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The effect of transfer pricing, earnings management, and firm size on tax avoidance: Managerial ownership analysis

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Abstract

This study investigates the effect of transfer pricing, earnings management, and firm size on tax avoidance, with managerial ownership as a distinguishing factor. Using a sample of 43 manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2023, the study employs panel data regression with the Common Effect Model. The results show a significant negative effect of transfer pricing on tax avoidance in companies without managerial ownership, indicating its use as an active tax avoidance strategy. Conversely, this effect is insignificant in firms with managerial ownership, suggesting greater caution due to reputational risks. Earnings management significantly affects tax avoidance in firms with managerial ownership, highlighting the dual role of managers as decision-makers and shareholders. Firm size, however, does not significantly influence tax avoidance across both types of ownership. These findings emphasize the moderating role of managerial ownership and support agency theory by illustrating how ownership structure shapes strategic financial behavior. This study contributes to the literature by offering a more nuanced understanding of tax avoidance practices in Indonesia's manufacturing sector.

Introduction

In an era of global competition and increasing information disclosure, tax management practices are becoming a crucial issue for many companies, especially in the manufacturing sector that has complex and cross-border operating structures. Companies are often required to maximize profits for shareholders, but on the other hand they are also faced with unavoidable tax obligations. The tension between the interests of shareholders and the state is what often pushes companies to carry out tax avoidance aggressively but still legally (Parmananda & Maryanti, 2024).

The manufacturing industry is still by far the largest contributor to national tax revenue. However, data until the first semester of 2023 shows a decline in the contribution of the processing industry to around 27.4% of total tax revenue, slightly lower than the previous period. In May 2024, the manufacturing sector also recorded a 14.2% year-on-year decline in tax payments, making it one of the largest contributors as well as the largest weakening.

This decline was triggered by an increase in tax refunds in processing industry subsectors such as palm oil, fertilizers, and metals, which caused net deposits to be lower than gross collections. Stagnant investment and production due to early deindustrialization, as well as tax incentive policies that are less effective in encouraging manufacturing growth, have exacerbated this trend. Nevertheless, the manufacturing sector continued to show expansive growth in output. Bank Indonesia noted that the Purchasing Managers' Index (PMI) remained in the expansion zone,

indicating that production activity is still increasing, although its contribution to GDP continues to decline, from around 19.13% in Q4 2024 to 18.98% throughout 2024. The table below explains the contribution of the manufacturing sector to taxation in Indonesia.

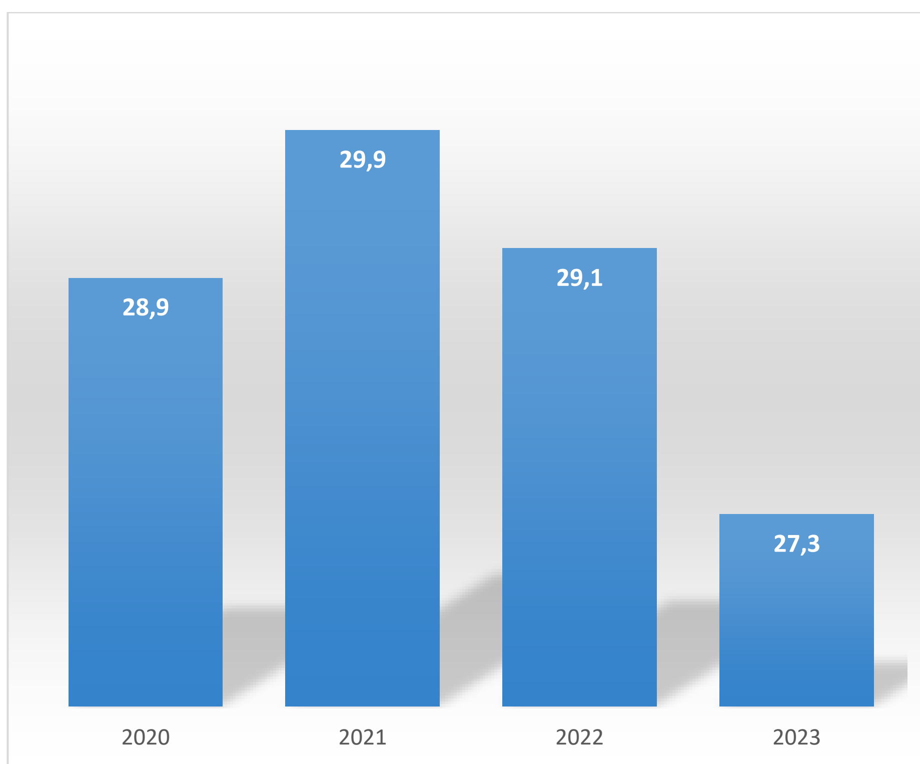

Figure 1. Contribution of Manufacturing Companies to Taxes
Source: KITA State Budget Data Processed, 2025

Based on Figure 1, the contribution of manufacturing companies to national tax revenue fluctuated between 2020 and 2023. In 2020, the contribution was 28.9% and increased to 29.9% in 2021 as the post-pandemic economic recovery intensified. However, in 2022 there was a slight decrease to 29.1%, and in 2023 it dropped significantly to 27.3%. This decline indicates the challenges faced by the manufacturing sector, such as production cost pressures, declining competitiveness, and the potential for shifts in contributions from other sectors. Therefore, a government strategy is needed to strengthen the performance of the manufacturing industry so that its contribution to taxes remains optimal.

PT INDF is suspected of carrying out tax evasion practices through a transfer pricing mechanism worth IDR 1.4 trillion, by transferring profits to its subsidiary, PT ICBP. The Directorate General of Taxes considers this action as a form of business expansion aimed at reducing tax burden, but still requires the company to pay taxes according to the provisions. As a result, the share prices of INDF and ICBP fell by 6.67% and 6.98%, respectively, in May 2020. This decline was also triggered by the acquisition of Pinehill Corpora which was considered too expensive. This case highlights the challenges of tax authorities in overseeing the tax compliance of large corporations, especially in transfer pricing practices that have an impact on potential state revenues.

Meanwhile, PT ADES is also suspected of being involved in tax evasion, as seen from the increase in net profit by 39% in 2018, although sales decreased by 1.25%. The strategy of operating expense efficiency and reducing administrative and sales expenses are suspected to be the main factors in increasing the net profit margin from 4.7% to 6.58%. This pattern raises allegations of profit management to reduce tax liability. This phenomenon shows how the manipulation of

financial statements can affect the tax burden and pose challenges in the enforcement of tax regulations (CNBC, 2019)

Transfer pricing is one of the main mechanisms in tax avoidance, especially in companies that have cross-country or inter-entity affiliate relationships in one group. Through the manipulation of the transaction price between companies, profits can be transferred to jurisdictions with low tax rates (Farid et al., 2025). Research (Alexander, 2024; Astrina et al., 2022; Farid et al., 2025) concluded that transfer pricing affects tax avoidance, meanwhile (Fadilah & Ambarita, 2024; Yino, 2025; Yoshida, 2023) concluded that transfer pricing has no effect on tax avoidance.

In addition to transfer pricing, the practice of earnings management or profit manipulation is also one way to control the amount of tax paid. Although not always significantly proven in all studies, earnings management is still relevant because it allows companies to organize financial statements in such a way as to adjust the tax burden (Kramarova, 2021). Research (Delgado et al., 2023; Irawan et al., 2020; Sánchez-Ballesta & Yagüe, 2021) concluded that earning management has an effect on tax avoidance meanwhile (Khuong et al., 2020; Sadjiarto et al., 2024; Tang, 2020) concluded that earning management does not affect tax avoidance.

Another factor that also affects is firm size. Large corporations generally have higher resources and flexibility to take advantage of loopholes in tax regulations. However, the size of the company can also have the opposite effect, because the larger the company, the higher the expectations of compliance and supervision from the tax authorities (Rizqi et al., 2025). Therefore, the influence of company size on tax avoidance still shows mixed results in various studies. Research (Nathania et al., 2021; Rahmayani et al., 2023; Sofiamanan & Machmuddah, 2023) concluded that firm size affects tax avoidance meanwhile (Apriatna & Oktris, 2022; D. Sari et al., 2021; Sarpingah, 2020) concluded that company size has no effect on tax avoidance.

All of these practices are inseparable from the role of managerial ownership as a classification indicator. In this study, managerial ownership allegedly influenced the extent to which management was involved in strategic decisions including tax avoidance. In other words, when managers own shares in a company, they may be more cautious about taking tax risks, or conversely, they may be encouraged to do tax avoidance in order to increase the company's value and return on investment (Nugrahanto & Gramatika, 2022).

In this context, managerial ownership is an important variable that can moderate the relationship between various determinants and tax avoidance. Agency theory states that shareholding by managers can reduce conflicts of interest and increase prudence in decision-making, including in terms of taxation. On the other hand, such ownership can also encourage tax avoidance if the manager judges that the strategy can increase the value of the company in the short term (Sari & Chairunisa, 2025)

This research is urgent considering the weak fiscal contribution of the manufacturing sector even though it remains structurally dominant. In the context of national fiscal policy, a comprehensive understanding of the factors influencing tax avoidance, particularly in large manufacturing enterprises, is essential to improve the effectiveness of tax supervision and reform. The lack of studies linking transfer pricing, earnings management, and company size with managerial ownership moderation makes this study even more relevant.

The novelty of this study lies in the simultaneous analysis of three main variables transfer pricing, earnings management, and company size in relation to tax avoidance, by incorporating managerial ownership as a distinguishing factor between companies with and without such ownership. Previous studies have generally examined these variables separately or without considering the moderating role of ownership structure. This approach is expected to offer a new contribution to the tax literature, particularly within the context of the manufacturing sector in Indonesia.

The main motivation of this study is to understand how a company's internal practices can affect tax compliance, as well as how managerial ownership structures can strengthen or weaken

such tax avoidance practices. In the midst of fiscal challenges and pressure on the effectiveness of tax policies, the results of this study are expected to provide applicable recommendations for tax authorities, capital market regulators, and company management in shaping fairer, more accountable, and sustainable tax policies.

Literature Review

Agency Theory

Agency theory explains the conflict of interest between the owner (principal) and the manager (agent), where the manager can act incongruously with the owner's goals, especially in conditions of information asymmetry. In the context of tax avoidance, managers have the potential to leverage strategies such as transfer pricing and earnings management to reduce tax burden and increase profits, even though it is risky for the company. Managerial ownership can be a control mechanism, as managers who own shares tend to be more cautious in their decision-making. However, this ownership can also trigger opportunistic behavior if managers are driven to maximize personal gains. Therefore, agency theory is important in understanding the motivations and impacts of tax avoidance practices in companies (Meckling & Jensen, 1976)

Transfer Pricing, Tax Avoidance, Managerial Ownership

Transfer pricing is the practice of pricing transactions between companies in one business group, especially those that have cross-jurisdictional affiliate relationships. This practice is often used to divert profits to countries with lower tax rates, so it has the potential to become the main instrument in tax avoidance strategies (Lubis et al., 2025). A number of previous studies have shown that transfer pricing contributes significantly to aggressive legal tax avoidance, as it allows companies to strategically manage the size of their taxable profits. In this context, managerial ownership is an important variable that can affect the relationship between transfer pricing and tax avoidance. Managers who own shares in companies usually have a direct interest in the company's financial performance and value, so they can be more cautious about taking tax risks. However, it is possible that this ownership actually encourages managers to be more active in tax avoidance to increase net profits and stock values. Therefore, managerial ownership in this study is used as a distinguishing factor to test whether the effect of transfer pricing on tax avoidance differs significantly between companies with high and low levels of managerial ownership (Ratih & Fitria, 2024a). This approach aims to enrich understanding of the company's internal dynamics in strategic decision-making related to tax policy. Research (Irawan et al., 2020; Nugroho et al., 2023; Purba & Edward, 2021) concluded that transfer pricing affects tax avoidance and (Olanisebe et al., 2023; Prihastiwi, 2023; Rizki & Nugroho, 2024) concluded that managerial ownership affects tax avoidance. Based on this explanation, the hypothesis proposed is

H1: There is a variation in the effect of transfer pricing on tax avoidance between companies that have managerial ownership and those that do not.

Earning Management, Tax Avoidance, Managerial Ownership

Earnings management is an accounting practice carried out by management to influence financial statements, both for informative and opportunistic purposes. One of the main motivations of this practice is to reduce the tax burden through regulating the size of the reported accounting profit (Ghofar, 2023). In the context of taxation, earnings management is often the initial strategy to achieve tax avoidance that is legal but aggressive. This practice allows companies to adjust taxable profits without having to make cross-entity transactions such as transfer pricing. On the other hand, managerial ownership, namely the involvement of shareholders from the management circle, can affect the intensity and motivation of earnings management. Managers who own stocks may

be more motivated to manage profits in order to increase company value and personal returns (Mardjono et al., 2024). However, this ownership can also be an internal oversight mechanism that lowers the tendency to manipulate, depending on the dominant context and incentives. Therefore, in this study, managerial ownership was positioned as a distinguishing factor, to identify whether the relationship between earnings management and tax avoidance varied based on the level of managerial ownership. This approach provides a deeper perspective on the influence of managerial incentives on profit management behavior and tax avoidance in companies. Research (MacCarthy, 2021; Nalarreason & Prameswari, 2025; Nurlis et al., 2021) concluded earnings management affects tax avoidance and (Cahyarani & Martias, 2024; Velte, 2024; Wongsinhirun et al., 2024) concluded earnings management affects tax avoidance. Based on this explanation, the hypothesis proposed is

H2: There is a variation in the influence of earning management on tax avoidance between companies that have managerial ownership and those that do not.

Firm Size, Tax Avoidance, Managerial Ownership

Firm size is often associated with the company's ability to do tax avoidance (Mukin & Oktari, 2019). Large companies generally have resources, access to professional tax advisors, as well as complex organizational structures that allow them to be more flexible in designing tax avoidance strategies (Phillips et al., 2021). On the other hand, large companies also tend to be the focus of tax authorities' scrutiny due to higher compliance expectations. Therefore, the influence of firm size on tax avoidance can be ambivalent: it can increase tax avoidance due to capacity and scale, or it can actually decrease the practice due to regulatory and reputational pressures (Yahaya, 2025). In relation to managerial ownership, the influence of company size on tax avoidance can vary. In companies with high managerial ownership, managers may be more cautious about taking tax risks because of the impact on company value and personal interests (Kalbuana et al., 2023). In contrast, in companies with low managerial ownership, managers can be more aggressive in leveraging the scale of the company to avoid taxes (Tanko et al., 2022). Therefore, in this study, managerial ownership was used as a classification variable to see if the relationship between company size and tax avoidance differed depending on the company's internal ownership structure. This approach provides a more thorough understanding of the interactions between company characteristics, ownership structures, and tax behavior. Research (Fahmi, 2024; Mardjono, 2024; Siburian, 2023) concluded that firm size affects tax avoidance and (Cabello et al., 2019; Eskandar & Ebrahimi, 2020; Prihastiwi, 2023) concluded that firm size affects tax avoidance. Based on this explanation, the hypothesis proposed is

H3: There is a variation in the influence of firm size on tax avoidance between companies that have managerial ownership and those that do not

Research Method

Variable Measurement

This study measures the variables of transfer pricing, earnings management, firm size, and tax avoidance with managerial ownership as a classification variable. The operationalization of each construct follows indicators widely adopted in prior research to ensure an accurate empirical representation of the theoretical framework. For instance, tax avoidance is commonly proxied using the Effective Tax Rate (ETR) (Kumar et al., 2021), managerial ownership is measured as the proportion of managerial shares to total outstanding shares (Utama & Oktris, 2025), transfer pricing is assessed using the ratio of related-party receivables to total receivables (Kumar et al., 2021), earnings management is measured through total accruals, calculated as net income minus operating cash flow (Novrica et al., 2024), while firm size is represented by the natural logarithm of total assets (Daito, 2023). The sources of the actual data for these measurements are obtained from the audited annual financial statements of manufacturing companies listed on the Indonesia

Stock Exchange (IDX), published through the IDX official database (www.idx.co.id) and company annual reports. A summary of the measurement and data sources is provided in Table 1.

Table 1. Variable Measurement

No	Variable	Measurement	Scale
1	Tax Avoidance	$\text{ETR} = \frac{\text{Tax Expense}}{\text{Earning Before Tax}}$	Ratio
2	Managerial Ownership	$\text{Managerial Ownership} = \frac{\text{Managerial Shares}}{\text{Total Shares}}$	Ratio
3	Transfer Pricing	$\text{Transfer Pricing} = \frac{\text{Receivables from Related Parties}}{\text{Total Receivables}} \%$	Ratio
4	Earning Management	TACit= NIit – CFOit	Ratio
5	Firm Size	Firm Size = Ln(Total Asset)	Ratio

Population and Sample

The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. The selection of manufacturing companies was made because this sector is a significant contributor to national tax revenue, and has a high operational complexity and transactions between entities so it is relevant in the study of tax avoidance.

The research period of 2019–2023 was chosen for several reasons. First, the year 2019 marks the beginning of a period following significant regulatory changes in taxation and financial reporting in Indonesia, which have direct implications for transfer pricing practices and corporate governance. Several relevant regulations include Minister of Finance Regulation (PMK) No. 213/PMK.03/2016 concerning the Types of Documents and/or Additional Information that Must Be Maintained by Taxpayers Engaging in Related Party Transactions, which became fully effective for the 2019 fiscal year and represents a milestone in the enforcement of transfer pricing documentation requirements. In addition, tax policy reforms were introduced through Law No. 2 of 2020 on State Financial Policy for COVID-19 Mitigation, which provided fiscal stimulus, including tax relaxations that affected corporate tax avoidance strategies. Furthermore, Law No. 11 of 2020 on Job Creation (Omnibus Law) amended several tax provisions, including the gradual reduction of corporate income tax rates starting in 2020, which influenced corporate tax planning behavior. These regulatory developments make the 2019–2023 period particularly relevant for examining the dynamics of transfer pricing, earnings management, and managerial ownership in relation to tax avoidance.

Second, this period also captures the impact of the COVID-19 pandemic (2020–2021) and the subsequent economic recovery (2022–2023), which provides a unique context to observe how companies adjust their earnings management, transfer pricing strategies, and tax avoidance behavior under different economic conditions. Third, extending the study period beyond 2023 was not possible due to the unavailability of complete and audited financial statement data at the time this research was conducted. Meanwhile, years prior to 2019 were excluded because they do not reflect the post-regulatory changes and could reduce the comparability and relevance of the findings to the current business environment.

Samples were determined using the purposive sampling method, which is a sampling technique based on certain considerations and criteria relevant to the research objectives. The sample selection criteria in this study are: (1) the company consistently publishes audited annual financial statements during the 2019–2023 period; (2) the company has managerial ownership; (3) the company has complete and measurable data for all research variables, including information on

managerial ownership, related party transactions, total assets, and effective tax rates; and (4) companies that do not have related transactions are excluded from the sample, because they do not meet the criteria for testing transfer pricing variables.

With the application of these criteria, it is hoped that the sample obtained can represent the population validly and allow an accurate empirical analysis of the influence of transfer pricing, earnings management, and firm size on tax avoidance with the classification of managerial ownership.

Table 2. Determination of Research Sample

Yes	Sample Criteria	Sum
1	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) until 2023	124
2	Manufacturing companies that do not publish their financial statements consistently in the 2019-2023 period	-46
3	Companies that have no history of related transactions during 2019 - 2023	-35
Total Company Sample		43
Year of Observation (2019 – 2023)		5
Amount of Research Data		215

Source: IDX data processed, (2025)

Data Analysis Methods

Data analysis was carried out using EViews 13 with a panel data regression approach. The stages of analysis start from descriptive statistics and test classical assumptions such as normality, multicollinearity, heteroscedasticity, and autocorrelation. Panel model selection is carried out through the Chow test (PLS vs FEM), Hausman test (FEM vs REM), and Lagrange Multiplier test (PLS vs REM) to determine the best model. After the model was selected, multiple regressions were performed to test the influence of transfer pricing, earnings management, and company size on tax avoidance, with managerial ownership as the classification variable. The test uses a t-test, an F test, and a coefficient of determination (R^2) to assess the significance and strength of the model.

Results and Discussion

Model Selection Testing

Table 3. Panel Data Model Selection

Testing	Prob	Model Conclusion
Chow	0.2458	CEM
Hausman	0.7923	REM
LM	0.1115	CEM

Source: Data processed through EVIEWS 13, (2025)

Based on the results of the panel data regression model test, the probability value of the Chow test was 0.2458, which is greater than the significance level of 0.05. This shows that the Common Effect Model (CEM) model is more appropriate than the Fixed Effect Model (FEM). Furthermore, the results of the Hausman test showed a probability value of 0.7923, which is also greater than 0.05, so the Random Effect Model (REM) is no better than CEM. Finally, the results of the Lagrange Multiplier (LM) test showed a probability value of 0.1115, which again exceeded the significance limit of 0.05, so there is not enough evidence to choose REM over CEM. Thus,

the best model used in this study is the Common Effect Model (CEM) because it provides the most appropriate results based on the three tests.

Classic Assumption Testing

Table 4. Classic Assumption Testing

Testing	Result	Conclusion
Normality	0.3047	Normal distributed data
Multicollinearity	The value indicates an overall correlation level below 0.8	Multicollinearity does not occur
Heteroscedasticity	0.8719	Heteroscedasticity does not occur

Source: Data processed through EVIEWS 13, (2025)

Based on the results of the classical assumption test, it was obtained that the data in this study was distributed normally, shown by the significance value of the normality test of 0.3047 which exceeded the threshold of 0.05. The multicollinearity test showed that the entire correlation level between independent variables was below 0.8, so it can be concluded that there is no multicollinearity problem. Meanwhile, the results of the heteroscedasticity test showed a value of 0.8719, which also exceeded 0.05, indicating that there was no heteroscedasticity in the model. Thus, the regression model fulfills classical assumptions and is feasible for use in further analysis.

Hypothesis Testing

Table 5. Hypothesis Testing

	MODEL 1*		MODEL 2**		MODEL 3***		Conclusion
	Coef	Sig	Coef	Sig	Coef	Sig	
TP → TA	-0.915	0.001	0.037	0.470	-0.170	0.002	Accepted
EM → TA	-0.119	0.840	0.195	0.015	-0.096	0.363	Accepted
FS → TA	-0.177	0.232	-0.552	0.164	0.063	0.060	Rejected
N	215		115		100		
F - Square	0.0000		0.0000		0.0000		
R-Square	0.304		0.781		0.588		

* Model with overall sample data
** Models with data that have managerial ownership
*** Models with data that have no managerial ownership
Source: Data processed through EVIEWS 13, (2025)

The R-Square test is used to measure how much an independent variable is capable of explaining the dependent variable, namely tax avoidance. In Model 1, which includes the entire sample data, the R-Square value of 0.304 indicates that about 30.4% of the variation in tax avoidance practices can be explained by the variables of transfer pricing, earnings management, and firm size, while the rest is influenced by other factors outside the model. In Model 2, which only includes companies with managerial ownership, the R-Square value increases significantly to 0.781, indicating that the 78.1% variation in tax avoidance can be explained by all three variables in the model. This suggests that managerial ownership strengthens the relationships between variables and makes the model more predictive. On the other hand, in Model 3 which consists of companies without managerial ownership, the R-Square value of 0.588 shows that the model's ability to explain tax avoidance is still relatively strong even though it is lower than Model 2. This R-Square value indicates that managerial ownership structures play an important role in increasing the power of the model in explaining tax avoidance practices.

The F test aims to find out whether all independent variables in the model simultaneously have a significant effect on the dependent variable, namely tax avoidance. Based on Table 5, the

significance value of the F test in all three models is 0.0000, which means it is smaller than the significance level of 0.05. This shows that statistically, a model built with the variables of transfer pricing (TP), earnings management (EM), and firm size (FS) together has a significant effect on tax avoidance (TA). In other words, although not all variables show significant influence individually (as seen in the significance value of each coefficient), collectively all three make a significant contribution in explaining the variation in tax avoidance practices by companies. These results reinforce the validity of the model and show that a combination of three independent variables is relevant for use in analyzing tax avoidance in the context of companies with and without managerial ownership.

The first hypothesis test explains that there is a variation in transfer pricing on tax avoidance between companies that have managerial ownership and those that do not. This means that in companies that do not have managerial ownership, transfer pricing has a negative and significant effect on tax avoidance, which indicates that this practice is actively used to reduce the tax burden. In contrast, in companies owned by managers, the effect is not significant, suggesting that managers who own shares tend to be more cautious because they also bear the risk of legal and reputational consequences. This is in line with agency theory, where managerial ownership can reduce conflicts of interest between managers and owners, but also potentially open up space for self-benefit decision-making directly. The findings of this study are consisten with those of (Casta & Tanjung, 2025; Ratih & Fitria, 2024; Sari & Ajengtiyas, 2021) concluded transfer pricing affects on tax avoidance.

The second hypothesis test explains that there is a variation in earning management to tax avoidance between companies that have managerial ownership and those that do not. This means that managers who also act as owners tend to take advantage of leeway in reporting profits to avoid taxes, because the benefits of tax savings are directly felt by them. Theoretically, this reinforces the argument in agency theory that while managerial ownership can align the interests of agents and principals, it also creates potential for self-serving behavior if not strictly supervised. The findings of this study are consisten with those of (Chen et al., 2025; Mukarramah & Nugroho, 2025; Zhao & Wang, 2025) concluded earning management has no effect on tax avoidance

The third hypothesis test explains that there is no firm size variation in tax avoidance between companies that have managerial ownership and those that do not. This means that the size of the company is not the main determinant in tax avoidance practices. This shows that internal factors such as managerial interests are more dominant in influencing tax avoidance behavior than structural characteristics such as company size, which in the context of agency theory, shows that agency problems are more real when there are gaps in ownership and control than just based on business scale. The findings of this study are consisten with those of (Bougacha & Guedrib, 2025; Haris et al., 2025; Juwita & Sari, 2025) concluded firm size has no effect on tax avoidance

Conclusion

Based on the results of the discussion, several conclusions can be formulated. First, there is a difference in the effect of transfer pricing on tax avoidance between firms with and without managerial ownership. In firms without managerial ownership, the effect is significant, whereas in firms with managerial ownership it becomes insignificant, reflecting the prudence exercised by manager-owners as explained by agency theory. Second, the influence of earnings management on tax avoidance also differs between the two groups. In firms with managerial ownership, the impact is significant, suggesting that managers tend to utilize the flexibility of financial reporting to reduce tax burdens. This finding reinforces agency theory, which posits that managerial ownership may create opportunities for self-serving behavior when proper oversight mechanisms are absent. Finally, firm size does not exhibit any difference in its effect on tax avoidance in either group of firms. This indicates that ownership structure is a more dominant determinant than firm size in shaping corporate tax avoidance behavior.

The implications of this study are both theoretical and practical. From a theoretical perspective, the findings extend the application of agency theory by demonstrating how managerial

ownership moderates the relationship between transfer pricing, earnings management, and tax avoidance. From a practical standpoint, the results highlight the importance for regulators and policymakers to strengthen monitoring mechanisms, particularly in firms with managerial ownership, to prevent opportunistic behavior in financial reporting and tax planning. For corporate stakeholders, the findings suggest that governance structures play a critical role in shaping managerial decisions related to taxation, and therefore ownership composition should be carefully considered in minimizing tax-related risks.

This study is subject to several limitations. The analysis is limited to manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023, which may restrict the generalizability of the findings to other industries or time periods. The reliance on secondary data from financial reports may not fully capture the underlying managerial motives behind tax avoidance strategies. In addition, the study focuses only on managerial ownership as a moderating factor, while other governance mechanisms such as board independence, audit quality, or institutional ownership could also play a significant role and warrant further investigation. Future research could expand the scope by including multiple sectors, extending the observation period, and incorporating additional corporate governance variables to provide a more comprehensive understanding of the determinants of tax avoidance.

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