

Determinants of Tax Avoidance Among Lq45-Listed Firms: Examining the Moderating Effect of Profitability on Ownership Structure and Related Party Transactions

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Keywords:

Foreign Ownership; Related
Party Transactions; Tax
Avoidance; Profitability

Abstract

Tax revenue in Indonesia is still considered to have not reached an optimal level. Indonesia ranks fourth in the Asian region in terms of tax avoidance practices, indicating a relatively high level of avoidance. Tax revenue remains suboptimal due to tax avoidance behaviors arising from business activities that exploit loopholes in applicable tax regulations. This research aims to examine the effect of foreign ownership and related party transactions on tax avoidance and profitability, with moderating variables. The study employs a descriptive method with a quantitative approach. The sampling technique used is purposive sampling, involving 26 companies. The analytical method applied is moderated regression analysis, conducted using SPSS version 25. The results of the study show that foreign ownership has a significant effect on tax avoidance, while related party transactions do not have a significant effect. Furthermore, profitability is able to moderate the relationship between foreign ownership and related party transactions on tax avoidance. Overall, foreign ownership and profitability influence tax avoidance, whereas related party transactions do not show a significant effect.

INTRODUCTION

Developing countries like Indonesia rely heavily on tax revenue as a primary source of funding for government spending, particularly for infrastructure development. Compared to other revenue sources, taxes are the largest contributor to the state treasury, accounting for approximately 80% of total revenue. Therefore, taxes play a crucial role in supporting development and improving the welfare of the Indonesian people.

Tax revenue in Indonesia is still considered suboptimal. This is due to the relatively low tax ratio, which falls short of the expected standard for developing countries, which is around 15%. According to data provided by the Indonesian Ministry of Finance, the tax ratio in 2022 was recorded at 10.41% of Gross Domestic Product (GDP). In fact, the tax ratio target for 2023 decreased to 9.61% (Ministry of Finance, 2024). Based on data compiled from publications by the Central Statistics Agency of the Republic of Indonesia over the last five tax years (2019–2023), tax revenues accounted for an average of 78.58% of total state revenue. In its efforts to achieve revenue targets, the government faces numerous obstacles, including the persistently high level of tax avoidance (Kardinto, Muktiyanto, and Rahayu, 2025).

The 2020 State of Tax Justice report revealed that Indonesia ranked fourth in Asia for tax avoidance practices, behind China, India, and Japan, the three countries with the highest rates of tax avoidance. This finding reflects the persistently high prevalence of tax avoidance in

Indonesia (Tax Justice Network, 2022).

In its 2023 report, the Tax Justice Network estimated that Indonesia could potentially suffer losses of up to USD 2,806,311,920 per year, which, when converted into rupiah at Bank Indonesia's middle exchange rate on December 31, 2023, amounted to IDR 15,416/USD. This is equivalent to IDR 43,262,104,558,720.00 (forty-three trillion two hundred sixty-two billion one hundred four million five hundred fifty-eight thousand seven hundred twenty rupiah) per year due to tax avoidance practices.

Within the framework of agency theory, principals and agents are assumed to be economically rational entities driven by self-interest. Therefore, even when a contractual agreement exists, agents do not always act optimally in the interests of the principal. As parties mandated to manage the company's operational activities and prepare financial reports, agents tend to present information that benefits their own position, which can ultimately harm shareholder interests (Suryani, Yuniarti, and Syahrudin, 2023).

Aggressive tax planning, known internationally as Base Erosion and Profit Shifting (BEPS), is a major challenge in contemporary tax systems. BEPS refers to the practice of multinational corporations systematically shifting their tax bases and profits to jurisdictions with low or no tax rates in order to significantly reduce tax liabilities while remaining within the formal legal framework. This practice has serious implications for the integrity, fairness, and effectiveness of national and global tax systems (Hutagaol, 2023). When making decisions regarding tax avoidance, companies generally consider the potential economic costs and benefits. Tax avoidance practices do not always receive support from shareholders, given the potential direct and indirect costs that may exceed the expected fiscal benefits. Determinants contributing to a company's tendency to engage in tax avoidance include Return on Assets (ROA), foreign ownership, and transfer pricing practices (Moeljono, 2020).

According to Kurniawati and Rokhimah (2024), tax avoidance decreases when good corporate governance is implemented. The concept of corporate governance centers on establishing a framework of internal and external checks and balances. This structure ensures that a company remains accountable to its stakeholders while conducting its operations with a commitment to social responsibility.

In addition to good governance and special relationships, debt can also be a company's strategy for tax avoidance. Under Indonesian tax law, debt burdens or interest expenses can be considered deductions from taxable income, thereby reducing the company's tax burden. This creates an opportunity for companies to increase their debt costs in order to achieve tax efficiency (Kardinto, Muktiyanto, and Rahayu, 2025).

Likewise, predicted profitability can influence tax avoidance. Profitability reflects a company's performance in generating profits and its ability to efficiently utilize assets to generate returns from asset management, commonly measured using Return on Assets (Ginting and Machdar, 2023).

Tax avoidance cases demonstrate that increasing leverage or the use of corporate debt can lead to higher interest expenses. These interest expenses can then be used to reduce taxable income, thereby lowering the company's tax burden (Ayu Wardan and Nissa Nurharjanti, 2019). A case related to tax avoidance is the leak of the Pandora Papers, which revealed secret assets, business deals, and hidden wealth held by officials and billionaires through anonymous

sources. The documents also revealed data on various prominent figures globally who established shell companies in tax havens (Ghina et al., 2024).

Various factors may underlie companies' tax avoidance practices, such as transfer pricing, foreign ownership, and capital intensity. Companies engage in tax avoidance through transfer pricing when a special relationship influences pricing in transactions between affiliated parties and its implementation does not comply with tax regulations.

According to Beebeejaun (2018), tax deductions related to special relationship transactions can also be used as a transfer pricing tool to reduce corporate taxes. A special relationship is defined as a relationship between two or more taxpayers that results in the income tax payable being lower than what would otherwise be owed (Marundha et al., 2021:5).

Foreign ownership in a company can be a strategic factor driving tax avoidance practices. As a company's stock value increases, foreign shareholders with a significant proportion of the total shares have the potential to use their influence to direct company policies in a direction that benefits their interests. The greater the ownership held by foreign shareholders, the stronger their control over strategic decision-making, including pricing and the volume of transfer pricing transactions, which are directly related to tax avoidance strategies (Muhajirin et al., 2021).

Foreign ownership refers to foreign parties holding or owning shares in companies in a country, either individually or through institutions (Zarkasih & Maryati).

Some companies adopt ownership or share allocation strategies as mechanisms to distribute the tax burden, particularly when corporate income reaches a level subject to high corporate tax rates. In such situations, increasing tax liabilities encourage management to implement various legally valid tax avoidance strategies to reduce the overall fiscal burden. This situation becomes a key driver for companies to act more aggressively in managing their tax obligations (Chen et al., 2010).

The drive to achieve optimal returns on investment leads foreign shareholders to play an active role in influencing corporate policy direction. In this context, foreign ownership can encourage companies to adopt strategies aimed at minimizing tax burdens as a form of fiscal efficiency by directing managerial policies that align with the economic interests of foreign shareholders (Alianda and Azhar, 2021). Transfer pricing is considered a common mechanism used by companies to strategically manage profits, particularly to reduce tax obligations to fiscal authorities. By structuring transaction prices between affiliated entities, companies attempt to shift part of their profits to jurisdictions with lower tax rates, thereby minimizing the overall tax burden without violating applicable legal provisions (Hendrylie, Nathan Santoso and Yohana Tallane, 2023).

According to Kardinto, Muktiyanto, and Rahayu (2025), establishing a suboptimal capital structure can negatively affect a company. Companies must focus on their objectives and carry out their activities to achieve them. These objectives can be achieved by maximizing financing efficiency, thereby reducing capital costs and increasing corporate profits. When a company increases its profits, it benefits both the company itself and its shareholders.

Companies that demonstrate high levels of profitability generally reflect adequate financial capacity to meet tax obligations in accordance with applicable regulations. Therefore, business entities with strong profit performance tend to have higher tax compliance and lower levels of involvement in tax avoidance practices, given that the economic incentives for tax

avoidance become relatively insignificant in the context of optimal profitability (Niandari and Novelia, 2022). However, increased corporate profits also directly increase the tax burden that must be paid to the state. In this situation, management may be motivated to streamline tax obligations through legitimate tax avoidance strategies in order to maintain the stability of net profit allocated to shareholders and preserve overall financial performance (Niandari and Novelia, 2022).

Tax avoidance practices carried out by companies are influenced by various factors, one of which is foreign ownership. The ownership structure of a business entity plays a crucial role in determining a company's performance and strategic direction. In the context of foreign ownership, two key aspects must be considered: the degree of ownership concentration by external parties and the proportion of shares held by company managers.

Research by Putri and Mulyani (2020) found that foreign ownership has a positive impact on tax avoidance. This finding differs from research by Hasyim et al. (2022), which found that foreign ownership has a negative impact on tax avoidance. Other studies also contradict these findings, as Ismiyanti and Ahalik (2022) found that foreign ownership has no effect on tax avoidance.

Previous research, such as Murwaningsari and Rachmawati (2022) and Santoso et al. (2021), found that related party transactions had no impact on tax avoidance. However, research by Wijayanti et al. (2016) and Alkawsar et al. (2017) found that related party transactions have a significant influence on tax avoidance.

Research conducted by Chen, Cheok, and Rasiah (2016) found that profitability influences tax avoidance. This contrasts with research conducted by Irianto, Sudiby, and Wafirli (2017), which found that profitability had no effect on tax avoidance.

Considering the phenomena described above and the inconsistencies among previous studies, the authors are interested in conducting research on foreign ownership and special relationships, with reference to corporate tax avoidance through profitability. This study, entitled "The Effect of Foreign Ownership and Special Relationships on Tax Avoidance, with Profitability as a Moderating Variable: An Empirical Study of LQ 45 Companies Listed on the Indonesia Stock Exchange 2020–2024," examines the impact of foreign ownership and special relationships on tax avoidance.

Based on the background of the study, several problems can be identified related to tax avoidance practices in Indonesia. First, tax revenue in Indonesia is considered not yet optimal, as reflected by the relatively low tax ratio which has not reached the standard level of around 15% typically expected for developing countries. Second, tax evasion cases in Indonesia rank fourth in Asia after China, India, and Japan, indicating that the level of tax non-compliance remains high. Third, companies may engage in tax avoidance practices due to the influence of foreign ownership, where majority foreign shareholders have the ability to use their influence to implement strategies that maximize their interests, including minimizing tax burdens. In addition, previous studies examining the relationship between foreign ownership, special relationships, and tax avoidance have produced inconsistent findings, indicating the need for further research.

Based on these issues, this study focuses on examining whether foreign ownership and special relationships affect tax avoidance in companies listed in the LQ-45 index during the

period 2020–2024, as well as analyzing whether profitability can moderate the influence of these variables. Therefore, the objectives of this research are to empirically analyze the effect of foreign ownership and special relationships on tax avoidance and to examine the moderating role of profitability in these relationships. The findings of this study are expected to provide practical benefits for several parties. For companies, the results can serve as a reference in evaluating policies and decision-making processes related to tax management. For investors, the research provides additional information that may support investment decision-making. For academics, this study is expected to contribute to the development of tax research and serve as a reference for future studies related to tax avoidance and corporate governance.

RESEARCH METHOD

The researchers in this study employed a quantitative approach, employing descriptive and verification methods. Quantitative research, a research method based on the philosophy of positivism, is often designed to collect data that explains the characteristics of people, events, or situations. Statistics are used to analyze data by describing or depicting the collected data as it is without the intention of drawing general conclusions or generalizations (Sugiyono, 2017:147).

This study will explain the influence of foreign ownership and special relationships on tax avoidance, with profitability as a moderating variable in foreign-owned companies between 2019 and 2023.

Data Types and Sources

The data used in this study were documentary data in the form of financial statements and annual reports accessed through the LQ-45 website for companies with foreign ownership.

The data sources used in this study were secondary data, which describe sources indirectly provided by the researcher during data collection. Data from existing sources was used to strengthen and complete the information (Sugiyono, 2022).

Secondary Data: Data obtained from records, books, and magazines in the form of published company financial reports, government reports, articles, and books as theoretical references (Sujarweni, 2019).

Population and Sample

The population of this study was 45 foreign companies listed in the LQ-45 for the 2020-2024 period, representing 225 financial reports. The research population is a generalized area consisting of objects/subjects with specific quantities and characteristics determined by the researcher to be studied and then conclusions drawn (Sugiyono, 2022).

The sample size was determined using a purposive sampling technique, which refers to the technique of determining samples based on specific considerations (Sugiyono, 2022). The following sampling criteria were used in this study:

1. Companies listed on LQ45 in 2020- 2024
2. Companies that do not have foreign-owned shares
3. Companies that do not conduct affiliate transactions

From the results of the sample research criteria, a sample of 26 companies was obtained using financial statements for 2020-2024, so that the total sample was 130 sample data.

Data Analysis Techniques

Analysis techniques are a process in analyzing data that is expected to provide

information that can be used by researchers for research purposes, so that the data needs to be processed and analyzed for interpretation later, as well as providing convenience for researchers to read and understand the data as a basis and reference for decision-making.

1. Descriptive Analysis

A descriptive analysis method with a quantitative approach is used to obtain a systematic, factual, and accurate picture of the facts, characteristics, and relationships of the indicators in the variables in the study (Mulyadi, Effendi, and Paramarta, 2020). The analytical tools used in this study are the average (mean), maximum, minimum, and standard deviation to describe the research variables, namely tax avoidance, special relationships, foreign ownership, and profitability.

2. Statistical Analysis

According to (Sugiyono, 2017a), descriptive statistics do not perform analysis or make general conclusions; instead, they use sample or population data to describe or provide an overview of the object being studied.

3. Model Feasibility Test

According to Ghozali (2018), the purpose of model feasibility testing is to determine whether the regression model generated through research is suitable for hypothesis testing. Model feasibility testing is carried out using two types of tests:

Hypothesis Testing

This test is used in research to determine how much the independent variables individually explain the dependent variable (Ghozali, 2021). The t-test is used to assess the significance level of the influence of the independent variables on the dependent variable. The criteria for this test are determined based on probability (Ghozali, 2021).

The significance level used is 5 percent. In other words, if the probability $H_a > 0.05$, the result is considered insignificant, and if the probability $H_a < 0.05$, the result is considered significant. The criteria used in the statistical hypothesis t-test are:

- a) If the significance p-value < 0.05 , it means that H_0 is rejected and H_1 is accepted, in other words, the independent variable has a partial significant effect on the dependent variable.
- b) If the significance p-value is > 0.05 , it means that H_0 is accepted and H_1 is rejected, in other words, the independent variable has no partial significant effect on the dependent variable.

The statistical hypothesis is as follows:

1. Foreign Ownership

$H_0: b_1 > 0.05$ Foreign ownership has no significant effect on tax avoidance.

$H_1: b_1 < 0.05$ Foreign ownership has a significant effect on tax avoidance.

2. Special Relationships

$H_0: b_1 > 0.05$; Special relationships have no significant effect on tax avoidance.

$H_1: b_1 < 0.05$; Special relationships have a significant effect on tax avoidance.

Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA), or interaction testing, is a specific application of multiple linear regression where the regression equation contains an interaction element (the multiplication of two or more independent variables). Moderated Regression Analysis differs

from subgroup analysis in that it uses an analytical approach that maintains sample integrity and provides a basis for controlling for the influence of moderator variables (Ghozali, 2021).

MRA was used because this study used moderator variables, therefore, the panel data regression equation for the moderator variables used the MRA equation.

The significance level used was 5 percent. In other words, if the H_a probability > 0.05 , it is declared insignificant, and if the H_a probability < 0.05 , it is declared significant. The criteria used in the statistical hypothesis t-test are:

- a) If the significance p-value < 0.05 , it means that H_0 is rejected and H_1 is accepted, in other words, the independent variable has a partial significant effect on the dependent variable.
- b) If the significance p-value is > 0.05 , it means that H_0 is accepted and H_1 is rejected, in other words, the independent variable has no partial significant effect on the dependent variable.

The statistical hypothesis is as follows:

1. Profitability moderates the influence of foreign ownership on Tax avoidance
 $H_0: b_3 > 0.05$ Profitability is not able to moderate the influence of foreign ownership on tax avoidance.
 $H_3: b_3 < 0.05$ profitability is able to moderate the influence of foreign ownership on tax avoidance.
2. Profitability moderates the influence of Privileged Relationships on Tax Avoidance
 $H_0: b_4 > 0.05$ profitability is not able to moderate the influence of the Special Relationship on tax avoidance.
 $H_4: b_4 < 0.05$ profitability is able to moderate the influence of Special Relationships on tax avoidance.

RESULTS AND DISCUSSION

Statistical Analysis

1. Classical Assumption Test

a. Heteroscedasticity Test

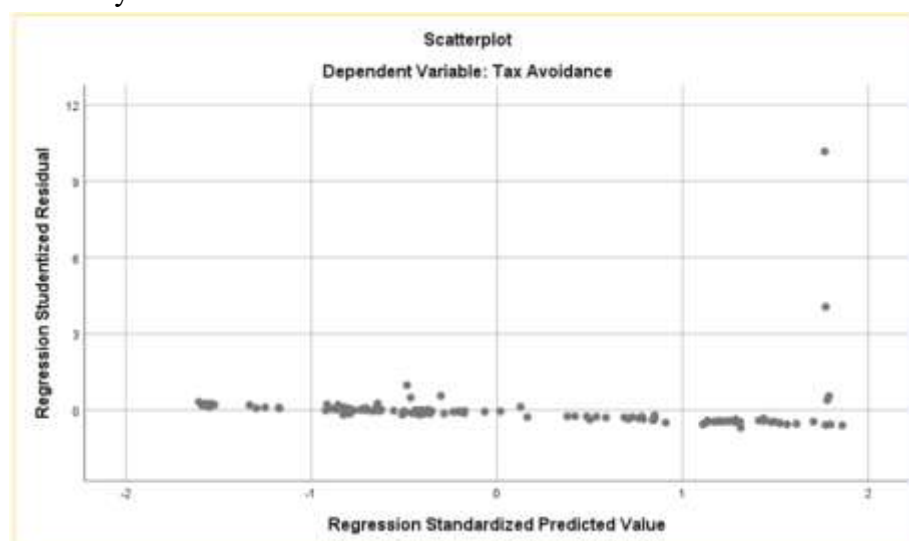


Figure 1. Heteroscedasticity Test
 Source: SPSS processed data (2025)

It can be seen in Figure 1 the distribution of points in the scatterplot of the scattered regression in an unreadable pattern above and below the number 0 on the Y-axis so that There is no heteroscedasticity problem.

b. Autocorrelation Test

Table 1. Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.218	0.048	0.033	15.76982	1.216

a. Predictors: (Constant), Hubungan Istimewa, Kepemilikan Asing

b. Dependent Variable: Tax Avoidance

Source: SPSS processed data (2025)

Based on the data above, the dw value is 1,216, then $(4-1,216 = 2,784)$. Judging from the Durbin-Watson table with a total of 130 data, based on the dL table of 1.6825 and dU of 1.7449, the number 2.784 is above dL and dU. So that there is no autocorrelation in the data above.

c. Multicollonial Test

Table 2. Multicolloniality Test

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Beta	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.050	2.723	–	0.386	0.700	–	–
	Kepemilikan Asing	12.255	4.909	0.220	2.497	0.014	0.964	1.038
	Hubungan Istimewa	11.520	13.824	0.074	0.833	0.406	0.964	1.038

a. Dependent Variable: Tax Avoidance

Source: SPSS processed data (2025)

From the table drawn, the tolerance value of each variable was greater than 0.10, this result shows that there is no correlation between variables. The results of the VIF table also show <10 of each variable, so that it can be concluded that the variables are free from multicolloniality.

Model Feasibility Test

1. Coefficient of Determination

Table 3. Autocorrelation Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.218	0.048	0.033	15.76982

a. Predictors: (Constant), Hubungan Istimewa, Kepemilikan Asing

Source: SPSS processed data (2025)

From the image above, it can be concluded that the value of R Square is 0.033 or 3.3%. This shows that the variable of tax avoidance is only influenced by 3.3% by foreign ownership

and privileged relationships, while the remaining 96.7% is influenced by other variables that were not studied in this study.

Hypothesis Test

Table 4. Hypothesis Testing

Coefficients ^a						
		Unstandardized		Standardized	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.050	2.723	–	0.386	0.700
	Kepemilikan Asing	12.255	4.909	0.220	2.497	0.014
	Hubungan Istimewa	11.520	13.824	0.074	0.833	0.406

a. Dependent Variable: **Tax Avoidance**

Source: SPSS processed data (2025)

Based on the table above, the results are obtained, namely:

1. Foreign Ownership Variables Affect Tax Avoidance
The results of hypothesis 1 test: a t-value of 2,497 was obtained with a coefficient value of $0.014 < 0.05$ thus H_0 was accepted and H_a was rejected
2. Variable Special relationship has no effect on tax avoidance
The result of hypothesis test 1: obtained a value of t calculated as 0.833 with a coefficient value of $0.406 > 0.05$ thus H_0 is rejected and H_a is accepted

Moderated Regression Analysis (MRA)

The results of the *Moderated Regression Analysis* (MRA) test use SPSS version 25, and as a basis for decision-making, if the significance value is less than 0.05 (< 0.05) means that the hypothesis is acceptable, while if the significance value is more than 0.05 (> 0.05) it means that the hypothesis is rejected. The following are the results of the *moderated regression analysis* (MRA) test that has been carried out:

Table 5. Moderation Test

Coefficients ^a						
		Unstandardized		Standardized	t	Sig.
Model		B (Unstandardized)	Std. Error	Beta		
1	(Constant)	4.188	1.438	–	2.913	0.004
	Kepemilikan Asing	-7.056	2.960	-0.127	- 2.384	0.019
	Hubungan Istimewa	-8.981	7.683	-0.057	- 1.169	0.245
	Kepemilikan Asing * Profitabilitas	51.647	12.606	0.442	4.097	0.000
	Hubungan Istimewa * Profitabilitas	811.838	165.622	0.498	4.902	0.000

a. Dependent Variable: **Tax Avoidance**

Source: SPSS processed data (2025)

Based on the table above, the results are obtained, namely:

1. The profitability variable moderates foreign ownership to tax avoidance.
The Profitability variable in moderating foreign ownership (X1Z) obtained a table t-value of 4,097 with a significance level of 0.000, the value is smaller than the significance level of 0.05 ($0.00 < 0.05$). Thus, H_0 was accepted and H_a was rejected.
2. The variable Profitability moderation is a privileged relationship to tax avoidance.
The Profitability variable in moderating foreign ownership (X1Z) obtained a table value of 4,902 with a significance level of 0.000, which is smaller than the significance level of 0.05 ($0.000 < 0.05$). So H_0 was accepted and H_a was rejected.

Discussion

The Impact of Foreign Ownership on Tax Avoidance

The test results showed that the foreign ownership variable had a probability value of 0.014, which is less than 0.05 ($0.014 < 0.05$). Therefore, based on the decision-making criteria, H_0 is accepted and H_a is rejected.

Foreign shareholders prefer to comply with regulations and not evade taxes. This is because foreign investors are highly concerned about the costs arising from tax avoidance practices, including legal risks, corporate reputation, and tax consulting fees, which are barriers to tax avoidance practices. Legal and reputation risks will outweigh the potential profits. Furthermore, the costs incurred when conducting tax planning by avoiding taxes and using the services of tax consultants or accountants are also highly considered, as the competence of tax consultants or accountants must be more experienced in dealing with multinational companies (Zarkasih & Maryati, 2023).

The results of this study are in line with research by Prasetyo & Mashuri (2020) which shows that foreign ownership influences transfer pricing and Muhajirin et al. (2021) who concluded that transfer pricing and foreign ownership have a positive effect on tax avoidance.

The Influence of Special Relationships on Tax Avoidance

The test results showed that the foreign ownership variable had a probability value of 0.583, greater than 0.05 ($0.406 > 0.05$). Therefore, based on the decision-making criteria, H_0 was rejected and H_a was accepted.

A special relationship is a relationship between two or more taxpayers that results in the income tax payable between these taxpayers being lower than what should be owed (Ginting and Machdar, 2023).

Alkawsar et al. (2018) stated that related-party purchasing transactions have a significant impact on tax avoidance. This is because each country can have different tax rates, particularly in tax haven countries. However, purchases of goods between affiliated companies do not set prices higher than they should, thus not affecting the tax burden, and subsequently, the companies do not engage in tax avoidance.

These research results align with research by Murwaningsari and Rachmawati, 2022, which showed that special relationships have no effect on tax avoidance.

The Effect of Foreign Ownership on Tax Avoidance Moderated by Profitability

The test results showed that the foreign ownership variable had a probability value of 0.00, less than 0.05 ($0.00 < 0.05$). Therefore, based on the decision-making criteria, H_0 is

accepted and H_a is rejected.

Foreign investors generally prefer to invest their capital in companies with stable profits. Therefore, the presence or absence of tax avoidance in a company does not influence investors' investment decisions. Tax avoidance in a company is not always desirable for shareholders because the costs arising from such tax avoidance may outweigh the benefits of tax avoidance (Al Hasyim et al., 2022).

These research findings may occur because company management will exploit loopholes in tax regulations to avoid paying taxes. Typically, they utilize techniques and methods that tend to have several weaknesses, thus benefiting the company. The more foreign shares an organization owns, the more likely the company is to choose a more effective tax avoidance approach to maximize profits (Alianda et al., 2021).

The results of this study are in line with Yustia & Khomsiyah (2024) that profitability is able to moderate the influence of foreign ownership on tax avoidance.

The Effect of Special Relationships on Tax Avoidance Moderated by Profitability

The test results showed that the foreign ownership variable had a probability value of 0.003, which is less than 0.05 ($0.000 < 0.05$). Therefore, based on the decision-making criteria, H_0 is accepted and H_a is rejected.

(Marundha, Fauzi, and Pramukty, 2020) A special relationship is a relationship between two or more taxpayers that results in the income tax payable between these taxpayers being lower than what should be owed.

A company's performance is considered good if it has high foreign ownership, thus attracting foreign investors. The number of shares owned by foreign parties can also determine the extent of foreign control in managing the company (Ghina et al., 2024).

Return on assets is a company's ability to generate profits based on the company's total assets. The higher the profit a company achieves, the higher the tax burden it must pay, thus reducing the company's profits. One way to prevent a decrease in company profits is by exploiting weaknesses in the tax system. By avoiding taxes, companies never commit any illegal acts (Moeljono, 2020:110).

Tax avoidance can occur due to differences in economic conditions and regulations in each country. The existence of special relationships and differences in tariffs between countries, particularly those with lower tax rates, can lead to companies minimizing sales or revenue. Therefore, companies do not exploit these transactions for tax avoidance purposes.

These results align with research (Ginting and Machdar, 2023) that found that profitability can moderate the effect of special relationship transactions on tax avoidance.

CONCLUSION

Foreign ownership has an effect on tax avoidance. This indicates that increasing investment by foreign parties influences tax avoidance behavior. Foreign investors tend to demand maximum and faster returns on capital by strongly encouraging management to minimize the tax burden. The presence of a special relationship, however, has no effect on tax avoidance. This may occur because each country has different tax rates, particularly tax haven countries. Nevertheless, the purchase of goods between affiliated companies does not necessarily involve a pricing policy higher than it should be, and therefore does not affect the tax burden—meaning that companies do not engage in tax evasion through such transactions.

Profitability moderates the influence of foreign ownership on tax avoidance. Foreign investors generally prefer to invest their capital in companies that generate stable profits. Hence, whether or not a company engages in tax avoidance does not significantly affect an investor's decision to invest. Profitability also moderates the influence of special relationships on tax avoidance. Tax avoidance may arise due to differences in economic conditions and regulatory frameworks across countries. In cases where special relationships exist and tax rate disparities are present—especially involving countries with lower tax rates—companies may reduce reported sales or revenues. However, in this study, such transactions were not found to be used as a means of tax avoidance.

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