DEFERRED TAX EXPENSE AND TUNNELING INCENTIVE INFLUENCE ON TAX AVOIDANCE VIA TRANSFER PRICING

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Abstract

This research aims to analyze the effect of deferred tax expense and tunneling incentives on tax avoidance with transfer pricing as an intervening variable in multinational companies located in Indonesia. This study uses a quantitative approach with secondary data from 17 multinational companies listed on the OECD website during the period of 2022–2024. The analytical technique used is path analysis to test the direct and indirect relationships between variables. The research results indicate that simultaneously, deferred tax expense and tunneling incentive have an influence on tax avoidance. Partially, the deferred tax expense has a negative impact on tax avoidance, tunneling incentive does not affect tax avoidance, deferred tax expense does not affect transfer pricing, tunneling incentive does not affect transfer pricing, transfer pricing cannot mediate the effect of deferred tax expense on tax avoidance, and transfer pricing cannot mediate the effect of tunneling incentive on tax avoidance.

Keywords: Deferred Tax Expense, Tunneling Incentive, Tax Avoidance, Transfer Pricing, Multinational Company

INTRODUCTION

Taxation plays a vital role in ensuring the sustainability of national development. In Indonesia, tax revenue constitutes the largest portion of the state budget (APBN) and serves as the backbone of financing government programs, infrastructure projects, and public services. Taxes are imposed as compulsory contributions under the law, binding individuals and corporations without offering direct compensation, yet their utilization ultimately benefits society at large (Natasya et al., 2024). The government consistently emphasizes tax compliance as a measure of fiscal strength. However, despite its importance, companies often perceive tax as an expense that diminishes net income (Veronica & Kurnia, 2021). For corporations, particularly those operating on a large or multinational scale, tax obligations can significantly affect profitability, and thus they frequently seek strategies to reduce the amount of tax paid.

One of the most widely used strategies is tax avoidance. Unlike tax evasion, which is illegal and involves fraudulent reporting, tax avoidance is carried out legally by exploiting gaps or loopholes in tax regulations (Anarky et al., 2021). This makes it more difficult for regulators to detect and penalize, as the practice formally adheres to the law. Nonetheless, although considered legitimate, according to (Apriyanto et al., 2024), tax avoidance still generates controversy. On the one hand, companies argue that tax avoidance maximizes shareholder value by reducing costs. On the other hand, governments and the public criticize it as an unethical practice that undermines the principle of tax fairness and reduces state revenue. Furthermore, excessive reliance on tax avoidance exposes companies to reputational risk, potential sanctions if regulators deem their practices abusive, and long-term financial instability when aggressive tax planning attracts negative attention from investors or auditors.

Tax avoidance is especially prevalent among multinational corporations. These companies operate across different jurisdictions, each with varying tax rates, allowing them to strategically allocate profits where taxes are lowest (Sari & Djohar, 2022). Transfer pricing is one of the most common instruments for this purpose. Transfer pricing refers to the determination of prices in transactions between affiliated entities, such as parent companies and subsidiaries or between subsidiaries located in different countries. Through this mechanism, profits can be shifted to low-tax jurisdictions while costs are allocated to high-tax countries, thereby reducing the global tax expense of the group (Mulyana et al., 2021). While transfer pricing is permitted under international tax rules when conducted at arm’s length, in practice many corporations manipulate transfer prices to achieve tax advantages.

The case of PT Adaro Energy Tbk. illustrates how transfer pricing may be employed for tax avoidance. According to Taxing Times for Adaro published by Global Witness in 2019, Adaro was suspected of using its Singapore-based subsidiary to divert profits from Indonesia, where tax rates are higher, to Singapore, where tax rates are lower. The scheme allegedly allowed the company to reduce its tax payments by approximately US$125 million (Sugianto, 2019). This example highlights not only the sophistication of corporate tax strategies but also the magnitude of revenue losses that the Indonesian government may suffer due to transfer pricing. Such cases emphasize the urgency of academic studies that scrutinize the factors driving multinational companies to engage in tax avoidance through mechanisms like transfer pricing.

Beyond transfer pricing, two other antecedents are widely discussed in the literature, namely deferred tax expense and tunneling incentive. Deferred tax expense arises from temporary differences between accounting profit and taxable profit. Large differences provide management with opportunities to engage in earnings management, thereby influencing tax planning. For instance, by delaying tax payments to future periods, companies may present better short-term performance while still fulfilling tax obligations in the long run. Previous studies such as those by Cendani and Sofianty (2022) reveal that deferred tax expense can be positively associated with tax avoidance. However, other studies, such as Syafei and Sicilia (2024), suggest that deferred tax expense may not significantly affect tax avoidance, particularly when managerial discretion is limited. These mixed findings indicate a need for further empirical investigation.

Tunneling incentive, on the other hand, refers to actions taken by controlling shareholders to transfer assets or profits for personal benefit, often at the expense of minority shareholders. In companies with concentrated ownership structures, majority shareholders may have the power and incentive to reallocate resources within the group. Transfer pricing is one channel through which tunneling occurs, as profits can be shifted to related parties in a manner that reduces reported taxable income. Several scholars, such as Natasya et al. (2024) and Nokiyanti et al. (2023), find a positive relationship between tunneling incentive and tax avoidance. However, others like Putri dan Evana (2024) observe a negative or insignificant relationship, reflecting the complexity of the phenomenon and the influence of firm-specific conditions.

The inconsistencies in prior research create a gap that this study aims to fill. While previous scholars have examined the roles of deferred tax expense and tunneling incentive separately, few have considered the mediating role of transfer pricing. By positioning transfer pricing as an intervening variable, this study seeks to provide a more comprehensive understanding of how these antecedents contribute to tax avoidance in multinational companies. The focus on firms operating in Indonesia during the 2022–

2024 period also provides timely relevance, given the government's increasing efforts to curb aggressive tax planning and strengthen transfer pricing regulations.

This study is theoretically grounded in agency theory and stakeholder theory. Jensen & Meckling (1976) with agency theory posits that conflicts of interest arise between principals (shareholders) and agents (managers), leading managers to act in ways that do not always align with shareholder interests. In taxation, managers may engage in tax avoidance to enhance reported earnings, secure personal compensation, or fulfill shareholder expectations. Tunneling incentive is also consistent with agency problems, as majority shareholders may exploit corporate resources at the expense of minority investors. Stakeholder theory proposed by (Freeman et al., 2004) broadens the perspective by arguing that corporate decisions should balance the interests of various stakeholders, including governments and society. From this lens, tax avoidance reflects a tension between maximizing shareholder value and fulfilling broader social responsibilities. The integration of these two theories provides a conceptual framework for analyzing why and how multinational companies engage in tax avoidance.

The present study aims to examine the simultaneous and partial effects of deferred tax expense and tunneling incentive on tax avoidance, as well as to test whether transfer pricing mediates these relationships. By doing so, the research is expected to offer both theoretical and practical contributions. Theoretically, it enriches academic discourse by clarifying the roles of deferred tax expense, tunneling incentive, and transfer pricing, while addressing inconsistencies in prior findings. Practically, the study provides insights for different stakeholders. For academics, it serves as a reference point for future research that may expand the scope by including other variables. For practitioners, particularly managers of multinational firms, it highlights the risks and long-term consequences of relying on transfer pricing for tax avoidance. For policymakers and tax authorities, the findings can inform more effective monitoring and regulatory frameworks to mitigate profit shifting and safeguard state revenue.

In summary, tax avoidance remains one of the most pressing issues in the field of taxation and corporate governance. Multinational corporations are at the forefront of this practice due to their cross-border operations, ownership structures, and financial flexibility. Deferred tax expense and tunneling incentive represent critical antecedents that influence managerial and shareholder behavior, while transfer pricing acts as a mechanism that links these antecedents to tax avoidance. By focusing on multinational companies in Indonesia and analyzing data from 2022 to 2024, this research aspires to contribute to the academic literature, provide practical recommendations, and support the government's mission to enhance fairness and efficiency in the tax system.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

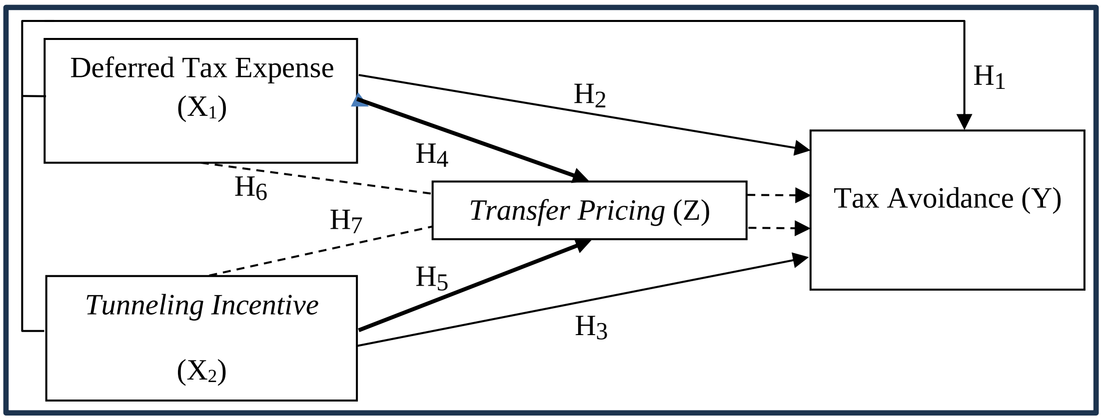

Figure 1. Framework of Thinking

Influence of Deferred Tax Expense and Tunneling Incentive on Tax Avoidance

Deferred tax expense and tunneling incentive are both critical antecedents in shaping corporate behavior toward tax avoidance. Deferred tax expense arises from temporary differences between accounting profit and taxable income, which can give management flexibility in manipulating the recognition of expenses and revenues. This flexibility often leads to opportunities for companies to engage in aggressive tax planning that reduces taxable income in the short run. On the other hand, tunneling incentive reflects the motivation of controlling shareholders to reallocate resources for personal benefit, often by diverting profits to related parties or affiliated entities. These two factors, when combined, create strong incentives for management to explore tax avoidance strategies as a way of reducing overall tax expenses and meeting the expectations of shareholders.

From an agency theory perspective, managers as agents are pressured to minimize costs and maximize reported earnings to satisfy principals, including both shareholders and controlling shareholders. Deferred tax expense and tunneling incentive provide the mechanisms through which agency conflicts manifest, as managers utilize accounting discretion and affiliated transactions to minimize taxes. In addition, stakeholder theory suggests that these practices may have broader implications for other stakeholders, such as regulators and society, who are disadvantaged by reduced tax contributions (Freeman et al., 2004). Considering these arguments, it is reasonable to expect that deferred tax expense and tunneling incentive simultaneously affect corporate tax avoidance. Therefore, the first hypotesis is formulated as follows:

H1: Deferred Tax Expense and Tunneling Incentive simultaenously have significant effects on Tax Avoidance

Influence of Deferred Tax Expense on Tax Avoidance

Deferred tax expense represents the recognition of tax obligations that will be settled in future periods due to temporary differences between accounting standards and tax regulations. This condition provides management with room to optimize financial statements, as the postponement of tax payments can improve short-term profitability. Agency theory explains that managers may exploit deferred tax expense to enhance reported financial performance, which can benefit them in terms of compensation, career advancement, or performance evaluation. In this way, deferred tax expense becomes an instrument of earnings management that indirectly contributes to tax avoidance strategies.

From the stakeholder theory perspective, deferred tax expense can be viewed as a company's attempt to balance the interests of shareholders with the demands of regulators and society. Shareholders prefer higher short-term returns, while regulators and society expect companies to comply with tax regulations and contribute fairly to state revenues. Previous empirical research, such as by Anarky et al. (2021) and Cendani dan Sofianty (2022), provides evidence of a positive relationship between deferred tax expense and tax avoidance, suggesting that the higher the deferred tax expense, the greater the incentive for companies to engage in tax avoidance. Thus, deferred tax expense is expected to positively influence tax avoidance practices. Therefore, the second hypotesis is formulated as follows:

H2: Deferred Tax Expense have positive effects on Tax Avoidance

Influence of Tunneling Incentive on Tax Avoidance

Tunneling incentive is commonly observed in companies with concentrated ownership structures, where controlling shareholders have both the motive and the power to exploit company resources for personal benefit. One way of achieving this is by pressuring management to reduce taxable income so that more resources can be diverted to controlling shareholders. Tax avoidance becomes a convenient instrument in this context because by lowering tax expenses, companies increase distributable profits that can be channeled through dividends, intercompany loans, or other affiliated transactions.

Agency theory emphasizes the conflict between majority and minority shareholders in such situations. Majority shareholders, acting as principals, may collaborate with managers (agents) to engage in practices that harm minority shareholders, including tax avoidance strategies designed to reallocate wealth. Meanwhile, from a stakeholder perspective, tunneling incentive demonstrates how corporate decision-making is often skewed toward the interests of dominant shareholders, while neglecting broader responsibilities to regulators, employees, or the public. Empirical findings by Nokiyanti dkk. (2023) and Natasya et al. (2024) provide support for the argument that tunneling incentive positively influences corporate tax avoidance. Therefore, the third hypotesis is formulated as follows:

H3: Tunneling Incentive have positive effects on Tax Avoidance

Influence of Deferred Tax Expense on Transfer Pricing

Deferred tax expense can also be linked to transfer pricing, as high tax liabilities may encourage firms to use intercompany pricing to shift profits across jurisdictions. Transfer pricing offers a mechanism for companies to manage taxable income by transferring profits to subsidiaries located in low-tax countries, thereby reducing consolidated tax liabilities. Managers may perceive transfer pricing as a legitimate strategy for minimizing taxes, especially when temporary differences in deferred tax obligations signal a higher effective tax rate.

Agency theory supports this reasoning, as managers act under pressure to reduce tax expenses and present higher after-tax profits to shareholders. From the stakeholder perspective, transfer pricing practices can be seen as a corporate effort to balance shareholder expectations with regulatory scrutiny. However, while such practices may benefit shareholders in the short term, they also expose companies to reputational risks and potential penalties if tax authorities perceive transfer pricing as abusive. Research by Nafiati dkk. (2023), Kusuma dkk. (2022), and Rifqiyati dkk. (2021) shows that deferred tax expense has a significant positive relationship with transfer pricing practices, reinforcing the argument that tax pressures influence intercompany pricing strategies. Therefore, the fourth hypotesis is formulated as follows:

H4: Deferred Tax Expense have positive effects on Transfer Pricing

Influence of Tunneling Incentive on Transfer Pricing

Tunneling incentive is closely associated with transfer pricing because both involve shifting resources within corporate groups. Controlling shareholders often exploit transfer pricing to channel profits from entities in high-tax jurisdictions to those in low-tax jurisdictions, thereby reducing overall tax expenses while simultaneously increasing their own wealth. In this context, managers act in alignment with the interests of controlling shareholders, prioritizing tax minimization and personal benefit over broader stakeholder considerations.

From an agency theory perspective, tunneling incentive highlights the conflicts of interest between controlling shareholders and minority investors. Transfer pricing is a convenient mechanism for realizing tunneling behavior, as it allows the manipulation of intercompany transactions to achieve desired outcomes. Meanwhile, stakeholder theory emphasizes the consequences of these practices, such as reduced state revenue and increased regulatory scrutiny, which negatively impact other stakeholders. Studies by Widiyah dkk. (2023), Cahyani dkk. (2023), and Kusuma dkk. (2022) empirically confirm the positive relationship between tunneling incentive and transfer pricing, suggesting that companies with strong tunneling motives are more likely to engage in aggressive transfer pricing strategies.

Therefore, the fifth hypotesis is formulated as follows:

H5: Tunneling Incentive have positive effects on Transfer Pricing

Influence of Deferred Tax Expense on Tax Avoidance through Transfer Pricing

Deferred tax expense may indirectly contribute to tax avoidance through its influence on transfer pricing. When companies face high deferred tax obligations, management is incentivized to adopt strategies that reduce taxable income, with transfer pricing serving as one of the most effective mechanisms. By shifting profits across jurisdictions, companies can reduce current tax payments and thereby strengthen their overall financial position. In this way, deferred tax expense not only directly affects tax avoidance but also exerts an indirect effect through transfer pricing practices.

Agency theory explains that managers seek to maximize their own utility and that of shareholders by reducing tax expenses, while stakeholder theory highlights the need to balance such practices against the potential harm caused to regulators and society. Transfer pricing, as a mediating mechanism, illustrates how accounting discretion and intercompany transactions can be combined to achieve tax avoidance goals. Thus, it is expected that deferred tax expense has a positive indirect effect on tax avoidance through transfer pricing. Therefore, the sixth hypotesis is formulated as follows:

H6: Transfer Pricing can mediate the effect of Deferred Tax Expense on Tax Avoidance

Influence of Tunneling Incentive on Tax Avoidance through Transfer Pricing

Tunneling incentive also has the potential to indirectly influence tax avoidance through transfer pricing. Controlling shareholders, motivated to maximize their wealth, often pressure management to adopt transfer pricing strategies that shift profits to jurisdictions with lower tax rates. This not only reduces the tax expense of the company but also facilitates the diversion of profits to controlling parties. In this sense, transfer pricing functions as the operational channel through which tunneling incentive contributes to tax avoidance.

From the lens of agency theory, this reflects the inherent conflict between controlling and minority shareholders, as tax savings disproportionately benefit the majority while imposing risks on others. Stakeholder theory adds that such practices disregard the rights of regulators, creditors, and the wider community that depend on fair tax contributions. Empirical findings by recent scholars strengthen the notion that tunneling incentive, when combined with transfer pricing practices, has a significant and positive effect on tax avoidance. Therefore, tunneling incentive is expected to influence tax avoidance both directly and indirectly through transfer pricing. Therefore, the seventh hypotesis is formulated as follows:

H7: Transfer Pricing can mediate the effect of Tunneling on Tax Avoidance

RESEARCH METHOD

This study adopts a quantitative research design aimed at examining the effect of deferred tax expense and tunneling incentive on tax avoidance, with transfer pricing as the mediating variable. The research is explanatory in nature, seeking to test hypothesis and analyze causal relationships between variables using empirical data from multinational companies listed on the Organisation for Economic Co-operation and Development (OECD).

The population of this study consists of multinational companies listed on the OECD during the 2022–2024 observation period. The sampling technique employed is purposive sampling, with specific criteria applied to ensure the representativeness of the sample. Based on these criteria, the final research sample consists of companies that provide sufficient reliable data for analysis.

Table 1
Sample Selection Criteria

No.	Criteria	Not Met Criteria	Met Criteria
1.	Companies Located in Indonesia Listed on the OECD Website		168
2.	Companies Disclosed Consecutive Annual Reports for 2022-2024 on Their Official Website	38	130
3.	Companies Experienced Consecutive Profits Before Tax During 2022-2024	8	122
4.	Companies Had Information Related to Transactions With Related Parties During 2022-2024	101	21
Total Sample Meeting Criteria			21
Outlier Sample			4
Observation Year			3
Final Sample			51

Source: Processed data

The data used in this research are secondary in nature, obtained from company annual reports. Data collection was conducted through documentation techniques, by compiling and recording the required financial information from the selected companies. The analysis was conducted using statistical software SPSS version 26, with diagnostic tests performed to ensure the validity and reliability of the regression model. Hypothesis testing was carried out to examine the direct and indirect effects of the independent variables on tax avoidance, as well as the mediating role of transfer pricing.

Table 2
Operational Variables

Variable	Measure Statement
Deferred Tax Expense	$DPT = \frac{(DTEp - DTEp - 1)}{TAp - 1}$
Tunneling Incentive	$\%Foreign\ Ownership = \frac{\text{Total Foreign Share Ownership}}{\text{Total Shares Outstanding}}$
Tax Avoidance	$ETR = \frac{Income\ Tax\ Expense}{Profit\ Before\ Tax}$
Transfer Pricing	$RPT = \frac{Related\ Party\ Accounts\ Receivable}{Total\ Accounts\ Receivable}$

Source: Processed data

RESULTS AND DISCUSSION

In the data analysis of this research, two models were tested. The first model examines the influence of independent variables Deferred Tax Expense and Tunneling Incentive on intervening variable Transfer Pricing. While the second model analyzes the influence of both independent variables Deferred Tax Expense and Tunneling Incentive and intervening variable Transfer Pricing on dependent variable Tax Avoidance.

Influence of Deferred Tax Expense and Tunneling Incentive on Tax Avoidance

The findings of the F-test indicate a significance value of 0.023, which is below the 0.05 threshold, suggesting that deferred tax expense and tunneling incentive simultaneously influence tax avoidance. This result confirms Hypothesis 1 and aligns with the agency theory perspective, which explains that tax avoidance arises from conflicts of interest between owners and managers. Under conditions of high tax expenses and pressure from controlling shareholders, managers are likely to adopt tax avoidance strategies to minimize costs. From the stakeholder theory perspective, tax obligations directly affect profitability and, in turn, shareholder wealth. As such, majority shareholders may exert pressure to reduce the tax expense through avoidance practices, even if such actions are potentially detrimental to other stakeholders.

This result is supported by prior studies. Cendani dan Sofianty (2022) found that deferred tax expense contributes to tax avoidance, as increases in deferred tax liabilities can reduce reported profits, motivating firms to seek ways to manage their tax expense. Similarly, Rohmani dan Amin (2022) highlighted that tunneling incentives encourage managers to exploit their control for personal benefit, including engaging in tax avoidance strategies. These findings reinforce the conclusion that both deferred tax expense and tunneling incentive are significant drivers of tax avoidance, as firms face fiscal pressures and ownership conflicts that create incentives to prioritize short-term efficiency in tax payments.

Influence of Deferred Tax Expense on Tax Avoidance

The results of the t-test reveal that deferred tax expense has a significance value of 0.010 with a negative regression coefficient of –3.783, indicating a negative and significant effect on tax avoidance. This finding leads to the rejection of Hypothesis 2. Rather than supporting agency theory, which predicts opportunistic behavior, the evidence is better explained by legitimacy theory. According to this view, companies may reduce their engagement in tax avoidance when facing higher deferred tax expenses to maintain their legitimacy in the eyes of the public and tax authorities. By refraining from aggressive tax avoidance, firms safeguard their social license to operate and protect their reputation, even at the expense of potential short-term financial gains.

Empirical evidence from Ramadhani & Ningsih (2021) is consistent with this finding, showing that firms facing greater fiscal corrections tend to reduce tax avoidance activities. The reduced inclination toward avoidance reflects managerial discretion aimed at preserving legitimacy rather than exploiting tax opportunities. Therefore, it can be concluded that higher deferred tax expenses encourage companies to comply more strictly with tax regulations. This negative relationship emphasizes the role of external legitimacy pressures in shaping tax strategies, illustrating that companies consider not only profit maximization but also reputational and social concerns.

Influence of Tunneling Incentive on Tax Avoidance

The t-test results show that tunneling incentive has a significance value of 0.096, which exceeds the 0.05 threshold, with a regression coefficient of –0.063. These results indicate that tunneling incentive does not significantly influence tax avoidance, leading to the rejection of Hypothesis 3. While agency theory suggests that controlling shareholders could exploit their power to push for tax avoidance, the evidence points in another direction. Legitimacy theory helps explain this outcome, as firms may avoid opportunistic tax practices to align with societal expectations and maintain credibility with regulators. The absence of a significant relationship demonstrates that external pressures can constrain the ability of controlling shareholders to pursue private benefits through tax avoidance.

This result is consistent with the findings of Putri dan Evana (2024), who observed that higher ownership concentration is associated with lower tax avoidance, as minority shareholders increase their monitoring role and limit opportunistic behavior. Thus, while tunneling incentive theoretically provides opportunities for tax avoidance, its impact is not apparent in the sample studied. Companies appear to prioritize legitimacy and compliance over opportunism, indicating that tunneling incentive is not a determining factor in tax avoidance behavior under the observed conditions.

Influence of Deferred Tax Expense on Transfer Pricing

The t-test results reveal that deferred tax expense has a significance value of 0.039, with a regression coefficient of –28.899. This indicates a negative and significant relationship with transfer pricing, resulting in the rejection of Hypothesis 4. Although agency theory predicts that companies would employ transfer pricing as a strategy to defer tax expenses, the evidence suggests otherwise. Firms appear to avoid aggressive transfer pricing practices in response to deferred tax expenses, possibly due to reputational considerations and regulatory oversight. Legitimacy theory provides a suitable explanation, as companies may refrain from using transfer pricing to ensure compliance with taxation standards and to maintain public trust.

This finding is consistent with the research of Ramadani & Arifin (2024), which demonstrated that companies facing increased tax scrutiny tend to reduce related-party transfer pricing activities. The results highlight that tax pressures alone do not drive transfer pricing behavior, as firms weigh the legal and reputational risks involved. Hence, it can be concluded that deferred tax expense does not directly encourage transfer pricing practices, as companies may prioritize legitimacy and regulatory compliance over potential tax savings.

Influence of Tunneling Incentive on Transfer Pricing

The t-test shows that tunneling incentive has a significance value of 0.144, above the 0.05 level, with a regression coefficient of 0.534, indicating no significant relationship with transfer pricing. Consequently, Hypothesis 5 is rejected. While agency theory suggests that majority shareholders may use transfer pricing as a channel to extract private benefits, the findings imply that such practices are not significantly linked to tunneling incentive in the observed firms. Legitimacy theory again provides a relevant framework, as companies may deliberately avoid using transfer pricing in ways that could undermine their compliance image or attract regulatory attention.

These results are consistent with the study by Nurulita dan Yulianto (2023), which reported that tunneling incentive does not always translate into transfer pricing practices. Companies may instead resort to alternative strategies, such as exploiting tax incentives or shifting profits across jurisdictions through other mechanisms. Overall, the findings suggest that tunneling incentive does not play a decisive role in shaping transfer pricing decisions, as firms prioritize maintaining legitimacy and reducing exposure to legal and reputational risks.

Influence of Deferred Tax Expense on Tax Avoidance through Transfer Pricing

The Sobel test results indicate a t-value of 0.007 with a significance level of 0.993, which is well above the 0.05 threshold. This shows that transfer pricing does not mediate the effect of deferred tax expense on tax avoidance, leading to the rejection of Hypothesis 6. While agency theory suggests that managers may use transfer pricing as a mechanism to reduce tax expenses, the evidence indicates that tax avoidance in this context occurs through other channels. From the perspective of legitimacy theory, firms may avoid using transfer pricing explicitly, as such practices are more visible and can easily attract scrutiny from regulators and the public.

The results demonstrate that tax avoidance is more directly influenced by internal pressures associated with deferred tax expenses rather than by the mediation of transfer pricing. This finding emphasizes that transfer pricing is not the main pathway connecting deferred tax expense to tax avoidance. Instead, companies may adopt other internal strategies that are less likely to be detected or criticized. Thus, the absence of a mediating effect highlights the importance of considering alternative mechanisms that drive corporate tax avoidance, while also reflecting companies' preference for maintaining compliance and legitimacy.

Influence of Deferred Tax Expense on Tax Avoidance through Transfer Pricing

The Sobel test shows a t-value of 0.007 with a significance of 0.993, which is greater than the 0.05 threshold. These results indicate that transfer pricing does not mediate the relationship between tunneling incentive and tax avoidance, and thus Hypothesis 7 is rejected. While theoretically tunneling incentive could drive managers to exploit transfer pricing for the purpose of shifting profits to lower-tax jurisdictions, the evidence does not support this pathway. From the perspective of legitimacy theory, companies may deliberately avoid such practices to prevent reputational damage or regulatory penalties.

Supporting evidence comes from Waluyo et al. (2023), who found that tunneling incentive does not necessarily result in profit shifting through transfer pricing. The lack of a significant mediating effect suggests that controlling shareholders may not always rely on transfer pricing to extract private benefits. Instead, firms might pursue alternative methods or simply refrain from opportunistic practices to preserve their legitimacy and compliance standing. As a result, transfer pricing cannot be considered a significant channel for the effect of tunneling incentive on tax avoidance within the studied context.

Table 3
Analysis Results

Model	Test	Result
1	Normality	Data is normally distributed (sig = 0,200 > 0,05)
2	Normality	Data is normally distributed (sig = 0,200 > 0,05)
1	Multicollinearity	No multicollinearity detected X1 (Tolerance = 0,995 > 0,1; VIF = 1,005 < 10) X2 (Tolerance = 0,995 > 0,1; VIF = 1,005 <10)

2	Multicollinearity	No multicollinearity detected X1 (Tolerance = 0,932 > 0,1; VIF = 1,073 < 10) X2 (Tolerance = 0,972 > 0,1; VIF = 1,029 <10) Z (Tolerance = 0,911 > 0,1; VIF = 1,098 < 10)
1	Heteroscedasticity	No heteroscedasticity detected X1 (Sig = 0,239 > 0,05) X2 (Sig = 0,233 > 0,05)
2	Heteroscedasticity	No heteroscedasticity detected X1 (Sig = 0,054 > 0,05) X2 (Sig = 0,151 > 0,05) Z (Sig = 0,248 > 0,05)
1	Autocorrelation	No autocorrelation detected (DU < DW < (4-DU) = (1,630 < 1,921 < 2,370)
2	Autocorrelation	No autocorrelation detected (DU < DW < (4-DU) = (1,675 < 2,361 < 2,325)
1	Determination (R^2)	5,1% of the variation in Z is explained by X1 and X2
2	Determination (R^2)	9,6% of the variation in Y is explained by X1, X2, and Z
1	Multiple Linear Regression	Regression equation: Z = -1,267 – 28,899X1 + 0,534X2 + 0,954 The constant of -1,267 represents the predicted average value of Z when X1 and X2 are zero. The negative coefficient of X1 is predicted to decrease by 28,899 units. The positive coefficient of X2 is predicted to increase by 0,534 units.
2	Multiple Linear Regression	Regression equation: Y = 0,240 + 0,007Z - 3,783X1 - 0,063X2 + 0,921 The constant of 0,240 represents the predicted average value of Y when X1, X2, and Z are zero. The positive coefficient of Z is predicted to increase by 0,007 units. The negative coefficient of X1 is predicted to decrease by 3,783 units. The negative coefficient of X2 is predicted to decrease by 0,063 units.
	Hypothesis Testing	X1 and X2 have a significant effect on Y (Sig = 0,023 < 0,05) X1 has a negative effect on Y (Sig = 0,10 < 0,05) X2 has no significant effect on Y (Sig = 0,096 > 0,05) X1 has a negative effect on Z (Sig = 0,039 < 0,05) X2 has no significant effect on Z

	(Sig = 0,144 > 0,05)
	Z cannot mediate the effect of X1 on Y (Sig = 0,993 > 0,05)
	Z cannot mediate the effect of X2 on Y (Sig = 0,993 > 0,05)

Source: Processed data

CONCLUSIONS AND SUGGESTIONS

Conclusions

Based on the research and analysis conducted in the previous chapter, several conclusions can be drawn. The findings indicate that Deferred Tax Expense and Tunneling Incentive simultaneously exert a significant influence on Tax Avoidance. This result suggests that fiscal pressures and potential conflicts of interest associated with majority ownership play an important role in shaping corporate tax avoidance strategies. However, when examined individually, Deferred Tax Expense shows a negative and significant effect on Tax Avoidance, meaning that an increase in deferred tax expense is instead associated with a reduced tendency of companies to engage in tax avoidance. On the other hand, Tunneling Incentive does not show a significant partial effect on Tax Avoidance, which implies that high levels of foreign ownership do not automatically encourage tax avoidance practices, possibly due to the presence of internal monitoring mechanisms or corporate governance structures that limit opportunistic actions.

The study also reveals that Deferred Tax Expense has a negative and significant effect on Transfer Pricing, indicating that companies do not necessarily choose transfer pricing strategies in response to higher deferred tax expenses. Similarly, Tunneling Incentive does not demonstrate a significant effect on Transfer Pricing, suggesting that the incentive to reallocate wealth is not always implemented through transfer pricing arrangements. Furthermore, the mediating role of Transfer Pricing is found to be insignificant. Transfer Pricing cannot mediate the effect of Deferred Tax Expense on Tax Avoidance, nor can it mediate the effect of Tunneling Incentive on Tax Avoidance. These findings highlight that transfer pricing is not the primary mechanism through which deferred tax expense or tunneling incentive influence corporate tax behavior.

Limitations and Suggestions

This study has several limitations that should be acknowledged. First, the research only used deferred tax expense and tunneling incentive as the independent variables, with transfer pricing as the mediating variable. This limited scope may not fully capture other factors that also influence tax avoidance. Second, the study was restricted to a sample of multinational companies listed on the Oganisation for Economic Co-operation and Development during the 2022–2024 period. The results may therefore not be fully generalizable to companies in other sectors, non-listed firms, or multinational corporations operating in different regulatory environments.

Another limitation lies in this study is limited by the availability and reliability of secondary data obtained from company annual reports. The accuracy of the findings depends on the extent to which these financial statements fairly represent the company's actual conditions.

These limitations are largely beyond the control of the researcher but may have affected the research results. Therefore, the researcher proposes several suggestions for future studies to improve the scope and depth of analysis. Future researchers are encouraged to incorporate additional variables, such as Good Corporate Governance and Foreign Ownership, which may play a role in influencing tax avoidance. Including these variables would provide a broader understanding of the determinants of tax avoidance beyond Deferred Tax Expense and Tunneling Incentive. Moreover, future studies are advised to use different research objects, for instance by focusing on specific industrial sectors or extending the research period, so that the findings can be compared and yield more robust insights.

In addition, the application of alternative analytical methods, such as Structural Equation Modeling (SEM), is recommended to allow for a more comprehensive and complex examination of the relationships among variables. Finally, it is expected that this research can serve as a valuable reference for tax authorities in strengthening their supervision of tax avoidance practices and in formulating more effective preventive policies that promote compliance and fairness in the tax system.

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