

The Effect of Transfer Pricing and Capital Intensity in Tax Avoidance

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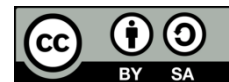
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ABSTRACT

This study aims to examine the effect of transfer pricing and capital intensity on tax avoidance simultaneously and partially in energy sector companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. Tax avoidance, as a form of legal tax avoidance, is often carried out by companies through transfer pricing strategies between related entities and the use of high fixed assets to reduce tax burdens. This study is based on agency theory, which states that there is a conflict of interest between principals and agents, where managers can exploit loopholes in tax regulations for personal or corporate interests. This study uses a quantitative approach with an explanatory research method. The research sample consists of 7 energy sector companies selected through a purposive sampling method with a total of 35 observations over five years. Secondary data is obtained from published annual financial reports. The data analysis technique used is panel data regression, preceded by classical assumption tests and the selection of the best regression model through the Chow, Hausman, and Lagrange Multiplier tests. The results show that transfer pricing and capital intensity simultaneously have a significant effect on tax avoidance. Partially, transfer pricing has a positive and significant effect on tax avoidance, meaning companies tend to reduce their tax avoidance rates when transfer pricing practices are controlled. Conversely, capital intensity has no significant partial effect on tax avoidance. This finding suggests that high use of fixed assets is not necessarily a means of tax avoidance. The results of this study are expected to provide practical implications for the government in strengthening tax oversight policies and for companies in formulating compliant and efficient tax strategies.

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1. Introduction

The rapid growth of companies in Indonesia has led to increasingly complex business activities and financial transactions, significantly contributing to state revenue, particularly through taxation (Tamam & Tarmidi, 2025). Tax is one of the main sources of state revenue which plays an important role in financing national development. Tax contributions are used to finance routine expenses and infrastructure development that has a direct impact on community welfare. However, on the other hand, taxpayers, particularly companies, have an interest in maximizing profits by reducing their tax burden. Tax avoidance is inherently confidential, which can reduce transparency in reporting and necessitate proper corporate governance for company management (Khairunnisa & Muslim, 2020). Tax avoidance is carried out legally by taxpayers, although it does not violate the law. Instead, taxpayers exploit weaknesses in tax laws to minimize the amount of tax payable (Septiani et al., 2024). Tax avoidance refers to the company's strategy to minimized tax expense to get more profit (Safiq et al., 2021). This tax avoidance will motivate (strengthen) the desire to save on taxes paid by taxpayers by aggressively resisting passive taxes, even though tax aggressiveness can still be categorized as an act that does not violate the law (Trisnawati et al., 2022). This situation gives rise to the practice of tax avoidance, a legal tax avoidance strategy that exploits loopholes in existing tax regulations (Mardiasmo, 2023) and (Pohan, 2019). This practice involves taking advantage of loopholes or provisions within the tax laws to minimize the amount of tax payable, while still remaining compliant with legal requirements (Eprila & Chairini, 2025).

The mechanism of tax avoidance through transfer rates sometimes is influenced by financial derivatives transactions (Firmansyah & Yunidar, 2020). Transfer pricing can be a problem for companies, namely regarding import duties, taxes and internal management problem (Dewi et al., 2024). Transfer pricing refers to the determination of prices for goods, services, or intangible assets traded between entities within the same corporate group (Musyarofah & Solikhah, 2026). Companies engage in transfer pricing by shifting profits from entities located in Indonesia to intermediary companies abroad that are subject to lower tax rates (Azzuhriyyah & Kurnia, 2023). Even though transfer pricing has been regulated in taxation regulations, the actions of managers who prefer accounting policies for their own benefit will certainly harm state revenues by means of taxes if it is carried out beyond reason (Baroroh et al., 2021).

A case that once surfaced involved alleged transfer pricing practices by PT. Adaro Energy Tbk, which, through its subsidiary in Singapore, shifted profits. A similar phenomenon was also found at PT. Bumi Resources Tbk, where discrepancies in tax reporting resulted in potential state losses of up to US\$1.68 billion. This practice demonstrates how transfer pricing strategies have the potential to significantly reduce state revenues. The phenomenon of tax avoidance has resulted in a decline in state revenues, reflected in Indonesia's low tax ratio. One of the most frequently used mechanisms is transfer pricing, which is the pricing of transactions between related entities that allows profit shifting to countries with low tax rates (Ramdhani et al., 2021). Furthermore, capital intensity, namely the company's high investment in fixed assets, also plays a role in tax avoidance because depreciation of fixed assets can reduce taxable profit (Waluyo, 2018) and (Lukito & Sandra, 2021).

From the perspective of agency theory (Jensen & Meckling, 1976), tax avoidance practices can be seen as a consequence of a conflict of interest between the principal and agent. Managers, as agents, often exploit regulatory weaknesses to increase net profits, even though this can reduce the company's contribution to state revenue. Tax avoidance carried

out by companies can be considered detrimental when viewed from the state's perspective. This is because, basically, tax levies are used by the state to meet the interests of the general public and the government itself (Wibowo & Trisnawati, 2025). Thus, transfer pricing and capital intensity strategies are relevant for further study in the context of tax avoidance.

Previous research has yielded mixed results. Some studies found that transfer pricing has a positive effect on tax avoidance (Darma & Cahyati, 2022) and (Pratiwi & Pramita, 2021), while others found a negative or insignificant effect (Laurentya et al., 2023) and (Prambudi & Asalam, 2021). A similar finding applies to capital intensity, with some studies indicating a significant positive effect (Anggraini et al., 2020) and others indicating no significant effect (Adella & Yuniar Larasati, 2021). These differing findings demonstrate empirical inconsistencies, necessitating further research to examine the relationship between these two variables and tax avoidance, particularly in energy sector companies with complex capital structures and inter-entity transactions. Based on this, this study aims to: (1) empirically test the effects of transfer pricing and capital intensity on tax avoidance simultaneously; (2) analyze the partial influence of transfer pricing on tax avoidance; and (3) analyze the partial influence of capital intensity on tax avoidance.

The benefits of this research are divided into theoretical and practical. Theoretically, this research contributes to the development of the literature on tax avoidance strategies within the framework of agency theory, particularly regarding the role of transfer pricing and capital intensity. Practically, this research is useful for the government in formulating more effective tax oversight policies, for companies as a consideration in developing compliant and efficient tax strategies, and for investors in understanding tax risks in making investment decisions. The expected research outcome is empirical evidence regarding the role of transfer pricing and capital intensity in influencing tax avoidance in energy sector companies in Indonesia. These findings are expected to explain inconsistencies in previous research and strengthen understanding of tax avoidance practices in the context of multinational corporations.

Based on the agency theory introduced by (Jensen & Meckling, 2019), conflicts of interest between owners and managers can trigger actions such as tax avoidance. One strategy is transfer pricing, which is the determination of prices between related entities, as explained by (Pohan, 2019). Another strategy is capital intensity, which is the use of fixed assets to obtain tax deductions through depreciation, as explained by (Waluyo, 2018). Both strategies are relevant in tax avoidance efforts, especially in companies with operational complexity and high fixed assets. Research by (Darma & Cahyati, 2022) found a significant positive effect of transfer pricing. Meanwhile, (Laurentya et al., 2023) found a negative effect of both on tax avoidance. (Oktafia & Sicillia, 2024), (Madjid & Akbar, 2023), (Laurentya et al., 2023) which states that capital intensity has a positive influence on tax avoidance. This difference shows that the influence of the two variables depends on the industrial context, tax policy, and indicators used.

H1: Transfer pricing and capital intensity have an effect on tax avoidance.

Based on agency theory by (Jensen & Meckling, 1976), conflicts of interest between owners and managers drive managers to make decisions that benefit themselves, including tax-reduction strategies such as transfer pricing. (Pohan, 2019) defines transfer pricing as price determination between related parties. This strategy, while following the arm's length principle, still poses potential legal risks if deemed unreasonable. Previous research findings have also been mixed: (Darma & Cahyati, 2022) found transfer pricing to have a significant positive effect on tax avoidance, while (Laurentya et al., 2023) found a negative effect, indicating corporate caution due to legal and reputational risks.

H2: Transfer pricing has an effect on tax avoidance.

Agency theory from (Jensen & Meckling, 1976), the difference in goals between owners and managers encourages managers to make strategic decisions that can reduce the tax burden, one of which is through capital intensity. This strategy allows for a reduction in taxable income through large depreciation of fixed assets, which from an agency theory perspective can be utilized by managers to increase net income. According to (Gula &

Mulyani, 2020) that capital intensity has implications for tax burdens. (Sulistiyorini et al., 2018) emphasized that, despite being legal, tax avoidance exploits regulatory gray areas. Previous research by (Oktafia & Sicillia, 2024), (Madjid & Akbar, 2023), and (Laurentya et al., 2023) showed that capital intensity has a positive effect on tax avoidance, as companies with high fixed assets tend to utilize depreciation expenses to lower taxes.

H3: Capital intensity has an effect on tax avoidance.

2. Methods

This study uses a quantitative approach with explanatory research, which aims to explain the causal relationship between independent and dependent variables through hypothesis testing (Sugiyono, 2021). Here is a summary of the operational definitions of the dependent and independent variables listed in the table below.

Table 1. Operational Variables

Variables	Formula	Scale
Tax Avoidance	$ETR = \frac{\text{bebn Pajak}}{\text{Laba sebelum pajak}}$ Law No. 36 of 2008	Ratio
Transfer pricing	$\text{Transfer Pricing} = \frac{\text{Piutang kepada pihak beraelasi}}{\text{Total piutang}}$ Kusuma and Wijaya (2017:129)	Ratio
Capital Intensity	$CAPT = \frac{\text{Total Aset}}{\text{Penjualan}}$ Ehrhardt & Brigham (2019:524)	Ratio

Source: Research's data, 2025

The selection of the energy sector is based on its characteristics of having a high level of capital intensity and a tendency to conduct cross-entity transactions, so it is relevant to test the influence of transfer pricing and capital intensity on tax avoidance practices. The population in this study was all energy sector companies listed on the IDX during the observation period.

Table 2. Purposive Sampling

No.	Criteria	Does not meet the criteria	Meet the criteria
1	Energy Sector Companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023	88	
2	Energy Sector Companies that were not delisted on the IDX in 2019 – 2023	26	62
3	Energy Sector Companies that have financial reports in Dollars	15	41
4	Energy Sector Companies that did not experience losses during the 2018-2022 period	24	17
5	Energy Sector Companies that have complete financial reports for 2019-2023	6	11
	Length of observation years	5 years	
	Total observation data	11 x 5 years	55

Source: Research’s data, 2025

Data analysis was conducted using panel data regression. The analysis stages include: (1) descriptive statistical analysis to provide a general overview of the research data; (2) classical assumption tests including normality, multicollinearity, and heteroscedasticity tests; (3) estimation of panel data regression models using the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) approaches; (4) selection of the best model using the Chow test and the Hausman test; and (5) hypothesis testing using the F test (simultaneous) and the t test (partial).

3. Results

Descriptive Statistics

Table 3. Results of Descriptive Statistical Analysis

N	Minimum	Maximum	Mean	Standard Deviation
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Tax Avoidance	55	0.023670	4.049206	0.283728	0.526982
Transfer Pricing	55	3.00E-06	0.965876	0.129678	0.187472
Capital Intensity	55	0.028253	3.121864	0.419101	0.475367

Source: Research's data, 2025

Descriptive statistics are used to examine the mean, standard deviation, maximum value, and minimum value of the research variables (Ghozali, 2018). The results presented in Table 3 provide an overview of the characteristics of the research data. The tax avoidance variable, proxied by the Effective Tax Rate (ETR), has a minimum value of 0.023670 and a maximum value of 4.049206, with a mean of 0.283728 and a standard deviation of 0.526982. The relatively low average ETR indicates that, on average, sample companies pay effective taxes below the applicable statutory corporate tax rate in Indonesia (22–28%). This condition suggests the presence of tax avoidance practices among the sampled firms. The relatively high standard deviation reflects substantial variation in tax behavior across companies.

The transfer pricing variable, measured by the ratio of related-party receivables to total receivables, shows a minimum value of 0.000003 and a maximum value of 0.965876, with an average of 0.129678 and a standard deviation of 0.187472. These results indicate that while most companies engage in relatively low levels of related-party transactions, some firms exhibit very high transfer pricing exposure. This variation suggests that transfer pricing practices are concentrated in certain companies and may play a role in influencing tax avoidance behavior. Meanwhile, the capital intensity variable, proxied by the ratio of fixed assets to total assets, has a minimum value of 0.028253 and a maximum value of 3.121864, with a mean of 0.419101 and a standard deviation of 0.475367. This indicates that companies in the energy sector tend to have a capital-intensive asset structure, where fixed assets constitute a substantial proportion of total assets. Such conditions may affect depreciation expenses and, consequently, taxable income, although further empirical testing is required to determine its impact on tax avoidance practices.

Panel Data Regression Model Selection Test Chow Test

Table 4. Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	1.485484	(10.42)	0.1788
Cross-section Chi-square	16.655749	10	0.0823

Source: Research's data, 2025

Based on the results of the Chow test in Table 4, the cross-section probability $F = 0.1788 > 0.05$ with a significance level of 5%. Therefore, H_0 is rejected and H_1 is accepted, so the best model is the Common Effect Model for estimating panel data.

Hausman test

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	3.209065	2	0.2010

Source: Research's data, 2025

The Hausman test in Table 5, it shows that the random cross-section probability value is $0.2010 > 0.05$, so H_0 is rejected and H_1 is accepted, so the best model is the Random Effect Model to estimate panel data.

Lagrange Multiplier Test

Table 6. Lagrange multiplier test results

	Cross-section	Time	Both
Breusch-Pagan	0.158537 (0.6905)	0.397046 (0.5286)	0.555582 (0.4560)

Source: Research's data, 2025

The Lagrange multiplier test in Table 6, it shows the probability value of random cross section $0.4560 > 0.05$, then H_0 is rejected and H_1 is accepted, so the best model is the Common Effect Model to estimate panel data. The conclusion of the selection of panel data regression models can be concluded that the model used is the Common Effect Model.

Model Selection

Model selection is the process of choosing the most appropriate model (CEM, FEM, or REM) based on the characteristics of the panel data and the results of the statistical tests, in order to ensure that the regression analysis produces more accurate and reliable results.

Table 7. Model Selection

Model Specification	Effects Test	Statistic	Prob.
Chow Test	Cross-section F	1.485484	0.1788
Hausman Test	Cross-section random	3.209065	0.2010
Lagrange Multiplier Test	Cross-section Breusch-Pagan	0.6905	0.4560

Source: Research's data, 2025

Based on the Chow test results presented in the table, the probability value of the cross-section statistic F is 0.1788, which is above the significance level of 0.05. This indicates that the Common Effect Model (CEM) is more appropriate than the Fixed Effect Model (FEM). Furthermore, the Hausman test was conducted to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more suitable. The results show a probability value of 0.2010, which is also above the 0.05 threshold. Accordingly, the Random Effect Model (REM) is preferred over the Fixed Effect Model (FEM), and thus a further model selection test, namely the Lagrange Multiplier (LM) test, is required.

The Lagrange Multiplier test was then applied to determine whether the Random Effect Model (REM) or the Common Effect Model (CEM) is more appropriate. The test results indicate a probability value of 0.4560, which exceeds the 0.05 significance level. This

suggests that the Common Effect Model (CEM) is more suitable than the Random Effect Model (REM). Therefore, it can be concluded that the Common Effect Model (CEM) is selected, as it is favored in two model selection tests, namely the Chow test and the Lagrange Multiplier test.

Classical Assumption Test Normality Test

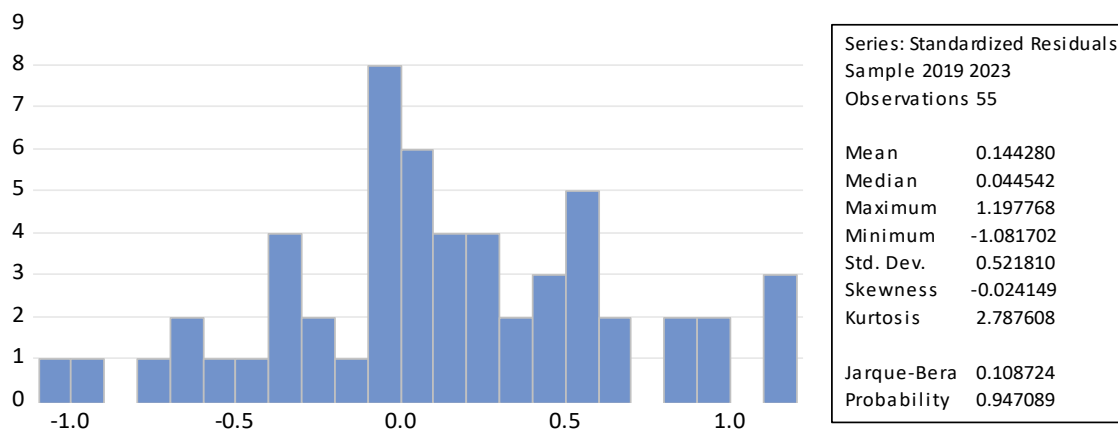


Figure 1. Normality Test Results

Source: Research’s data, 2025

The results of the normality test indicate that the Jarque–Bera probability value is 0.947089, which is greater than the significance level of 0.05. This result suggests that the residuals in this study are normally distributed, indicating that the normality assumption is fulfilled.

Multicollinearity Test

Table 8. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
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C	0.010856	2.083104	NA
Transfer Pricing (X1)	0.156601	1.542290	1.036950
Capital Intensity (X2)	0.024356	1.857879	1.036950

Source: Research's data, 2025

Based on the results of the multicollinearity test in table 8, the VIF value between Tax Avoidance and Capital Intensity is not greater than 10, so it can be concluded that there is no multicollinearity problem in the regression model of this study.

Heteroscedasticity Test

Table 9. Results of Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.325586	0.104190	3.124926	0.0029
Transfer Pricing (X1)	-0.150463	0.395728	-0.380217	0.7053
Capital Intensity (X2)	-0.053319	0.156065	-0.341647	0.7340

Source: Research's data, 2025

Based on the results of the heteroscedasticity test in table 9, it shows that all probability values of the independent variables are 0.7053 and 0.7340 > 0.05 from the significance level, so it can be concluded that heteroscedasticity does not occur.

Multiple Regression Test

Table 10. Results of Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.258853	0.010748	24.08349	0.0000
Transfer Pricing (X1)	-0.184685	0.022056	-8.373598	0.0000
Capital Intensity (X2)	-0.167098	0.014202	-11.76556	0.0000

Source: Research's data, 2025

Based on the results of the panel data regression analysis calculations, using Eviews 9, the regression equation obtained is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + E \dots \dots \dots (1)$$

$$\text{Tax Avoidance} = 0.258853 + -0.184685 (X_1) + -0.167098 (X_2) + E \dots \dots \dots (2)$$

Coefficient of Determination Test

Tabel 11. Coefficient of Determination Test

R-squared	0.752096	Mean dependent var	2.272231
Adjusted R-squared	0.742561	S.D. dependent var	2.476869
S.E. of regression	0.552065	Akaike info criterion	-2.054424
Sum squared resid	15.84832	Schwarz criterion	-1.944933
Log likelihood	59.49665	Hannan-Quinn criter.	-2.012082
F-statistic	78.87922	Durbin-Watson stat	1.745832
Prob(F-statistic)	0.000000		

Source: Research’s data, 2025

The results of Table 11 show that the Adjusted R-squared value is 0.742561 or 74.26 %. From these results, it can be explained that the influence of transfer pricing and capital intensity is 74.26% on the tax avoidance variable, while the remaining 25.74% is influenced by other variables not measured in this regression model.

Simultaneous Test

Table 12. Simultaneous Test Results

R-squared	0.752096	Mean dependent var	2.272231
Adjusted R-squared	0.742561	S.D. dependent var	2.476869
S.E. of regression	0.552065	Akaike info criterion	-2.054424
Sum squared resid	15.84832	Schwarz criterion	-1.944933
Log likelihood	59.49665	Hannan-Quinn criter.	-2.012082
F-statistic	78.87922	Durbin-Watson stat	1.745832
Prob(F-statistic)	0.000000		

Source: Research’s data, 2025

This study produces an F-statistic value with a probability level of $0.000000 < 0.05$, meaning that the transfer pricing and capital intensity variables have a simultaneous effect on tax avoidance.

Partial Test

Table 13. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.258853	0.010748	24.08349	0.0000
Transfer Pricing (X1)	-0.184685	0.022056	-8.373598	0.0000
Capital Intensity (X2)	-0.167098	0.014202	-11.76556	0.0000

Source: Research's data, 2025

To find out whether the independent variables have a significant effect on the dependent variable, by using the testing criteria if the p-value < 0.05 then the independent variable has an effect on the dependent variable, namely as follows: 1) The results of testing using panel data regression analysis indicate that the probability value is $0.0000 < 0.05$. From this value, it can be concluded that Transfer Pricing has an effect on Tax Avoidance. 2) The results of testing using panel data regression analysis show that the probability value is $0.0000 < 0.05$. From this value, it can be concluded that capital intensity has an effect on tax avoidance.

4. Discussion

The Effect of Transfer Pricing and Capital Intensity on Tax Avoidance

Transfer pricing and capital intensity simultaneously have a significant effect on tax avoidance, as indicated by the F-test probability value of $0.000 < 0.05$. This confirms that both independent variables play a joint role in explaining variations in tax avoidance practices in energy sector companies. This finding is in line with the agency theory framework (Jensen & Meckling, 1976), where managers attempt to exploit loopholes in tax

regulations for both corporate and personal interests, even though this can conflict with the interests of the owners. Managers as managers of company operations tend to implement strategies that can maximize after-tax profits, one of which is through tax avoidance. On the other hand, capital intensity, which refers to the size of a company's investment in fixed assets, also influences tax avoidance. A high level of capital intensity allows companies to claim depreciation of fixed assets as an expense that reduces taxable income.

The Effect of Transfer Pricing on Tax Avoidance

Transfer pricing shows a probability value of $0.000 < 0.05$, thus having a significant positive effect on tax avoidance. This means that the higher the exposure to related party transactions, the greater the company's chances of engaging in tax avoidance practices. This result is consistent with the opinion of (Pohan, 2019), who stated that transfer pricing is the primary instrument used by companies to shift profits to jurisdictions with low tax rates. Multinational companies often utilize affiliated relationships between entities to reduce tax burdens. This strategy offers the benefit of legally reducing the tax burden. These results support empirical evidence from (Darma & Cahyati, 2022) and (Pratiwi & Pramita, 2021), but differ from research by (Laurentya et al., 2023) and (Hidayah & Puspita, 2024), which found negative or insignificant effects, likely influenced by the characteristics of the industrial sector and applicable tax regulations in the study countries.

The Effect of Capital Intensity on Tax Avoidance

Capital intensity has a probability value of 0.0000, which is below the significance level of 0.05, indicating that capital intensity has a significant effect on tax avoidance. This finding suggests that the level of investment in fixed assets plays an important role in influencing corporate tax avoidance behavior. Although energy companies are characterized by high capital intensity—where, on average, 37.92% of total assets consist of fixed assets—the use of fixed assets is not only directed toward supporting operational activities and

business sustainability but also has implications for tax planning strategies. High investment in fixed assets leads to higher depreciation expenses, which can reduce taxable income and create opportunities for tax avoidance. This result indicates that companies with higher capital intensity tend to engage in greater tax avoidance compared to companies with lower capital intensity. Therefore, capital intensity is proven to have a direct and significant relationship with tax avoidance practices. This finding is consistent with prior studies (Anggraini et al., 2020) and (Madjid & Akbar, 2023), which report a significant positive effect of capital intensity on tax avoidance, but contradicts the findings of (Adella & Yuniar Larasati, 2021) and (Prambudi & Asalam, 2021), which found no significant effect. These differences highlight that the impact of capital intensity on tax avoidance may vary depending on industry characteristics and regulatory environments.

5. Conclusion

Based on the results of data analysis and discussion, it can be concluded that transfer pricing and capital intensity simultaneously have a significant effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Partially, transfer pricing is proven to have a significant positive effect on tax avoidance, indicating that higher levels of affiliated transactions are associated with increased tax avoidance practices. In addition, capital intensity is also found to have a significant effect on tax avoidance, suggesting that higher investment in fixed assets influences corporate tax avoidance behavior through depreciation-related tax planning.

In line with these findings, several implications can be drawn. First, for the government and tax authorities, this study provides empirical evidence to strengthen the supervision of both affiliated transactions and capital-intensive investment structures, particularly in the energy sector. Enhanced regulatory oversight and more transparent audit mechanisms are required to reduce the potential for tax avoidance that may adversely affect

state revenues. Second, for companies, these results highlight the importance of implementing transparent and compliant tax planning strategies, especially in relation to transfer pricing policies and asset investment decisions. Although such strategies may be legally permissible, excessive tax avoidance could increase regulatory scrutiny and reputational risks. Finally, for investors, this study offers valuable insight that transfer pricing practices and capital intensity levels can serve as important indicators in assessing corporate tax compliance and investment risk. Investors are therefore encouraged to consider these factors when making investment decisions, particularly in capital-intensive industries.

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