

THE IMPACT OF TRANSFER PRICING, CAPITAL INTENSITY, AND POLITICAL CONNECTION ON TAX AGGRESSIVENESS (SURVEY OF MANUFACTURING COMPANIES IN THE PHARMACEUTICAL SUB SECTOR LISTED ON THE IDX FOR 2017-2021)

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ABSTRACT

This study aims to partially or simultaneously examine the impact of transfer pricing, capital intensity, and political connections on tax aggressiveness. This study uses pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange for 2017-2021. The sample collection technique was carried out using a purposive sampling method, which in the end, obtained a total of 35 samples. The multiple regression method was used for data analysis. The results showed that transfer pricing, capital intensity, and political connection had no significant effect on tax aggressiveness partially or simultaneously.

Keywords: *Transfer Pricing, Capital Intensity, Political Connection, and Tax Aggressiveness*

INTRODUCTION

Tax is a source of state revenue and significantly contributes to the state treasury's growth. This is reflected in the 2022 State Budget, which states that tax revenues must reach 82% of the total government revenue budget of 1,846 trillion. From the information above, it is very clear that taxes in Indonesia are at the forefront of the country.

Given the importance of tax contributions as the main source of funding for the state treasury, the government is actively encouraging taxpayer compliance. Various government policies were taken to further motivate taxpayers to pay and report their annual income. Taxpayer compliance is a major global issue in developed and developing countries. If the taxpayer does not comply, it will simultaneously result in tax evasion, tax evasion, and negligence, and in the end, these actions will result in a decrease in state tax revenue (Siti Kurnia Rahayu, 2017: 140).

On the other hand, as a Required tax, the company wants to guard efficiency payment tax to a minimum. This is the stronger opinion from (D. & Sukaharta, 2014) that companies sometimes respond poorly When the government picks up tax. The company considers the burden tax as very cost big for resulting business the moresmall profits earned by the company because it is formed behavior aggressive from influencing company decision in paying tax.

Tax Aggressiveness is an action to minimize the burden tax on a business, fine legally (avoidance taxes) or illegally (embezzlement tax). Aggressiveness shared Becomes two categories, tax avoidance (legal) and tax evasion (illegal). Tax avoidance is subtraction tax through leverage strategies gap taxes, and tax evasion is subtraction tax with no deposit or report tax than the actual amount.

Tax Aggressiveness is influenced by many things factors, one of which activity deviant transfer pricing from principle reasonableness. Phenomenon activity

deviant transfer pricing is enough for many in our country. Usually Thing this is conducted company multinational, for example, company subsector mining, namely PT Adaro Energy. From 2009 to 2017, PT Adaro Energy implemented step-by-step avoid tax in a manner maximum with method divert profit earned from Indonesian mining coal to one of the sister companies in Singapore, Coltrade Service International.

In 2019, Sri Mulyani, as Minister of Finance, said PT Adaro Energy had given profit to countries that don't provide source power to PT Adaro Energy. The phenomenon is what it is based on a study this is that aim to understand how much how strong transfer pricing could influence aggressiveness tax, particularly sub-sectors pharmacy. There is influence transfer pricing that causes happening aggressiveness tax proven by researchers previously, Fitri (2019) and Masi & Susi (2020). On the other hand, the results study from Siti, Mukhlizul, and Daniati (2019) and Anita & Nur (2021) show that there is no influence on transfer pricing against action aggressiveness tax.

Furthermore, capital intensity (capital intensity) becomes a possible factor influencing aggressiveness taxes, and capital intensity is activity investment made by the company investment in the form of fixed assets (Novitasari, 2016). The capital intensity, which is the investment company on assets permanent, is one asset used company for products and to earn profit. Investation in a permanent asset company could raise cost depreciation from assets that remain invested.

A study about the impact of capital intensity on aggressiveness taxes too carried out by Andhari and Sukartha (2017), who stated that companies are leaning toward investing in assets with cost depreciation and high capital charges so, which will reduce the profit company and will impact the tax debt company.

Apart from transfer pricing and capital intensity, political connections could become a factor happening activity aggressiveness tax. Violation of tax caused exists in connection to company politics once happened in Indonesia. One, for example, is a company owned by the Bakrie Group. In 2010, there was a guess avoidance tax in a manner aggressively done by three company Bakrie Group, which resulted in not enough pay worth IDR 1.5 trillion, IDR 376 million, and US \$ 27.5 million. According to Tjiptardjo, Director General Tax (2010), in case not enough pay tax, three colluding Bakrie companies with state apparatus in the field of taxation, Gaius Tambunan. The incident that caused by a political connection, holder shares, and leadership party, Aburizal Bakrie.

Factor connection encouraging politics happening activity aggressiveness tax, supported by research before that is from Anita & Ita (2021) with proof that connection political could trigger happening practice aggressiveness tax. On the other hand, according to the findings of Poppy, Lestari & Ardan (2019), there is no influence connection between the political practice of aggressiveness tax.

THEORETICAL FRAMEWORKS

Tax Aggressiveness

In practice business, payment tax is often considered a burden addition for the company and pushes the party company to do planning tax (tax planning) through avoidance tax legally (tax avoidance) or illegally (tax evasion). Called the aggressiveness tax. Lietz (2013) explains that action aggressiveness tax refers to its domain as very “aggressive”. Richardson (2013) also stated that aggressiveness tax covers activity planning legal tax or possible entry in the gray zone, as well as activity

illegal. If the company in a manner proactive and aggressively involved in practice avoidance tax, that is, planning the tax tends to be illegal or more susceptible lead to embezzlement tax (tax evasion).

Transfer Pricing

Transfer pricing is one method used by management to apply practice avoidance tax with a method to divert profit or burden company to affiliate with use transaction related party. In Regulation Director General Tax Number: PER-32/PJ/2011, transfer pricing is the price determination in something transaction Among parties with a special connection. According to Putri & Mulyani (2020), from a corner view government, transfer pricing can cause a decline in reception tax in a country because the company diverts the burden tax to the affiliate with the method of lower price sell and transfer gains to the company affiliated. The husks are done from the utilization gap. This will minimize the burden tax should be borne by the parent company.

Capital Intensity

The capital intensity or capital ratio is activity investment related to companies with fixed assets and stock. Ratio capital intensity can show the level of efficiency with which a company uses the assets to produce income (Ardyansah, 2014). Article 6 paragraph 1 (b) Law No. 36 of 2008 concerning Tax Income arranges that depreciation cost acquisition asset fixed, depreciation cost acquisition and other costs whose useful lives more than 1 (one) year is possible to load deducted from income gross.

Capital Intensity refers to the number of assets still owned. The fixed asset permanence has aged economically and experienced depreciation every year. Depreciation expense is what is the possible company to reduce the burden of the tax with depreciated assets. This occurs because cost depreciation fixed assets reduce profit before tax company, so profit after tax will become smaller.

Political Connections

Something entity could be considered alliance political when at least one holder shares the majority, or the leader holds positions in parliament/government or has a connection political with a party political or politician (Faccio, 2006). According to Purwanti and Sugiyarti (2017), political connections exist among parties certain, with the owning party's interest politics used to reach something sure with deal second split party in certain circumstances.

Several empirical studies show that if something entity has a strong relationship (affiliation politics) with the government, then the entity tends to be involved in the case of aggressiveness taxes (Francis et al., 2012; Kim & Zhang, 2013). Not a little company with alliance political accept treatment special like protection and reduction risk supervision from the government made company tend active and aggressive in planning taxes and less transparency finance. As a result, companies with political connections are generally more aggressive in minimizing tax because they have a slight possibility of checked or even no experience inspection by the examiner taxes (Lestari & Putri, 2017).

HYPOTHESIS DEVELOPMENT**The Impact of Transfer Pricing on Tax Aggressiveness**

Suandy (2008) in Suntari and Mulyani (2020) said that transfer pricing between companies that have affiliates, by way of structurally distorting the value of goods, reducing profits and ultimately impacting company losses. It can be said that conditions are deliberately created for the possibility that business actors or companies can actively carry out aggressive tax evasion in a country. However, according to Anita & Ita (2021), transfer pricing no takes affect aggressiveness tax. The reason is that various issued government regulations to prevent transfer pricing schemes that do not exist following avoidance tax. The policy that makes opportunity happening practice illegal from transfer pricing is increasingly small.

H1: No, there is influence transfer pricing against aggressiveness tax.

The Impact of Capital Intensity on Tax Aggressiveness

Companies with assets still considerable tend to plan taxes to reach rates low taxes. According to Made's research (2017), influential capital intensity is positive to aggressiveness tax. In 2017, Dharma and Noviani studied capital intensity and concluded that capital intensity significantly influences aggressively practicing avoidance tax. Frank et al. (2009) argued that the company's avoidance taxes are a form of aggressive tax done legally.

H2: There is an effect of capital intensity on tax aggressiveness.

The Impact of Political Connection on Tax Aggressiveness

Political very tight relations with business activities. This could be seen in many politicians who also serve as corporate executive officers. The connections of these politicians are like a bridge for companies trying to aggressively evade taxes with low risk. The company that owns political connections with the government generally enjoys many benefits. For example, the government protects businesses closest to. Besides, the company has flexibility for obtaining capital loans and low-risk inspection taxes, which impact behavior Required active tax doing plan taxes (Butje & Tjondro, 2014).

H3: Yes, there is an influence of political relations on tax aggressiveness.

METHODOLOGY**Type of Research**

Type study this is a quantitative causal study. Study causal use phenomenon for classifying relationship that has nature because of the consequence, so role in measuring correlation Among variable or evaluating influence one variable to another variable.

Data Collection Techniques

Secondary data was collected from the report finance annual sub-sector companies pharmacies listed on the IDX for the 2017-2021 period.

Population and Sample

The defined population covers company sector manufacturing sub-sector pharmacies listed on the IDX from 2017 to 2021. Methods of purposive sampling wore for taking compliant sample criteria specific, namely:

1. Entity manufacturing sub-sector pharmacy listing on IDX in 2017-2021.
2. Entity use rupiah currency as recording.
3. Entity no experience loss During the period 2017-2021.

4. Entity publishes report finance in a manner complete from 2017-2021. There are seven companies that fulfill the criterion for retrieval results sample, so the samples used by researchers in the 2017-2021 period are 35 samples.

Definition of Operational Variable

Transfer Pricing

Transfer pricing is an action for reducing burden tax by diverting obligation tax to the country with rates more taxes low. According to Panjulusman (2018), the proxy used for measuring transfer pricing is:

$$TP = \frac{\text{Receivables from Related Parties}}{\text{Total Receivables}} \times 100\%$$

Capital Intensity

Capital intensity ratio (CAP) or ratio capital intensity is an activity investigation something company yes related to investment in fixed assets (capital intensity). Capital intensity could be formulated as follows (Noor et al., 2010):

$$CAP = \frac{\text{Total Net Fixed Assets}}{\text{Total Assets}}$$

Political Connections

Political connections describe the relationship between two parties in politics and use it to achieve the interests of both parties. The indicator to determine whether a company is politically affiliated is a dummy variable, where a value of 1 means the company is politically affiliated, while a value of 0 means the company is not politically affiliated (Lestari, 2019). A company deemed politically relevant has the following criteria: (1) a director or commissioner who also serves as a member of the cabinet, a civil servant in a government organization, including the military, or a member of a political party; (2) commissioner or commissioner who is also a former member of the executive cabinet, a former position in a government organization, including the military; (3) any owner/shareholder of more than 10% who is a member of a political party, has ties to a high-ranking political official or civil servant or former civil servant.

Data Analysis Techniques

Method multiple linear regression used for analyzing data. Assumption test classic is step beginning before step data analysis.

Assumption Test Classic

- a. Normality Test
Testing this aim to evaluate is normal data distribution or not.
- b. Multicollinearity Test
Testing this is intended to evaluate is occur multicollinearity Among variable exogenous based on score tolerance and VIF. If the score tolerance is > 0.10 and the VIF value is < 10, which means there is no multicollinearity.
- c. Autocorrelation Test
The destination of testing this is to know got correlation in the regression model Among error disturbance in period t with the previous t-1 period.
- d. Heteroscedasticity Test
Testing this aim to evaluate is there is a difference variance between residuals of one observation with observation other in the regression model.

Hypothesis Test

- a. Partial Test (t-test)
Testing this aim for evaluation is something variable exogenous and affects an endogenous variable.
- b. Simultaneous Test (F-test)
Testing this intended for evaluation is all variable exogenous influence endogenous variable simultaneous.
- c. Coefficient Test Determination (R^2)
Testing this aim to evaluate the ability of variable exogenous to explain variation endogenous variable.

RESEARCH RESULTS AND DISCUSSION**Analysis descriptive**

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TA	35	.09	5.73	.6249	1.03512
TP	35	0	.94	.2410	.29487
CI	35	.18	1.06	.4319	.19426
KP	35	0.00	1.00	.4286	.50210

In Table 1, the average value of aggressiveness tax is 0.62 with a standard deviation of 1.03. The highest CETR score with a value of 5.73 falls to PT Kimia Farma Tbk in 2019 observations, and the lowest CETR at PT Merck Tbk in observation 2020 with several 0.09.

In the transfer pricing variable, it can be seen that the average value of 0.24. PT Industri Jamu dan Farmasi Sido Muncul Tbk have scored highest with figure 0.94 in the year 2019 observation. Meanwhile, for the lowest score, there are 7 samples out of a total of 35, with the number 0 coming from PT Merck Tbk (year observations 2018 and 2020) and PT Pyridam Farma Tbk year observations 2017, 2018, 2019, 2020, and 2021).

On variables, the capital intensity average value shows 0.43 with a standard deviation of 0.19. Top rated with the figure 1.06 fell to PT Industri Jamu dan Farmasi Sido Muncul Tbk year 2018 observation. Meanwhile, for score lowest, fall to PT Organon Pharma Indonesia Tbk (formerly PT Merck Sharp Dohme Pharma Tbk) with figure 0.18.

On variables connection politics, the average value is shown in figure 0.42 with a standard deviation of 0.50. Top rated with number 1 comes from 3 companies with a total of 15 samples year observation of 35 samples. Otherwise, the lowest value with the number 0 comes from 4 companies with a total of 20 samples year observation out of 35 samples.

Assumption Classic Test

A normality test was done on stage beginning research. Processed results showing score Asymp = $0.200 > 0.05$ proves that all data is typically distributed and possible study for processed more continue

Table 2
Normality Test

	Unstandardized Residual
N	32
Asymp. Sig. (2-tailed)	0.053

Therefore, a multicollinearity test was performed. The data processing results show tolerance for the third variable >0.10 and VIF <10 , which means no multicollinearity or strong correlation between variable exogenous.

Table 3
Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
TP	.762	1.313
CI	.930	1.075
KP	.813	1.230

The next stage is the autocorrelation test. The data in Table 4 shows the Asymp. Sig value = 0.106. This means that the linear regression model has no autocorrelation.

Table 4
Autocorrelation Test

	Unstandardized Residual
Test Value^a	-.07444
Cases < Test Value	16
Cases $\geq$ Test Value	16
Total Cases	32
Number of Runs	12
Z	-1.617
Asymp. Sig. (2-tailed)	.106

In the final step, heteroscedasticity testing was carried out with the results obtained from the significant value of each variable, namely Transfer Pricing, Capital Intensity, and Political Connections > 0.05 . Each value is 0.063 for transfer pricing, 0.064 for political connections, and liquidity of 0.789. In other words, there is no heteroscedasticity in the three variables.

Table 5
Heteroscedasticity Test

	Sig.
(Constant)	.000
TP	.063
CI	.064
KP	.789

Hypothesis Test

At this point, the hypothesis testing was carried out using multiple linear regression with the results obtained as described in Table 6. From these results, a multiple linear regression equation can be made as follows:

$$Y = 0,462 - 0,172 X1 - 0,180X2 + 0,058 X3 + e$$

Table 6
Analisis Regresi Berganda

	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	.462	.130	
TP	-.172	.180	-.196
CI	-.180	.251	-.133
KP	.058	.105	.110

Referring to the equation above, the following conclusions are drawn:

1. A constant value of 0.462 indicates that when the variables of transfer pricing, capital intensity, and political connections are 0, then the aggressiveness of the tax will be influenced by other variables. Mathematically, tax aggressiveness is measured numerically, namely 0.462.
2. Transfer price coefficient value (X1) is negative 0.172. This shows that for every decrease in transfer pricing by one time, tax aggressiveness increases by (0.172), assuming other variables are constant.
3. The coefficient value of capital intensity (X2) is negative 0.180. This shows that for every decrease in capital intensity by one time, there is an increase in tax aggressiveness of (0.180), assuming other variables are constant.
4. The coefficient value of political connections (X3) is 0.058, which is a positive value. This shows that for every one-time increase in political connections, there is an increase in tax aggressiveness of 0.178, assuming other variables are held constant.

Partial Test (t-test)

After testing the hypothesis, the next step is a partial test (t-test) with the following results:

Table 7
Partial Test (t-test)

	t	Sig.
(Constant)	3.560	.001
TP	-.952	.349
CI	-.718	.479
KP	.554	.584

Referring to the table above, the significance value of the transfer pricing variable is $0.349 > 0.05$, and the t count is $-0.952 < t \text{ table } 2.048$. Thus it can be concluded that H1 is rejected, meaning transfer pricing has no effect on tax aggressiveness.

Furthermore, the capital intensity variable has a significance value of $0.479 > 0.05$ and a t count of $-0.718 < t$ table of 2.048. Thus there is no effect of capital intensity on tax aggressiveness. Likewise, the political connection variable has a significance value of $0.584 > 0.05$ and a t count value of $0.554 < t$ table 2.048, which means there is no influence of political connection on tax aggressiveness.

Simultaneous Test (F-test)

The following are the results obtained from the simultaneous test (F test):

Table 8.
Simultaneous Test (F-

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.224	3	.075	1.061	.381 ^b
Residual	1.973	28	.070		
Total	2.197	31			

test)

Referring to table 8 can be seen that the significance value is $0.381 > 0.05$ (degree of confidence). Thus there is no simultaneous influence of transfer pricing, capital intensity, and political connections to tax aggressiveness.

Coefficient Test Determination (R^2)

The following are the results of testing the coefficient of determination (R^2):

Table 9
Coefficient Test Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.319 ^a	.102	.006	.265442

Referring to Table 9 can be seen that the R square value is 0.102, which means that tax aggressiveness is influenced by transfer pricing, capital intensity, and political connections only by 10.2%, while the remaining 89.8% is influenced by other variables not examined in this study.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This study aims to determine the effect of transfer pricing, capital intensity, and political connections on tax aggressiveness in pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The number of samples in this study consisted of 7 companies during 5 (five) years to obtain a research sample of 35 samples.

Based on the test results and discussion regarding the effect of transfer pricing, capital intensity, and political connections on tax aggressiveness. So, it can be concluded that transfer pricing, capital intensity, and political connections (X) partially or simultaneously in practice have no effect on tax aggressiveness (Y) in companies, especially the pharmaceutical sub-sector. This shows that the majority of pharmaceutical sub-sector companies have a good awareness of illegal actions, and government regulations to prevent companies from taking unfair and aggressive advantage of loopholes are going quite well. In addition, these companies are

considered quite efficient in using fixed assets. Likewise, with political connections owned by several sample companies, this proves that even having political connections does not encourage companies to take aggressive tax avoidance measures.

Recommendations

Referring to the results and discussion of the research above, there are several suggestions for development for further research. In determining variables, it is expected to use variables that are more varied. Future researchers can conduct research using negative profit entities. This method can be done considering that the entity that suffers a loss can compensate for the loss in the next five years. This indicates an initiative by an entity to take advantage of its losses to avoid taxes. Because, in the end, the entity only pays its tax burden based on the year's profit at the end of the compensation period. This method can help future researchers to obtain a larger number of samples, even from small sub-sectors, more accurate results, and better describe how tax aggressiveness is carried out.

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