

ABSTRACT

Tax avoidance is a strategy employed by companies to legally minimize tax burdens by exploiting loopholes in prevailing tax regulations. This practice has become a significant issue as it potentially reduces state revenue, whereas taxes serve as one of the main sources of national income. The phenomenon of Tax avoidance in Indonesia's manufacturing sector is reflected in the low values of the Cash Effective Tax Rate (CETR) reported by several manufacturing companies, indicating that they pay taxes far below the statutory rate. This behavior is suspected to be linked to conditions of Financial distress, the high intensity of fixed assets that enable tax reductions through depreciation, and Transfer pricing practices used to shift profits to countries with lower tax rates.

This study aims to analyze the effect of Financial distress, fixed asset intensity, and Transfer pricing on the level of Tax avoidance undertaken by companies. The analysis is conducted both partially and simultaneously, focusing on manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The use of CETR as the main indicator provides empirical relevance in measuring the tendency of companies to reduce their tax burdens.

A quantitative method with a multiple linear regression approach is used to analyze the relationships between variables. The data analyzed were obtained from the annual financial reports of manufacturing companies consistently listed on the Indonesia Stock Exchange during the 2019–2023 period.

The simultaneous analysis results indicate that Financial distress, fixed asset intensity, and Transfer pricing collectively have a significant effect on Tax avoidance among manufacturing companies listed on the Indonesia Stock Exchange during the study period. However, based on the partial test results, Financial distress was found to have a negative effect on Tax avoidance, while fixed asset intensity and Transfer pricing did not show a significant effect.

Based on these findings, it is recommended that future studies use more relevant industry sectors for the variables of fixed asset intensity and Transfer pricing and consider including additional variables to broaden understanding of Tax avoidance. Moreover, the Directorate General of Taxes should strengthen supervision, not only of companies experiencing financial pressure but also of those that appear financially stable.

Keywords: *Financial distress, capital intensity, Tax avoidance, Transfer pricing*