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The Effect of Transfer Pricing, Earnings Management, and Thin Capitalization on Tax Avoidance

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Abstract

Tax avoidance remains a concern as companies may use various financial strategies to reduce their tax burden. This research was conducted to empirically examine the effect of transfer pricing, earnings management, and thin capitalization on tax avoidance. The research population includes manufacturing companies registered on the Indonesia Stock Exchange, with sample selection based on specific criteria, yielding 126 observations. Data were gathered from the annual reports of the selected manufacturing companies covering the period of 2021 to 2023. This study uses a quantitative approach to examine the relationships among transfer pricing, earnings management, thin capitalization, and tax avoidance. The analytical technique implemented is multiple linear regression for panel data (combining cross-section and time series), utilizing EViews 13 for statistical testing. The findings of this research demonstrate that transfer pricing and earnings management do not have a significant effect on tax avoidance. On the other hand, thin capitalization is proven to exert a negative and significant effect on tax avoidance. These findings provide implications for tax authorities in strengthening tax monitoring, particularly regarding corporate financing practices.

Keywords

Earnings Management, Tax Avoidance, Thin Capitalization, Transfer Pricing.

1. Introduction

Tax revenue represents a major source of government funding for public services and national development (Muhammad et al., 2025). Indonesia's tax revenue performance has shown substantial growth in recent years. As shown in Figure 1, tax revenue reached approximately IDR 2,155 trillion by December 2023, equivalent to 101% of the target stipulated in Presidential Regulation Number 75 of 2023, representing a 5.94% year-on-year increase (Bisnis.com, 2024). Similarly, tax revenue reached IDR 2,034 trillion in 2022, exceeding the target by 14% and increasing by 31% year-on-year (Kemenkeu.go.id, 2023). In 2021, net tax revenue reached approximately IDR 1,231 trillion, exceeding the annual budget target of IDR 1,229 trillion. Despite these positive developments, Indonesia continues to face substantial tax losses (Pajak.go.id, 2021). According to the State of Tax Justice 2023, Indonesia experienced annual tax losses of approximately US\$2.806 billion, equivalent to 0.27% of its gross domestic product. This condition indicates that improvements in tax revenue collection do not necessarily eliminate corporate tax avoidance practices.

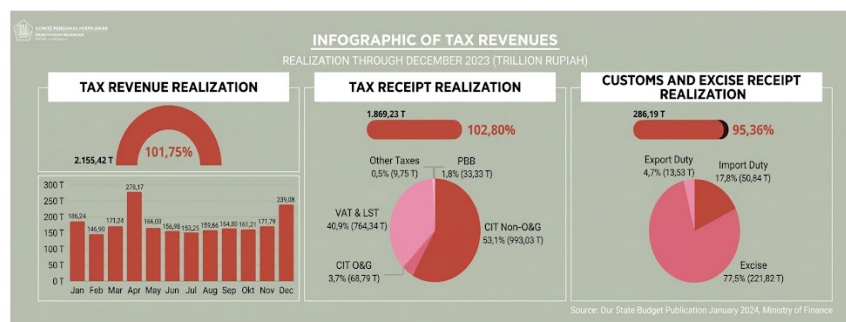


Figure 1. Infographic on 2023 Tax Revenue

One prominent example involves PT Bentoel Internasional Investama, which was associated with tax avoidance practices through the treatment of interest payments, royalties, fees, and information technology expenses involving its subsidiaries. Such practices illustrate how multinational corporations can utilize cross-border transactions and financial arrangements to reduce their tax liabilities. Maulana et al. (2018) argue that differences in interests between corporations and tax authorities across countries make transfer pricing a persistent taxation issue. Multinational enterprises may shift taxable income from countries with relatively higher tax rates to jurisdictions with lower tax rates. Financially distressed firms may also face stronger incentives to engage in aggressive tax avoidance as managers attempt to maintain corporate stability and financial performance.

Transfer pricing is important in understanding corporate tax avoidance because related-party pricing can influence the allocation of taxable income across jurisdictions (Rini et al., 2022). Amidu et al. (2019) found a positive relationship between transfer pricing and tax avoidance, suggesting that related-party pricing arrangements may reduce corporate tax liabilities. However, Fasita and Firmansyah (2022) reported a negative relationship, indicating empirical inconsistency. Earnings management may also influence tax avoidance because accounting choices can affect reported earnings and tax liabilities. Tax avoidance, tax evasion, and tax planning may reflect efforts to optimize tax payments and maximize after-tax profits. MacCarthy (2021) found a positive and significant effect of earnings management on tax avoidance, whereas Cahyani and Noviyari (2023) reported a negative relationship, further demonstrating inconsistent empirical evidence.

Thin capitalization represents another mechanism through which a firm's financing structure may affect tax avoidance. A relatively high proportion of debt generates interest expenses that can legally reduce taxable income, provided that the financing remains within applicable regulatory limits. Under PMK Number 169/PMK.010/2015, the permitted debt-to-equity ratio is generally limited to 4:1. Accordingly, firms with greater debt financing may have less incentive to undertake alternative aggressive tax avoidance strategies because interest deductions already provide a tax benefit. Empirical evidence supports this argument, with Susilo and Adli (2023) and Safira and Setiyawati (2024) finding a negative and significant effect of thin capitalization on tax avoidance. However, Fasita and Firmansyah (2022) and Rusdi et al. (2023) reported positive relationships, further indicating inconsistent findings.

These contradictory findings reveal a research gap regarding transfer pricing, earnings management, thin capitalization, and corporate tax avoidance. Previous studies report different directions and significance levels, indicating that these relationships may vary across settings and samples. Moreover, limited studies have examined these three determinants simultaneously among manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023. Jointly examining these factors is important because corporate tax avoidance may result from the interaction of transaction policies, accounting decisions, and capital structures rather than from a single corporate characteristic. Therefore, this study aims to analyze the effects of transfer pricing, earnings management, and thin capitalization on tax avoidance among manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023. Specifically, the study examines whether transfer pricing, earnings management, and thin capitalization significantly influence corporate tax avoidance. The findings are expected to contribute to the literature by providing additional empirical evidence regarding the inconsistent relationships identified in previous studies and to provide practical insights for corporate managers, tax authorities, and regulators in evaluating corporate taxation and financial policies.

2. Literature Review and Hypothesis Development

2.1. The Effect of Transfer Pricing on Tax Avoidance

According to Maulana et al. (2018), conflicting interests between business entities and tax authorities across countries make transfer pricing a complex issue. Multinational corporations may shift tax liabilities from jurisdictions with high tax rates to those with lower tax rates, creating opportunities to manage corporate tax burdens. This practice can become more relevant when firms experience financial distress. Under such conditions, managers may engage in aggressive tax avoidance despite the potential risk of tax audits. Financial distress may increase the cost of capital and limit access to external financial resources, such as loans or debt, encouraging managers to take greater risks to restore the company's financial position, including through tax avoidance.

From an agency perspective, Rusdi et al. (2023) explain that agency conflicts arise because managers and owners may have different interests. Since management has authority over corporate assets, managers may have incentives to engage in transfer pricing to reduce tax liabilities and improve the company's financial position. This relationship is supported by Amidu et al. (2019), who found a positive relationship between transfer pricing and tax avoidance. Similarly, Rizki and Nugroho (2024), Mukarramah and Nugroho (2025), and Tamam and Tarmidi (2025) found that transfer pricing significantly affects tax avoidance. These findings indicate that transfer pricing can provide firms with opportunities to manage tax obligations and reduce corporate tax burdens. Therefore, transfer pricing is expected to have a positive effect on tax avoidance.

H1: Transfer pricing has a positive effect on tax avoidance.

2.2. The Effect of Earnings Management on Tax Avoidance

One reason companies engage in earnings management is to reduce their tax liabilities to tax authorities. This can be achieved through tax avoidance, which is legally permissible, or tax evasion, which is illegal. Although these practices differ in legality, both are generally aimed at minimizing tax liabilities and optimizing the company's tax position to maximize after-tax profits for shareholders (MacCarthy, 2021). Tax avoidance structures and transactions can also be complex and confidential, creating opportunities for managers to undertake activities that may not fully align with shareholders' interests. Information asymmetry further provides managers with greater discretion in selecting accounting methods and policies that can support tax avoidance schemes. In this context, corporate tax avoidance may serve as a means for management to conceal or facilitate earnings management practices (Putri et al., 2016; Hong et al., 2022).

Regarding the relationship between earnings management and tax avoidance, McCarthy (2021) demonstrates that earnings management has a significant positive impact on tax avoidance. Managers may exercise accounting discretion to adjust reported earnings and influence the company's taxable income, thereby creating opportunities to reduce tax liabilities through various accounting strategies. This relationship is also supported by empirical evidence from Febriyanti and Faisal (2023) and Rahmanda and Prabowo (2024), who found that earnings management has a positive and significant effect on tax avoidance. These findings indicate that greater earnings management is associated with higher levels of tax avoidance, as managerial discretion over reported earnings can facilitate efforts to minimize corporate tax burdens.

H2: Earnings management has a positive effect on tax avoidance.

2.3. The Effect of Thin Capitalization on Tax Avoidance

Thin capitalization reflects a company's reliance on debt financing relative to equity, which can affect tax avoidance through the deductibility of interest expenses. Fasita and Firmansyah (2022) explained that a significant debt component within the capital structure can reduce taxable income through interest-bearing debt financing, thereby lowering the company's current tax liability. Under PMK Number 169/PMK.010/2015, the debt-to-equity ratio is generally subject to a 4:1 limitation for tax purposes, meaning that interest deductions beyond the prescribed threshold may not be fully recognized. Nevertheless, companies may still strategically utilize debt financing within the applicable regulatory framework to obtain tax benefits from deductible interest expenses.

Consequently, companies with higher thin capitalization may face greater constraints in utilizing debt financing as an instrument for aggressive tax planning (Jamei, 2017). Natalia and Widyadhana (2021) found that thin capitalization has a negative effect on tax avoidance, indicating that greater debt reliance does not necessarily encourage companies to engage in tax avoidance. Similarly, Fathurrahman (2021) reported a significant negative relationship between thin capitalization and tax avoidance, suggesting that regulatory restrictions and debt-related obligations may limit managerial opportunities to reduce tax liabilities. This finding is consistent with Indrastuti and Apriliawati (2023), who demonstrated that thin capitalization negatively affects tax avoidance among manufacturing companies listed on the Indonesia Stock Exchange. Furthermore, Genisa (2023) found a

negative relationship between thin capitalization and tax avoidance, reinforcing the view that higher debt financing does not automatically lead to greater tax avoidance.

H3: Thin capitalization has a negative effect on tax avoidance.

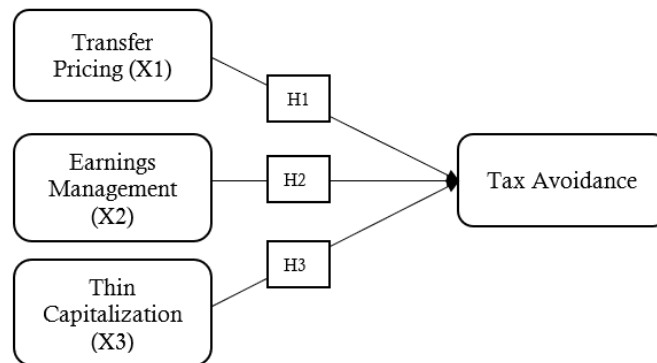


Figure 2. Research Framework

Figure 2 presents the conceptual framework linking transfer pricing, earnings management, and thin capitalization to tax avoidance. Transfer pricing is expected to influence tax avoidance through related-party transaction practices. Earnings management may affect tax avoidance through the management of reported accounting information. Thin capitalization is also expected to influence tax avoidance through the use of debt financing and related interest expenses

3. Methods

This study employs a quantitative causal research method because it aims to examine the causal relationships between transfer pricing, earnings management, thin capitalization, and tax avoidance using numerical data and statistical analysis. The study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023, with transfer pricing, earnings management, and thin capitalization as independent variables and tax avoidance as the dependent variable.

The study comprises three independent variables: transfer pricing, earnings management, and thin capitalization, and one dependent variable, tax avoidance. All variables are measured using ratio scales. Transfer pricing is measured by the proportion of related-party receivables to total receivables. Earnings management is measured using working capital accruals based on the McNichols (2000) model, calculated from changes in current assets, current liabilities, and cash relative to total revenue. Thin capitalization is measured using the Debt-to-Equity Ratio (DER), consistent with the debt-to-equity framework under PMK Number 169/PMK.010/2015. Tax avoidance is measured as the difference between the Statutory Tax Rate (STR) and the Effective Tax Rate (ETR).

Data were collected using a documentation method from secondary sources, specifically the audited financial statements and annual reports of manufacturing companies listed on the IDX during 2021–2023, obtained from the IDX website and the respective company websites. The population comprised 194 manufacturing companies listed on the IDX during the study period. The manufacturing sector was selected because its supply-chain transactions provide relevant settings for examining transfer pricing, its substantial working capital supports the measurement of accrual-based earnings management, and its capital-intensive operations and reliance on external debt are relevant to thin capitalization. In addition, the sector represents a significant contributor to tax revenue, making corporate tax avoidance particularly relevant to the study. The sample was

determined using purposive sampling based on three criteria: companies must be listed throughout 2021–2023, publish audited financial statements consistently during the period, and provide complete information required to measure all study variables. Based on these criteria, 109 companies were excluded due to inconsistent financial reporting, while 43 were excluded because of incomplete information. Consequently, 42 manufacturing companies were selected as the final sample, resulting in 126 firm-year observations over the three-year study period.

This study uses panel data combining cross-sectional observations of manufacturing companies with time-series observations from 2021 to 2023. Data are analyzed using EViews 13 and multiple linear regression to examine the effects of transfer pricing, earnings management, and thin capitalization on tax avoidance. Descriptive statistics summarize the data using mean, standard deviation, minimum, and maximum values (Ghozali, 2018). Panel model selection employs the Chow, Hausman, and Lagrange Multiplier tests to determine the appropriate common effect, fixed effect, or random effect model (Basuki & Prawoto, 2016). Classical assumption tests include normality, multicollinearity, and autocorrelation. Hypotheses are tested using adjusted R^2 , F-test, and t-test to assess explanatory power and simultaneous and individual effects.

4. Results

This section presents the empirical results of the study examining the effects of transfer pricing, earnings management, and thin capitalization on tax avoidance among manufacturing companies listed on the IDX during 2021–2023. The analysis was conducted using panel data regression, with the REM selected based on the model selection tests. The results include descriptive statistics, panel model selection, regression model evaluation, and hypothesis testing to assess both the individual and joint effects of the independent variables on tax avoidance.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Tax Avoidance	126	-0.586903	0.205318	-0.028185	0.103091
Transfer Pricing	126	0.000000	0.981799	0.275362	0.341986
Earnings Management	126	-0.214495	0.613709	0.025464	0.089786
Thin Capitalization	126	0.069562	3.928398	0.839823	0.782649

The descriptive statistics in Table 1 show considerable variation across the study variables. Tax avoidance ranges from -0.586903 to 0.205318, with a mean of -0.028185 and a standard deviation of 0.103091, indicating substantial variation among manufacturing firms. Transfer pricing ranges from 0.000000 to 0.981799, with a mean of 0.275362 and a standard deviation of 0.341986, suggesting considerable differences in the intensity of related-party transactions across firms. Earnings management ranges from -0.214495 to 0.613709, with a mean of 0.025464 and a standard deviation of 0.089786, indicating that the average level of working capital accruals is relatively close to zero, with both positive and negative values observed.

Meanwhile, thin capitalization ranges from 0.069562 to 3.928398, with a mean of 0.839823 and a standard deviation of 0.782649. The mean indicates that, on average, manufacturing firms have a debt-to-equity ratio below the 4:1 threshold stipulated under Indonesian tax regulations. However, the maximum value of 3.928398 shows that some firms have debt levels approaching the regulatory threshold.

Table 2. Panel Data Model Selection Tests

Test Summary	Test	Statistic / Chi-Sq. Statistic	d.f. / Test Hypothesis Time	Prob. / Both	Model
Chow	Cross-section F	2.666121	(41, 81)	0.0001	FEM
	Cross-section Chi-square	107.630494	41	0.0000	
Hausman	Cross-section random	1.787497	3	0.6177	REM
Lagrange Multiplier	Breusch-Pagan	15.34647 (0.0001)	0.425256 (0.5143)	15.77173 (0.0001)	REM

The panel data model selection results are presented in Table 2. The Chow test produces a cross-section F-statistic of 2.666121 with a probability value of 0.0001, while the cross-section Chi-square statistic is 107.630494 with a probability value of 0.0000. Both probability values are below the 0.05 significance level, indicating that the Fixed Effects Model (FEM) is preferred to the common effects model. However, the Hausman test produces a cross-section random statistic of 1.787497 with a probability value of 0.6177, which is greater than 0.05. This result indicates that the null hypothesis is not rejected, suggesting that the Random Effects Model (REM) is more appropriate than the FEM. Therefore, based on the Chow and Hausman tests, the REM is selected as the appropriate model for the subsequent analysis.

The Lagrange Multiplier (LM) test further supports the selection of the random effects model. The Breusch–Pagan statistic is 15.34647 with a probability value of 0.0001, indicating a significant random effect compared with the Common Effects Model. The corresponding cross-section and period components show probability values of 0.5143 and 0.0001, respectively, while the combined statistic is 15.77173 with a probability value of 0.0001. Since the combined probability value is below 0.05, the null hypothesis of no random effects is rejected. Thus, the REM is selected as the final panel regression model because the Hausman and LM tests support it and is subsequently used for the regression analysis.

Table 3. Effects Specification

Effects Specification	S.D.	Rho
Cross-section random	0.061070	0.3760
Idiosyncratic random	0.078667	0.6240

Table 3 presents the REM specification. The cross-section random effect has a standard deviation of 0.061070 and a rho value of 0.3760, indicating that 37.60% of the residual variation is attributable to differences across manufacturing firms. Meanwhile, the idiosyncratic random effect has a standard deviation of 0.078667 and a rho value of 0.6240, indicating that 62.40% of the residual variation is associated with firm-specific changes over time. Therefore, under the REM, the larger proportion of residual variation comes from idiosyncratic effects rather than cross-sectional differences among firms.

Table 4. Weighted Statistics

Statistic	Value	Statistic	Value
R-squared	0.061927	Mean dependent var	-0.016820
Adjusted R-squared	0.038859	S.D. dependent var	0.079842
S.E. of regression	0.078275	Sum squared resid	0.747493
F-statistic	2.684593	Durbin-Watson stat	2.211219
Prob(F-statistic)	0.049642		

Table 4 presents the regression results using the REM to examine the effects of transfer pricing, earnings management, and thin capitalization on tax avoidance. The

model produces an R-squared value of 0.061927, indicating that the three independent variables jointly explain 6.19% of the variation in tax avoidance, while the remaining 93.81% is explained by other factors outside the model. The adjusted R-squared value of 0.038859 shows that, after considering the number of independent variables included in the model, the explanatory power decreases to 3.89%. Although the explanatory power is relatively limited, the model remains statistically significant based on the F-statistic of 2.684593 and its probability value of 0.049642, which is below the 0.05 significance level. This indicates that transfer pricing, earnings management, and thin capitalization jointly have a significant effect on tax avoidance among manufacturing companies listed on the Indonesia Stock Exchange during 2021–2023.

Furthermore, the S.E. of regression is 0.078275, indicating the estimated standard deviation of the regression residuals, while the sum of squared residuals of 0.747493 represents the total squared unexplained variation in the model. The mean of the dependent variable of -0.016820 and standard deviation of 0.079842 describe the distribution of tax avoidance in the observed sample. The Durbin–Watson statistic of 2.211219, which is relatively close to 2, indicates that the regression model does not show a serious indication of autocorrelation in the residuals. The REM results demonstrate that although the individual explanatory power of transfer pricing, earnings management, and thin capitalization is limited, the three variables collectively provide a statistically significant explanation of tax avoidance. This result also suggests that tax avoidance is influenced by other determinants that are not incorporated into the current model.

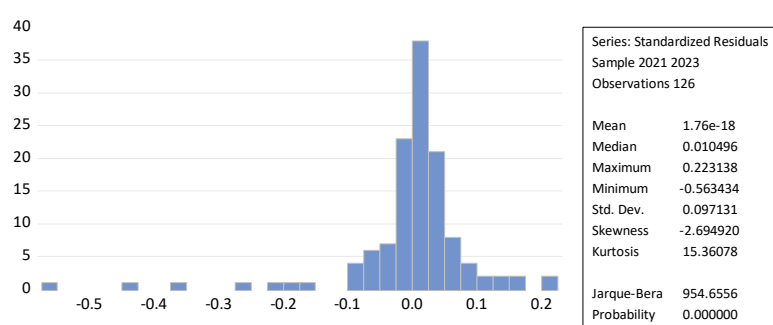


Figure 3. Normality Test

Based on the Jarque–Bera (J-B) normality test in Figure 3, the J-B statistic is 954.6556 with a significance level of 0.000000. Since the probability value is below 0.05, the model's residuals are statistically non-normally distributed. However, this non-normality does not invalidate the regression model. According to Ghozali (2018), a failure to meet the residual normality assumption merely compromises the validity of statistical tests (such as the t-test and F-test) when applied to small samples. Given that the total number of observations in this study is substantial, comprising 126 samples, which far exceeds the minimum standard of 30, the distribution of residuals will naturally tend to approximate a normal distribution. Therefore, the regression model is considered valid and suitable for proceeding to the hypothesis testing stage.

Table 5. Multicollinearity Test

Variable	Transfer Pricing	Earnings Management	Thin Capitalization
Transfer Pricing	1.000000	-0.025783	-0.025347
Earnings Management	-0.025783	1.000000	0.077432
Thin Capitalization	-0.025347	-0.077432	1.000000

Based on Table 5, all correlation values between the independent variables are well below the tolerance threshold of 0.80. Thus, it can be concluded that there is no multicollinearity among the independent variables used in this study; consequently, the regression model is deemed sound and suitable for hypothesis testing.

Table 6. Hypothesis Testing

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.007985	0.019790	0.403492	0.6873
Transfer Pricing	-0.000154	0.032758	-0.004701	0.9963
Earnings Management	-0.071143	0.087670	-0.820003	0.4138
Thin Capitalization	-0.040861	0.014791	-2.762608	0.0066

Table 6 presents the hypothesis testing results using the REM. The results show that transfer pricing has a negative but statistically insignificant effect on tax avoidance, with a coefficient of -0.000154, a t-statistic of -0.004701, and a probability value of 0.9963 (>0.05). Similarly, earnings management has a negative and statistically insignificant effect on tax avoidance, with a coefficient of -0.071143, a t-statistic of -0.820003, and a probability value of 0.4138 (>0.05). In contrast, thin capitalization has a negative and statistically significant effect on tax avoidance, as indicated by a coefficient of -0.040861, a t-statistic of -2.762608, and a probability value of 0.0066 (<0.05). These findings indicate that transfer pricing and earnings management do not significantly explain variations in tax avoidance, whereas thin capitalization is significantly associated with tax avoidance during the 2021–2023 observation period.

5. Discussion

The hypothesis testing shows that transfer pricing does not significantly affect tax avoidance, as indicated by a probability value of 0.9963 (>0.05). This finding suggests that the proportion of related-party receivables does not significantly influence the level of tax avoidance among the sampled manufacturing firms. One possible explanation is the limitation of the transfer pricing proxy, which captures the intensity of related-party transactions but does not directly assess whether the transaction prices deviate from the arm's length principle. Related-party transactions may represent legitimate operational activities rather than tax avoidance schemes. In addition, tax authorities' monitoring and transfer pricing documentation requirements may encourage firms to conduct such transactions more cautiously. From an Agency Theory perspective by Jensen and Meckling (2019), although information asymmetry may provide opportunities for managers to use transfer pricing opportunistically, regulatory monitoring and potential tax penalties may reduce the incentive to do so. This finding is consistent with Maheswari et al. (2024) and Safira and Setiyawati (2024), who also found that transfer pricing does not significantly affect tax avoidance. However, this contradicts Barker et al. (2017), Maulana et al. (2018), and Amidu et al. (2019), who reported a positive and significant effect of transfer pricing on tax avoidance.

The results further indicate that earnings management does not significantly affect tax avoidance, with a probability value of 0.4138 (>0.05). Thus, variations in working capital accruals are not associated with changes in corporate tax avoidance. This result indicates that accrual-based earnings management may primarily serve financial reporting objectives rather than tax-related objectives. Accounting adjustments may also have limited effectiveness for tax avoidance because differences between commercial and fiscal accounting are subject to fiscal reconciliation in annual tax reporting. In Agency Theory, managers may engage in earnings management to achieve earnings targets, obtain compensation, or comply with debt covenants rather than to reduce tax liabilities. The finding is consistent with

Wulandari et al. (2023) and Paulus et al. (2025), who found no significant relationship between earnings management and tax aggressiveness. Conversely, it differs from Putri et al. (2016), MacCarthy (2021), and Abdurrosyid and Damayanti (2023), who reported a positive and significant effect of earnings management on tax avoidance.

In contrast, thin capitalization has a negative and significant effect on tax avoidance, with a regression coefficient of -0.040861 and a probability value of 0.0066 (<0.05). The negative coefficient indicates that higher debt-to-equity ratios are associated with lower levels of tax avoidance. This relationship may be explained by the tax deductibility of interest expenses, which already reduces taxable income and consequently decreases the incentive to pursue additional tax avoidance strategies. The 4:1 debt-to-equity limitation under PMK Number 169/PMK.010/2015 further constrains excessive debt financing. From an Agency Theory perspective, high leverage may also increase monitoring by creditors and encourage managers to adopt more cautious financial decisions because aggressive tax strategies can create additional regulatory and financial risks. This finding supports Susilo and Adli (2023) and Safira and Setiyawati (2024), who found a negative and significant effect of thin capitalization on tax avoidance. However, it differs from Fasita and Firmansyah (2022), Rusdi et al. (2023), and Tarmizi et al. (2023), who reported a positive relationship between thin capitalization and tax avoidance.

These findings have practical implications for both companies and tax authorities. For companies, the results indicate that tax avoidance is not necessarily driven by related-party transactions or earnings management, while debt structure has a significant role in shaping tax-related behavior. Therefore, management should ensure that related-party transactions and financial reporting practices remain consistent with applicable regulations and the arm's length principle. For tax authorities, the findings highlight the importance of maintaining monitoring and documentation requirements for transfer pricing while paying attention to companies with high leverage, particularly in assessing the tax implications of interest deductions.

6. Conclusion

Based on the panel data regression analysis of manufacturing companies listed on the IDX during 2021–2023, this study concludes that transfer pricing does not significantly affect tax avoidance, indicating that related-party transactions may primarily reflect legitimate operational activities rather than tax avoidance practices. Earnings management also has no significant effect on tax avoidance, suggesting that accrual-based earnings management is more closely related to financial reporting objectives than tax-related motives. In contrast, thin capitalization has a negative and significant effect on tax avoidance, indicating that higher debt levels are associated with lower tax avoidance, potentially because deductible interest expenses already provide a legal reduction in taxable income and high leverage encourages more cautious financial decisions. These findings imply that companies should maintain compliance in related-party transactions, transfer pricing documentation, and capital structure management. Investors and creditors may also consider related-party transactions and debt structures alongside reported financial performance when assessing corporate transparency and financial risk. For tax authorities, continued monitoring of transfer pricing practices and debt-related tax deductions remains relevant.

This study is limited by its focus on 42 manufacturing companies and a three-year observation period (2021–2023), which may restrict the generalizability of the findings to other sectors and longer periods. In addition, the three independent variables explain only 6.19% of the variation in tax avoidance. The use of related-

party receivables as a proxy for transfer pricing also does not directly capture whether transaction prices comply with the arm's length principle. Future research should therefore extend the observation period and include other sectors, while incorporating additional determinants such as profitability, firm size, sales growth, corporate governance, fixed-asset intensity, and executive incentives. Alternative transfer pricing measures and qualitative approaches could also provide deeper insight into managerial motivations and corporate tax avoidance practices.

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