorporate additional variables, including corporate governance mechanisms, executive compensation, audit quality, or political connections, to provide a more comprehensive understanding of tax avoidance behavior. In addition, the use of alternative research approaches, such as qualitative or mixed methods, is recommended to capture deeper insights into corporate tax strategies. Extending the observation period and employing more refined measurement proxies are also suggested to improve the robustness of future research findings.

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Appendix: Tax Disclosure Index (GRI 207: Tax)

No.	GRI Code	Disclosure Aspect	Indicator
A. GRI 207-1: Approach to Tax			
1	207-1	Tax policy	Statement of the company's tax policy or tax strategy
2	207-1	Tax compliance	Principles of tax compliance adopted by the company

No.	GRI Code	Disclosure Aspect	Indicator
3	207-1	Business strategy	Alignment between tax policy and business strategy
4	207-1	Tax commitment	Statement of commitment to compliance with tax regulations
B. GRI 207-2: Governance, Control, and Risk Management			
5	207-2	Tax governance	Description of tax governance structure
6	207-2	Management role	Role of management/board in tax-related decisions
7	207-2	Internal control	Internal control system for tax management
8	207-2	Risk management	Tax risk management mechanisms
9	207-2	Compliance evaluation	Procedures for evaluating tax compliance
C. GRI 207-3: Stakeholder Engagement and Tax Disputes			
10	207-3	Relationship with tax authorities	Description of engagement with tax authorities
11	207-3	Tax disputes	Disclosure of tax audits or disputes
12	207-3	Dispute resolution	Explanation of tax dispute resolution
13	207-3	Tax uncertainty	Policy for handling tax uncertainty
D. GRI 207-4: Country-by-Country Reporting (CbCR)			
14	207-4	Countries of operation	List of countries where the company operates
15	207-4	Revenue	Revenue generated in each country
16	207-4	Profit before tax	Profit or loss before tax per country
17	207-4	Tax paid	Corporate income tax paid per country
18	207-4	Employees	Number of employees per country

