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Determinants of Tax Sheltering: Corporate Governance as Moderation

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Abstract:- This research aimed to analyze the effect of a tax haven, transfer pricing, environmental uncertainty, and capital structure on tax sheltering with corporate governance as a moderating. Measurement of tax sheltering uses a tax shelter score with seven predictor models such as: book-tax differences (BTD), discretionary accruals performance-matched (DAP), leverage, asset size (Size), profitability (ROA), foreign income (FI), and research and development expense (R&D). The population of this study was the multinational companies not included in the financial service industry sector listed on the Indonesia Stock Exchange for the period 2016-2020. The research sample used was eighty-one companies in the multinational companies excluded in the financial service industry sector which were selected based on the purposive sampling method. This study used panel data regression analysis. The results obtained are that tax havens, environmental uncertainty, and capital structure has a positive effect on tax sheltering, while transfer pricing has a negative effect on tax sheltering. Corporate governance as a moderator can only have a positive effect on moderating the effect of tax havens, environmental uncertainty, and capital structure on tax sheltering.

Keywords;- *Capital Structure, Environmental Uncertainty, Tax Sheltering, Tax Haven, Transfer Pricing.*

I. INTRODUCTION

The development of globalization has led to increased business transactions and global flows, so that economic globalization has paved the way for multinational companies (Multinational Enterprises) to develop their business globally by transacting across jurisdictional borders. Simultaneously with the current integration of world trade, there is a process of world financial integration. The ability to supply capital, especially in the form of foreign direct investment (FDI) plays an important role in the economic process for developing economy countries. The report of the United Nations Conference on Trade and Development states that in 2017 developing countries (Devoloping Economy Countries) received around Rp. 9,716 Trillion (USD 694 Billion) or 58% of the total foreign direct investment globally (UNCTAD, 2021). Developing countries in the Asian region, foreign investment has increased 8%. In 2019 foreign direct capital such as Southeast Asia (ASEAN) rose 5% to a record level of IDR 2,184 Trillion (USD 156 Billion). Therefore, the opportunity for profit shifting is very likely to occur in these countries(Ahmed, Jones &Temouri, 2020).

Indonesia's tax ratio is below the average Asia and Pacific tax ratio of 24.00% or even below the Association of Southeast Asian Nations (ASEAN) average tax ratio of 14.00%. This decrease represents a substantial loss of tax revenue due to the erosion of the tax revenue base or because of the transfer of profits to other countries that apply lower tax rates (Srimulyani, 2020). The low tax revenue in Indonesia, which is far below the average for Asian and Pacific countries, even below the average for the ASEAN region, shows that tax policy in Indonesia can still find loopholes for tax avoidance activities by companies in Indonesia. Tax planning companies that have great opportunities for tax avoidance are multinational companies because they have geographic flexibility (OECD, 2013; Forum Pajak, 2015; Brodjonegoro, 2016; Santoso, 2017; DDTC, 2020).

The practice of tax avoidance through tax sheltering schemes is carried out by several companies that have foreign business affiliations (multinational companies). PT. Adaro Energy Tbk through its subsidiary Coal trade Services International in Singapore during 2009-2017, has diverted profits from coal mining in Indonesia. PT. Adaro Energy Tbk has reduced its tax bill of approximately IDR 196 Billion (USD 14 Million) per year (Merdeka, 2019; Witnes, 2019). Then, the tax protection carried out by PT. Toba Pulp Lestari Tbk through engineering a sales contract for dissolving wood pulp raw materials to its affiliated company DP Macau (as an intermediary agent) at a price for bleached hardwood kraft pulp. Meanwhile, DP Macau sells the product to Sateri Holding Ltd in China at the price of dissolving wood. This difference makes PT. Toba Pulp Lestari Tbk continuously posted sub-optimal profits, at the same time the profit margin of DP Macau reached 71%. Until 2016, the total profit that was allegedly hidden (profit shifting) of PT. Toba Pulp Lestari Tbk is estimated at IDR 308 Billion (USD 22.9 Million) (Indonesianleaks, 2020; Mustofa, 2020).

The aim of this research is to examine and obtain empirical evidence of research in order to obtain answers to the effect of tax havens, transfer pricing, environmental uncertainty, and capital structure on tax sheltering moderated by corporate governance in multinational companies listed on the Indonesia Stock Exchange. This research provides several contributions. First, the results of this study contribute to existing theories or help discover new theories. Second, contribute to the practice of considering planning and supervision to be able to determine the company's tax policies in carrying out business activities. Third, contribute to the government as a reference for evaluating tax policies related to tax sheltering.

II. LITERATURE REVIEW

A. Agency Theory

Agency theory is a theory that explains the concept of how to understand processes within the company from the perspective of principals (shareholders) and agents (management). According to (Jensen &Meckling, 1976; Boučková, 2015; Waluyo, 2019)managers as agents do not always act in the interests of shareholders as principals.

Differences in interests between principals of agent funds can affect various matters related to company performance, such as company policies regarding corporate taxes. Differences in interests cause agency problems so that good corporate governance is needed.

B. Tax Sheltering

Tax sheltering is tax planning with arrangements in such a way as to avoid taxation by making economic profits without economic losses and risks (an aggressive form of tax avoidance). Tax sheltering does not have a business purpose, but only to avoid tax in accordance with tax regulations (Treasury, 1999; Rohatgi, 2005; Frank et al, 2009; Hanlon & Heitzman, 2010; Lisowsky, 2010; Kemenkeu, 2017). According to Frank, et al (2009) in Diana (2015)as part of tax aggressiveness, tax sheltering companies take advantage of existing tax regulations loopholes in minimizing their tax payments. Tax protection can be done by establishing intermediate companies (conduit companies or special purpose vehicles) without performing any economic functions, so that the group of companies can "skim" the benefits of a high tax jurisdiction (Kemenkeu, 2017; Pohan, 2019).

There are five judicial doctrines according to (Graham & Tucker, 2006; Diana, 2015), First, fake transactions that never happened or occurred but did not pay attention to the taxation aspect, there was no economic and business substance. Second, the economic substance of a transaction must have the aim of gaining profits and increasing economic benefits for the company. Third, the business purpose where the transactions carried out by the company must have a business purpose, not merely to avoid taxes. Fourth, the substance above in the form of transactions with the same economic results should also receive the same tax treatment. Fifth, the separate stages of each transaction in a related series must have their respective economic objectives, besides that they can be combined in terms of taxes.

C. Tax Haven

A tax haven is defined as a jurisdiction that allows transactions to take place under strictly confidential conditions that legalize taxpayers' avoidance of taxes (Crumbley, Friedman & Andrers, 1994:297; Desai, Foley & Hines, 2006; Dyreng &Lindsey, 2009; Richardson, Taylor & Lanis, 2013; Jones &Temouri, 2016; Makni, Maaloul &Dabbebi, 2019; Widodo, Diana & Mawardi, 2020). A tax haven (tax haven) is a country with minimal or no taxes (Jones & Temouri, 2016). According to Mara (2015) tax havens are not all about low tax rates, but the secrecy and availability of a strong financial services network allows users to use sound strategies to achieve their goals. Therefore, Organisation for Economic Cooperation Development (OECD) identify the characteristics of a tax haven country jurisdiction (Gottorm, 2009, pp. 16), such as : (1) Low or non-existent tax rates on income, (2) Specific tax rules for shell companies, (3) Lack of transparency about ownership and lack of effective oversight, (4) No effective exchange of information on issues taxes with other countries and jurisdictions.

D. Transfer Pricing

Transfer pricing is defined as a special selling price used in inter-divisional exchanges to record selling division revenues and buying division costs. According to (Tiwa, David & Tirayoh, 2017; Soepriyanto, Zudana & Linggam, 2020) transfer pricing is referred to as intracompany pricing, intercompany pricing, interdivisional or internal pricing which is the price according to the applicable regulations regarding the application of the fairness principle in transactions between Taxpayers and related parties. There are two transfer price methods according to the OECD, namely: (1) Traditional transaction methods, namely: price comparison method (comparable uncontrolled price / CUP), cost plus method (CPM), resale price method (RPM), (2) Transactional profit methods, namely: transactional net margin margin method (TNMM), profit split method (PSM).

Transactions between companies that have a special relationship are known as transfer pricing. This can result in the transfer of income or the basis of taxation and/or costs from one company to another, which can be engineered to reduce the total amount of tax payable. Unfair transactions can occur in the sale price, purchase price, allocation of general and administrative costs (overhead cost), interest charges on debt grants by shareholders (shareholder loans) and sales to foreign parties through third parties that lack/have no business substance (OECD, 2017).

E. Environmental Uncertainty

Environmental uncertainty is the degree of change or variability in the external environment of the organization, which consists of customers, competitors, government regulations and trade unions. (Tung, 1979 pp. 672-693). Environmental uncertainty is a condition in which a person aims to predict the situation around him so that he takes an action to deal with the uncertainty. Environmental uncertainty is one of the factors that often causes organizations to make adjustments to organizational conditions with the environment (Ghost &Olsen, 2009; Huang, Sun &Zhang, 2017).

According to Lin, Zhao, & Li (2014) in Syarendra & Kristanto, (2020)environmental uncertainty causes companies to be unable to estimate their revenues and expenses. Gallemore & Labro (2015) uncertainty can reduce a company's tax planning capabilities by making tax opportunities less clear, by raising substantial doubts about the outcome of tax avoidance strategies and increasing the difficulty of forecasting potential income taxes.

F. Capital Structure

The capital structure is all sources of long-term funding used by the company. Initially, Modigliani and Miller's theory (MM theory) stated that under perfect market conditions, capital structure is irrelevant to firm value. Modigliani and Miller's theory concludes that a capital structure with a larger debt component will increase firm value with a tax shield from borrowing costs charged.

Thin capitalization is a situation where the company is financed by a higher level of debt than capital. According to Rohatgi (2006)thin capitalization applies to covert capital borrowing conditions that exceed the reasonable limit. Thin capitalization is the formation of a capital structure with a combination of debt ownership that is greater than equity. Regulations regarding thin capitalization can be carried out through two approaches (OECD, 2012): (1) Determine the maximum value of the debt that the interest expense can be deducted, (2) Determine the maximum value of the deductible interest expense, with reference to the ratio of interest paid on other variables.

There are several ways of providing loans that are commonly used in applying the thin capitalization concept, such as: (1) Parallel loan: Foreign investors are looking for Indonesian companies to be partners, these Indonesian companies must have subsidiaries located in the investor's country, (2) Back to back loans: Investors submit funds to a mediator who has been appointed as a third party to be loaned to subsidiary by giving compensation, (3) Direct loan: Investors of foreign taxpayer companies provide loans to subsidiaries directly. In connection with the use of this loan, investors get interest, the amount of which is generally determined by the investor.

G. Corporate Governance

Corporate governance is defined as the effectiveness of mechanisms aimed at minimizing agency conflicts, with particular emphasis on legal mechanisms that prevent expropriation of minority shareholders (Johnson et al, 2000). Corporate governance as the separation of management roles, ownership and the existence of information asymmetry introduces the possibility of principal agent conflicts, such as the interests of managers, which may lead to the misuse of all that is owned by the company(Sinaga, 2014). Institutional ownership is a tool that can be used to reduce a company's conflict of interest. Corporate governance implemented by the company affects the company's strategic decisions, the implementation of a well-structured corporate governance will make agents to comply with all existing regulations, including not taking aggressive action against tax planning actions (Lestari & Putri, 2017).

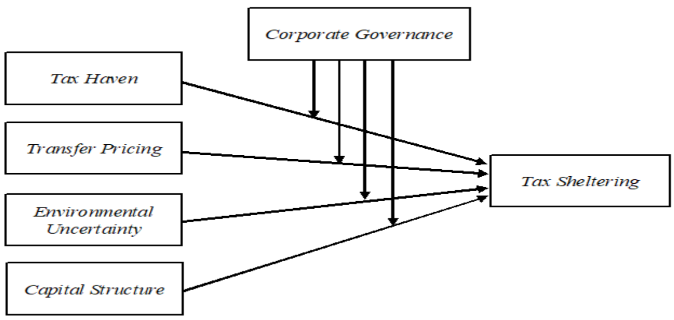

Fig. 1:- Framework Theory

H. Hypothesis

Based on a theoretical basis, previous research, and framework theory that have been described, therefore the proposed hypothesis are as follows:

H1: Tax haven has a positive effect on tax sheltering.
H2: Transfer pricing has a positive effect on tax sheltering.
H3: Environmental uncertainty has a positive effect on tax sheltering.
H4: Capital structure has a positive effect on tax sheltering.
H5: Corporate governance has a positive effect on tax sheltering.
H6: Corporate governance has a positive effect in moderating tax haven on tax sheltering.
H7:Corporate governance has a positive effect in moderating transfer pricing on tax sheltering.
H8:Corporate governance has a positive effect in moderating environmental uncertainty on tax sheltering.
H9:Corporate governance has a positive effect in moderating capital structure on tax sheltering.

III. RESEARCH METHOD

A. Research Type

This study explains the causal relationship between variables through hypothesis testing (Bryman & Bell, 2015). The data used to support this research is in the form of external secondary data, namely the annual financial statements of multinational companies which are accessed from the Indonesia Stock Exchange website (www.idx.co.id). The population in this study are multinational companies listed on the Indonesia Stock Exchange in the 2016-2020 research period. The final sample was obtained based on the purposive sampling method, namely 81 companies with a total of 405 data units of observation. The procedure for selecting sample criteria are: (1) Multinational companies that have at least 1 overseas affiliate (share ownership > 20%), (2) Companies not included in the financial services industry sector, (3) Companies presenting financial statements 2016-2020, (4) The company has not been deslisted in a row during 2016-2020.

B. Variables Operational Definition

- Tax Sheltering
  The dependent variable in this study is tax sheltering which is proxied through the tax shelter score according to (Wilson, 2009; Lisowsky, 2010; Aronmwan & Okafor, 2019). The measure of tax shelter score is as follows:
  Pshelter/(1-Pshelter) = $\beta O + BX$ (1)
  Where:
  Pshelter = Tax sheltering
  βO = -4.30
  BX = (6,63 x BTDit) + (4,08 x DAPit) + (-1,72 x LEVit) + (0,66 x SIZEit) + (2,26 x ROAit) + (1,62 x FIit) + (1,56 x R&Dit)

- Tax Haven
  Tax haven is a country with minimal or no taxation with secrecy and the availability of a strong network of financial services. According to (Dyreng and Lindsey, 2009; Richardson, Taylor and Lanis, 2013; Jones and Temouri, 2016; Waluyo and Doktoralina,

2018)measurement of tax haven using a dummy variable, 1 if the company has at least one subsidiary that is a member of the tax haven recognized in the OECD and IMF, 0 otherwise.

- Transfer Pricing
  Transfer pricing is the determination of transfer prices in transactions between parties that have a special relationship which is proxied by transactions between parties that have a special relationship. According to (Richardson, Taylor & Lanis, 2013; Panjalusman, Nugraha & Setiawan, 2018; Amidu, Coffie & Acquah, 2019; Sari *et al.*, 2020; Soepriyanto, Zudana & Linggam, 2020) the measure of transfer pricing is as follows:
  Transfer Pricing =(Total Receivable RPT)/(Total Receivable) (2)
- Environmental Uncertainty
  Environmental uncertainty is the variability of changes that describe environmental activities relevant to the company's operations as proxied by the coefficient of variation in sales, according to (Ghost & Olsen, 2009; Huang, Sun & Zhang, 2017; Ratu & Siregar, 2019; Syarendra & Kristanto, 2020). The measure of coefficient variation of sales is as follows:
  Coefficient of Variation (S_i)=√((S_i-Smean)2/5)/Smean (3)
  Where:
  S_i = Total sales (scaled by total assets)
  Smean = Average of total sales (scaled by total assets) over a rolling five years period
- Capital Structure
  Capital structure is all long-term funding sources used by companies that are proxied by thin capitalization. According to (Waluyo &Doktoralina, 2018; Prastiwi &Ratnasari, 2019; Salwah &Herianti, 2019). The measure of thin capitalization is as follows: Thin capitalization can be formulated as follows:
  MAD Ratio=(Average Total Debt)/SHDA (4)
- Corporate Governance
  Corporate governance is the arrangement of relationships between shareholders, managers, creditors, the government, and other internal and external stakeholders which are proxied by institutional ownership through the number of shares owned by institutions, according to (Sinarmata, 2014; Marselawati, Titisari & Masitoh, 2018; Dewi, 2019). The measure of institutional ownership is as follows:
  IO = (Institutional Shareholder)/(Share Outstanding)x 100% (5)

C. *Research Model*

The following research model is to answer the problem and test the hypothesis by using the hypothesis testing method. The research object consists of one dependent variable, namely tax sheltering (TS), four independent variables, namely tax haven (TH), transfer pricing (TP), environmental uncertainty (EU), capital structure (CS), and one corporate governance (CG) variable. moderation. This study uses Eviews 10 software, with data analysis in this study using panel data (data pool). The data analysis method in this study uses panel data (pool data) so that the regression is called the panel data regression model. Panel data is a combination of data between time (time series) with data between individuals or spaces (cross section). The regression equation model is:

TS=a+b1TH+b2TP+b3EU+b4CS+b5CG+b6HP*CG+b7 TP*CG+b8EU*CG+b9CS*CG+e (6)

Where:
TS = Tax sheltering
a = constant
TH = Tax Haven
TP = Transfer Pricing
EU = Environmental Uncertainty
CS = Capital Structure
CG = Corporate Governance
b = regression coefficients
e = error coefficient.

D. *Population, Sample, and Analysis Method*

The population used in this research is the multinasional companies listed in the Indonesian Stock Exchange in 2016-2020. The sample used in this research is secondaries data in the form of pooled data the multinasional companies listed in the Indonesian Stock Exchange in 2016-2020. The analyis method used Eviews 10 software with several stages, such as: 1) descriptive statistics analysis; 2) panel data analysis; 3) classic assumption test; 4) hypotesis test; goodness of fit and individual parameter significance test.

IV. RESULTS AND DISCUSSION

A. *Descriptive Statistics Analysis*

	TH	TP	EU	CS	TS	CG
Mean	0.701	0.162	0.353	0.690	0.975	0.620
Median	1.000	0.019	0.357	0.643	0.999	0.598
Maximum	1.000	1.410	0.447	6.714	1.000	1.193
Minimum	0.000	0.000	0.006	-7.046	2.9E-	0.000
Std. Dev	0.458	0.274	0.043	0.907	0.136	0.217
Observations	405	405	405	405	405	405

Table 1: Descriptive Statistics

Source: Eviews 10 Output

Table 1, descriptive statistics of the data for each research variable. The tax haven variable has an average value of 0.701235, 70.12% multinational companies have affiliated companies located in tax haven countries. Transfer pricing has an average value of 0.162607, the average transaction with related parties in multinational companies is 16.26%. Environmental uncertainty has an average value of 0.353454, the sales volatility of multinational companies is 35.34%. Capital structure has an average value of 0.690116, the average use of debt with interest on loans in running the company is 69.01%. Tax sheltering has an average value of 0.975882, the average use of tax shelter arrangements in multinational companies is 97.58%. Corporate governance has an average value of 0.620142, the average institutional ownership has a majority proportion in multinational companies of 62.01%.

B. Panel Data Regression Analysis

Variabel	Coefficient	Std.Error	t-Statistic	Prob.
C	0.178979	0.199935	0.895188	0.3712
TH	0.063755	0.030375	2.098925	0.0365
TP	-0.112044	0.058585	-1.915792	0.0561
EU	2.649872	0.563285	4.704316	0.0000
CS	-0.235751	0.028263	-8.341398	0.0000
CG	0.807017	0.321226	2.512303	0.0124
TH*CG	-0.090810	0.045475	-1.996907	0.0465
TP*CG	0.184800	0.095968	1.925644	0.0549
EU*CG	-2.645096	0.910573	-2.904869	0.0039
CS*CG	0.230814	0.035222	6.553133	0.0000
R-squared				0.586041
Adjusted R-squared				0.576609
F-statistic				62.13337
Prob(F-statistik)				0.000000

Table 2: Panel Data Regression

Source: Eviews 10 Output

C. Panel Data Regression Model Selection

There are threee tests that need to be odne in the selection of panel data model, namely Chow Test, Hausman Test, and Lagrange Multiplier.

Chow Test

Chow test is conducted to choose the estimation model between Common Effect Model and Fixed Effect Model, with the hypothesis as follows:

H0: Common Effect Model
H1: Fixed Effect Model

Effects Test	Statistik	d.f	Prob
Cross-section Chi-square	173.094532	80	0.0000

Table 3: Chow Test

Source: Eviews 10 Output

Table 3, the chow test resulted in a cross-section-chi squared significance value of 0.0000 or less than 0.05. Therefore the H1 is accepted and the selected panel data regression model is a fixed effect model.

- Hausman Test
  Hausman test is conducted to choose the estimation model between Random Effect Model and Fixed Effect Model, with the hypothesis as follows:
  H0: Random Effect Model
  H1: Fixed Effect Model

Test Summary	Chi-Sq Sta	Chi-Sq. d.f	Prob
Cross-section Chi-square	90.632057	9	0.0000

Table 4: Hausman Test

Source: Eviews 10 Output

Table 4, the hausman test resulted in a cross-section-chi squared significance value of 0.0000 or less than 0.05. Therefore the H1 is accepted and the selected panel data regression model is a fixed effect model.

- Langrange Multiplier Test
  Langrange multiplier test is conducted to choose the estimation model between Random Effect Model and Common Effect Model, with the hypothesis as follows:
  H0: Common Effect Model
  H1: Random Effect Model

Null (No. rand. Effect)	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	0.201497	1.503395	1.704893
	(0.6535)	(0.2201)	(0.1916)

Table 5: Langrange Multiplier Test

Source: Eviews 10 Output

Table 5, The langrange multiplier test resulted in the prob BP significance value of 0.6535 or less than 0.05. Therefore the H0 is accepted and the selected panel data regression model is a common effect model.

D. Classic Asumption Test

- Multicollinearity Test
  The multicollinearity test can also be carried out using a correlation matrix, where there is no correlation between independent variables if there is no correlation value higher than 0.90 (Ghozali, 2018). The results showed that none of the variables had a correlation of more than 0.90 with other variables. These results mean that there is no correlation between the independent variables in the regression model of this study.
- Heteroscedaticiy Test
  Heteroscedasticity test can be done using the Breuschpagan-Godfrey test. If the Obs*R-Squared value has a significant chi-square probability value (p value = 0.0000), then there is heteroscedasticity in the model (Ghozali, 2018).The results showed the probability value of Obs*R-squared is 0.1435 or more than 0.05. This result means that there is no heteroscedasticity in the study, or the data is homogeneous.
- Autocorrelation Test
  Autocorrelation test for observations above 100 observations can use the Langrange multiplier test (LM Test). The results show the probability value of Obs*R-squared is 0.0552 or more than 0.05. These results mean that there is no autocorrelation in the study.

E. Hypothesis Test

- Goodness of Fit (f-statistics)
  Table 2, the probability value (F-statistic) in this study is 0.000000 or less than 0.05, which means the model in this study is acceptable or feasible. So tax havens, transfer pricing, environmental uncertainty, capital structure, and corporate governance can be used to predict tax sheltering.

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- Coefficient of Determination Test
  Table 2,the R-squared value obtained is 0.586041. This result means that 58.60% of tax sheltering is explained by tax havens, transfer pricing, environmental uncertainty, capital structure and corporate governance which moderate the four independent variables, while the difference of 41.40% is that there are variables other than those used in this study. which can explain tax sheltering.
- Individual Parameter Significance Test (t-statistics)
  The t statistic test shows how far the influence of 1 (one) independent variable in explaining the variation of the dependent variable (Ghozali, 2018). Provisions if the probability value <0.05 then the hypothesis can be accepted, but if the probability value> 0.05 then the hypothesis is rejected.

➢ Tax Haven Has a Positive Effect on Tax Sheltering

Table 2,the results of panel data regression analysis in the probability value of a tax haven is 0.036 or less than 0.05 with a positive direction coefficient. This result means that tax haven has a positive effect on tax sheltering, or H1 is accepted. Furthermore, the placement of more related companies in tax haven countries will increase tax sheltering activities.

Tax havens can facilitate companies to reduce the tax burden that comes from high taxes. Law Number 7 of 2021 concerning Harmonization of Tax Regulations has approved the oldest tax haven country provisions in Article 18 paragraph (3c), namely the sale or ownership of intermediate shares (conduit company or special purpose company) established or domiciled that provides tax that has a special relationship with an entity established or domiciled in Indonesia or a permanent establishment in Indonesia. Furthermore, multinational companies will develop business or branch companies in tax haven countries as a tax sheltering tool. This is because state taxes provide facilities to be able to profit shifting, through: providing lower tax rates, having special rules for shell companies, as well as transparency and exchange of company information.

The results of research as has been done in previous studies by (Dyreng & Lindsey, 2009; Richardson, Taylor & Lanis, 2013; Jones & Temouri, 2016; Waluyo & Doktoralina, 2018; Makni, Maaloul & Dabbebi, 2019)tax haven has a positive effect on tax sheltering.

➢ Transfer Pricing Has a Negative Effect on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value transfer pricing is 0.056 or more than 0.05 with a negative direction coefficient. This result means that transfer pricing has a negative effect on tax sheltering, or H2 is rejected. Furthermore, there are fewer transfer pricing transactions with related parties, so tax sheltering activities are decreasing.

Transfer pricing in the taxation aspect is a pricing policy for buying and selling transactions carried out by parties who have special relationships. The policy process shows international transfer pricing from one country to another which is used to minimize taxes. The company transfers pricing of goods and services between groups of companies only as a control and measurement of company performance, and follows the rules of the tax authorities which currently have stricter supervision over transactions of companies that have special relationships. Minister of Finance Regulation number 213/PMK.03/2016 article 1 paragraph 4 reads that transactions between affiliates must comply with the arm's length principle.

The approach to business transaction activities carried out by multinational companies can use traditional transactional methods, such as price comparisons between affiliated parties with price transactions for goods or services carried out between parties that do not have a special relationship in a comparable condition (comparable uncontrolled price). Then it can also use transactional profit methods, such as determining transfer prices by identifying the combined profit on affiliated transactions on an economically acceptable basis, so that it is reflected in the agreement between the parties that do not have a special relationship (profit split method). Furthermore, the price or profit in transactions entered into between affiliated parties must be within the price range or profit range in transactions conducted by unrelated parties.

The results of this study are different from what has been done in previous studies by (Dharmawan, Djaddang & Darmansyah, 2017; Lutfia & Pratomo, 2018; Amidu, Coffie & Acquah, 2019; Sari *et al.*, 2020). Transfer pricing has a positive effect on tax sheltering. While the results of this study are in line with what has been done by (Falbo & Firmansyah, 2018; Napitupulu, Situngkir & Arfanni, 2020; Rathke, Rezende & Watrin, 2020) transfer pricing has a negative effect on tax sheltering.

➢ Environmental Uncertainty Has a Positive Effect on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of environmental uncertainty is 0.000 or less than 0.05 with a positive direction coefficient. This result means that environmental uncertainty has a positive effect on tax sheltering, or H3 is accepted. Furthermore, every time there is high environmental uncertainty, tax sheltering activities will increasing.

Environmental uncertainty makes companies more aggressive in carrying out tax protection. The turbulent environment results in increased planning or budgeting of corporate activities by managers in tax protection measures. Tax planning is a major component in corporate strategy, taxes represent a significant share of costs in the company and reduce share ownership. Although it is difficult to predict, the role of managers is very influential in dealing with environmental uncertainty with the strategies developed. Tax protection is carried out in conditions of environmental uncertainty as a management effort to maintain investor confidence.

The results of research as has been done in previous studies by (Gallemore and Labro, 2015; Huang, Sun and Zhang, 2017; Nguyen and Nguyen, 2019; Arieftiara *et al.*, 2020; Sari *et al.*, 2020; Nurdiana, 2021)environmental uncertainty has a positive affect on tax sheltering. Meanwhile, unlike McGuire, Omer & Wilde (2014)research, environmental uncertainty has a negative effect on tax sheltering.

- Capital Structure Has a Positive Effect on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of the capital structure is 0.000 or less than 0.05 with a negative direction coefficient. This result means that capital structure has a positive effect on tax sheltering, or H4 is accepted. Furthermore, the number of components of the company's debt in the formation of the capital structure is less, then the tax protection activity will be decreasing.

Multinational companies take advantage of the provision that interest payments can be a tax deduction, which has encouraged behavior to fund companies through their overseas affiliates (direct conduit structure) using debt in their capital structure more than equity participation (thin capitalization). The value of the company will increase along with the use of the debt component in the capital structure, because the existence of a tax shield can play a role in reducing taxes that will be paid by the company. Then the disparity in tax treatment is more favorable to interest as an element of deducting the debtor's taxable income rather than dividends, so that according to the company, interest expense is a tax benefit for allowing interest expense (interest tax shield). Moreover, countries that have a tax treaty with Indonesia apply a tax on interest according to the tax treaty which is generally at a lower rate than the domestic rate / tax income law.

PMK Regulation No. 169/PMK.010/2015 concerning Determination of the Comparison Between Debt and Company Capital, but multinational companies can use the parallel loan mechanism by using intermediary companies that are partners of multinational companies (affiliated/associated companies) located abroad. Then you can use the back-to-back loan mechanism in distributing loans assisted by third parties (banks) domiciled in Indonesia. The parent company or affiliate makes a consensus with the bank to place a certain amount of funds to be distributed to companies domiciled in Indonesia using negotiable interest.

The results of this study are in line with what has been done in previous studies by (Richardson, Taylor & Lanis, 2013; Faulkender & Smith, 2016; Waluyo & Doktoralina, 2018)that capital structure with thin capitalization proxies has a positive effect on tax sheltering.

- Corporate Governance Has a Positive Effect on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of corporate governance is 0.012 or less than 0.05 with a positive direction coefficient. This result means that corporate governance has a positive effect on tax sheltering, or H5 is accepted. Furthermore, institutional ownership with the majority proportion of company shares, the tax sheltering activity is increasing.

Institutional ownership plays an important role in monitoring, and ensuring management decisions that the company's strategy is consistent in order to maximize the value of the company. Institutional ownership pays more attention to the short-term profits of the company, thereby creating certain additional income through increased tax sheltering (Jiang, Zheng & Wang, 2021). Shareholders want to get a big return on their investment in the company. This forces management to be able to provide good performance and generate large profits. The pressure to provide large profits makes management do tax planning, so that the tax earned is lower.

The results of this study as has been done in previous studies by (Taylor & Richardson, 2012;Jiang, Zheng & Wang, 2021)corporate governance has a positive effect on tax sheltering.

- Corporate Governance Has a Positive Effect in Moderating Tax Haven on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of a tax haven moderated by corporate governance is 0.046 or less than 0.05 with a negative coefficient. This result means that corporate governance has a positive effect on the memoration of tax haven tax sheltering, or H6 is accepted. Furthermore, institutional ownership with a majority proportion of company shares will increase the supervision of companies located in tax haven countries, so that tax sheltering activities will decreasing.

Corporate governance with institutional ownership proxies can moderate tax havens. The condition of the company's management affects the decisions taken by the company, therefore, institutional ownership of shares provides an incentive to increase supervision that is more optimal in using subsidiaries in tax haven countries to carry out tax sheltering. Furthermore, the Organization for Economic Co-operation and Development (OECD) and the supported G20 countries have made an Internationally Agreed Tax Standard policy by implementing the Automatic

Exchange of Financial Account Information (AEOI) as a condition for exchanging information on the basis of requests for all tax-related issues. Know the tax rate and tax potential abroad.

- Corporate Governance Has a Positive Effect in Moderating Transfer Pricing on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of transfer pricing moderated by corporate governance is 0.054 or less than 0.05 with a positive direction coefficient. This result means that corporate governance has a negative effect in moderating the effect of transfer pricing on tax sheltering, or H7 is rejected. Furthermore, institutional ownership with a majority proportion, the tax sheltering activity is decreasing.

Corporate governance cannot act as a moderator of transfer pricing and has no effect on tax sheltering. Multinational companies with majority institutional ownership cannot provide a management role in implementing fairness, transparency, accountability, and responsibility. Because of the company manager (agent) is always opportunistic and selfish without considering the risks that will be faced. The company will receive sanctions if it continues to sell to related parties at unreasonable prices.

- Corporate Governance Has a Positive Effect in Moderating Environmental Uncertainty on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of environmental uncertainty moderated by corporate governance is 0.003 or less than 0.05 with a negative coefficient. This result means that corporate governance has a positive effect in moderating the effect of environmental uncertainty on tax sheltering, or H8 is accepted. Furthermore, institutional ownership with a majority proportion is in conditions of high environmental uncertainty, so tax sheltering activities are decreasing.

Corporate governance as a moderator of environmental uncertainty on tax sheltering. Institutional ownership companies in the ownership structure are maximally supervised in making management decisions that are directly involved in situations of environmental uncertainty. Although there is no environmental uncertainty assigned to the company, environmental uncertainty will affect strategy and decision-making.

- Corporate Governance Has a Positive Effect in Moderating Capital Structure on Tax Sheltering

Table 2, the results of panel data regression analysis in the probability value of the capital structure moderated by corporate governance is 0.000 or less than 0.05 with a positive direction coefficient. This result means that corporate governance has a positive effect in moderating the effect of capital structure on tax sheltering, or H9 is accepted. Furthermore, institutional ownership with a minority proportion of company shares will reduce its role in supervising capital structure policies, so tax sheltering activities will increasing.

Corporate governance as a moderator of the capital structure of tax sheltering. These results show that the proportion of institutional ownership in the ownership structure plays a role in influencing strategic decisions and the resources owned by the capital structure. Institutional ownership basically has considerable control over the sustainability of a company's operational activities. Institutional investors as those who come from external will encourage company management to generate profits according to the applicable supervisory rules.

V. CONCLUSION AND RECOMMENDATION

A. *Conclusion*

The conclusions obtained based on the test results are as follows:

- Tax haven has a positive effect on tax sheltering.
- Transfer pricing has a negative effect on tax sheltering.
- Environmental uncertainty has a positive effect on tax sheltering.
- Capital structure has a positive effect on tax sheltering.
- Corporate governance has a positive effect on tax sheltering.
- Corporate governance has a positive effect in moderating tax haven on tax sheltering.
- Corporate governance has a negative effect in moderating transfer pricing on tax sheltering.
- Corporate governance has a positive effect in moderating environmental uncertainty on tax sheltering.
- Corporate governance has a positive effect in moderating capital structure on tax sheltering.

B. *Recommendation*

Based on the discussion and conclusions above, this research still has limited time and data. Therefore, it is hoped that it can be perfected. Suggestions that researchers can give are as follows:

- Further research, expect to be able to conduct research on companies in certain sectors, with the hope of knowing other factors that can influence companies to carry out tax sheltering in accordance to the characteristics of each sector.
- To conduct research on multinational companies that are not listed on the Indonesia Stock Exchange as a comparison of results on companies listed on the Indonesia Stock Exchange.
- Become a consideration for the company to be concern with every action and risk in the field of taxation that will be carrying out, so that every decision made will be in accordance with the applicable tax laws and regulations.

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