**External Factors and Conforming Tax Avoidance – An Empirical Study in Indonesia**

**Abstract**

The purpose of this study is to investigate how tax law enforcement, related-party transactions, and external audit affect conforming tax avoidance. This study employs a less commonly used metric, namely the tax payment-to-operating cash flow ratio in measuring the level of conforming tax avoidance. Using panel data regression analysis and a fixed effect model, the study looks at manufacturing companies that were listed between 2012 and 2021 on the Indonesia Stock Exchange. As independent factors, control variables including company size, leverage, profitability, and asset mix, are included. The results indicate that tax law enforcement, related-party transactions, and external audit do not significantly affect conforming tax avoidance practices. Meanwhile, conforming tax avoidance is significantly impacted by control characteristics like company size and leverage. The authors suspect that the tax amnesty program initiated by the government during the research period could influence the study's results due to the amnesty's provisions for penalty waiver and cessation of tax inspections for participating taxpayers. This study adds to the body of studies on tax avoidance by exploring a relatively under-researched metric.

Keywords: enforcement, related-party transactions, external audit, conforming, tax avoidance

**INTRODUCTION**

The state's revenue collection from the tax sector in Indonesia has shown an unsatisfactory trend. During the period from 2010 to 2020, the tax authority, the Directorate General of Taxation consistently failed to exceed the set revenue targets. Moreover, during this period, the tax ratio remained significantly lower in neighboring countries. A commonly used indicator to assess a nation's ability to collect taxes is the tax ratio.

The lack of tax compliance, according to DDTCNews (2022), is one of the causes of the continuously low revenue from taxation. The government has made continuous efforts to improve this situation by implementing tax reforms. The development of a more precise and comprehensive tax database is one of these reforms' components. The positive impact of this reform has led to tax revenue realization exceeding targets in 2021. This was attributed by the Ministry of Finance to increased taxpayer compliance, rising prices of major commodities in the global market, and the economic recovery of the community as it began to rebound from the effects of the pandemic.

Tax avoidance practices, which have been a focus of tax authorities, have also attracted the attention of academics for research purposes. According to Hanlon & Heitzman (2010), corporate tax avoidance might involve violating tax legislation or employing legal strategies to lower the tax burden. Early on in this field of study, the emphasis was on how industry classification, firm size, and business strategy of companies affected their tax avoidance practices. Researchers then began to examine aspects of corporate governance intended to minimize agency conflicts (Hanlon & Heitzman, 2010), such as independent boards of commissioners (Armstrong *et al.*, 2015) and internal audit committees (Richardson *et al*., 2013; Bauer, 2016). A recent development in research includes considering the impact of tax avoidance actions on the economic consequences for managers, companies, and stakeholders due to agency problems (Wang *et al*., 2020).

There is significant diversity in the measurement proxies employed in tax avoidance research. According to Hanlon & Heitzman (2010), two measures that are frequently employed by researchers are Effective Tax Rates (ETR) and Book-Tax Differences (BTD), which are the differences between taxable and commercial income. However, they suggest that these measurement proxies can only capture the non-conforming effect of tax avoidance, where differences exist in the reporting treatment of transactions for commercial and tax reporting purposes. On the contrary, conforming tax avoidance would indicate the simultaneous effect of tax avoidance practices that reduce commercial income. According to Hanlon & Heitzman (2010), the tax paid-to-operating cash flow ratio is regarded as an alternative metric that can accurately represent the conforming impacts of tax avoidance.

Studies carried out in Indonesia were mostly focused on the determinants that contributed to tax avoidance strategies. Apart from the characteristics of corporations and their governance, researchers have attempted to examine the relationships with external factors, both institutional, such as law enforcement by the government or tax authorities (Damayanti & Prastiwi, 2017; Satyadini, 2018), social networks including political connections (Sugeng *et al.*, 2020; Putra & Suhardianto, 2020; Widarjo *et al.*, 2021; Alfiyah *et al*., 2022), related-party transactions (Azizah & Kusmuriyanto, 2016; Ellyani & Hudayati, 2019; Rezeki *et al*., 2021; Nurhidayah & Rahmawati, 2022), the utilization of tax havens (Damayanti & Prastiwi, 2017), and external governance such as external audit (Suyono, 2018; Maraya & Yendrawati, 2016; Suryatimur *et al*., 2020; Alkausar *et al*., 2021).

Research on tax avoidance is a highly expansive field, making it compelling for further exploration in this context. To date, research considering external factors as determinants in tax avoidance is limited in number, and its findings have yet to provide definitive conclusions. Moreover, the utilization of measurement proxies adopting more detailed models for assessing conforming tax avoidance remains limited.

Furthermore, as suggested by Desai *et al*. (2007), law enforcement efforts in the taxation domain carried out by regulators have the potential to mitigate agency conflicts between managers and company owners. Therefore, researchers argue that it is crucial to explore the influences of factors related to regulators, particularly in the context of tax law enforcement, along with other external factors like related-party transactions and external audits on conforming tax avoidance practices in Indonesia.

**LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

**Literature Review**

Agency Theory

Jensen & Meckling (1976) stated that an agency relationship arises when one or more principals—typically owners—agree to designate or employ an agent—typically manager—to manage the operation of the company. In this context, the principal refers to the entity or individual investing funds and resources required to operate the company, while the agent is the management party authorized to operate the company under the principal's directives.

From an agency theory perspective, tax planning can provide opportunities for managers (agents) to act opportunistically. Managers tend to report higher profits in financial statements (known as commercial profits) to earn additional compensation such as bonuses or to comply with debt covenant agreements. Conversely, according to Desai *et al*. (2007), in fiscal profit reporting, managers will take structured actions to minimize tax liabilities by exploiting gaps in existing regulations, thereby increasing after-tax profits, and ultimately enhancing the company's value.

The Measurement of Tax Avoidance

According to Hanlon & Heitzman's (2010) definition, tax avoidance encompasses a variety of tax management techniques, from legal actions that take advantage of regulatory gaps to illegal or tax non-compliance actions. Tax avoidance involves companies reserving resources that should be transferred to the government, with the expectation that these resources will enhance the company's valuation and benefit shareholders.

According to Wang *et al.* (2020), the common measurements for identifying tax avoidance are effective tax rates (ETR) and the gap between earning reported commercially and earning subject to taxation (Book-Tax Differences). ETR is used as an indicator of the actual tax burden incurred by a company. The variance between a company's ETR and the applicable tax rate arises from different income measurements between accounting reporting standards and tax reporting. This difference can be temporary or permanent due to distinct tax treatments.

GAAP ETR and Cash ETR are the two ETR categories that are frequently utilized in tax burden analysis. Cash ETR uses the actual tax amount paid as the denominator, whereas GAAP ETR divides the income tax expense by the income before tax shown in financial statements. Temporary differences in tax computations are the source of variations between the tax expense and the amount of tax paid. Cash ETR, which represents tax payments in the current year, is frequently lower than GAAP ETR, which accounts for long-term total tax burdens if commercial income surpasses taxable income.

Apart from ETR, Book-Tax Differences (BTD) denote the variance between income reported for commercial purposes and income subject to taxation as per tax regulations. The application of BTD, as suggested by Desai *et al.* (2007), not only reveals tax avoidance but also identifies earnings management techniques. Nevertheless, according to Hanlon & Heitzman (2010), these various measurement methods are effective only in measuring non-conforming tax avoidance, where transaction reporting differs between commercial and tax purposes. To gauge conforming tax avoidance, where commercial income simultaneously decreases, they recommend using the tax payment-to-operating cash flow ratio as a more appropriate indicator.

This study utilizes conforming tax avoidance measures to address the gap in research, where there is little examination of tax avoidance in Indonesia employing this method as a representation of tax avoidance (Satyadini, 2018).

Determinants of Tax Avoidance

Tax Enforcement

Neo-institutional economic theory emphasizes that individual or company economic behavior is influenced by the institutional framework involving legal aspects, rules, and social values. In the context of corporate taxation, rules and legal oversight play a crucial role. This includes tax authority surveillance and inspection, which can impose sanctions on tax avoidance actions. Therefore, tax enforcement by tax authorities influences a company's decisions regarding tax avoidance. Research by Desai *et al*. (2007) illustrates how enhanced law enforcement in Russia after Putin's election as president encouraged companies to be more compliant in tax payments, reducing related-party transactions, and curbing corporate practices in low-tax jurisdictions. Studies by Hoopes *et al*. (2012) indicate that public companies in the United States reduce their aggressiveness in tax planning as IRS supervision becomes stricter. Atwood *et al*. (2012) discovered a negative correlation between corporate tax avoidance practices and the extent of law enforcement. Meanwhile, Satyadini (2018) discovered that a persuasive approach in guidance by the Directorate General of Taxation (DGT) in Indonesia has a more positive impact in preventing tax avoidance compared to law enforcement through tax audits.

Based on empirical findings from previous research and relevant theoretical considerations, research hypotheses are formed in alternative form:

Hypothesis 1: Conforming tax avoidance is negatively impacted by tax enforcement.

Related-Party Transactions

The arm's length principle is a key guideline when there are transactions between related parties. This principle aims to ensure that prices and profits related to these transactions align with what is expected in transactions between non-related parties. According to Park (2018), related parties can influence their business partnership, allowing adjustments to terms and conditions and transaction amounts according to their desires. High-tax corporations may utilize this to cut their taxes by dealing on favorable terms with related parties who have reduced tax burdens, which will ultimately result in tax savings for the business group.

Several studies, such as Barker *et al*. (2017) in the U.S., Taylor & Richardson (2012) in Australia, Park (2018) in Korea, Sari *et al*. (2020) in East, Southeast, and South Asia, Azizah & Kusmuriyanto (2016) and Rezeki *et al.* (2021) in Indonesia, have shown that related-party transactions affect tax avoidance. Based on theoretical reviews and previous research findings, research hypotheses formulated in alternative form are:

Hypothesis 2: Conforming tax avoidance is positively impacted by related-party transactions.

External Audit

There are two hypotheses related to firm size and tax avoidance, namely the political cost hypothesis and the political power theory. According to Watts & Zimmerman's (1986) Positive Accounting Theory, the political cost hypothesis proposes that larger corporations are subject to more government regulations due to their greater exposure and larger scale. As a result, large companies face higher political costs due to tax rules and policies that can disadvantage them. This view is based on two main arguments: large companies are bound by more government regulations and are more vulnerable to public pressure and scrutiny.

On the other hand, the political power theory suggests that larger companies possessing significant financial resources can carry out tax strategies and shape the political landscape to their advantage, ultimately leading to the greatest possible tax savings. This ability includes the use of external audit services or large accounting firms in tax preparation, planning, and reporting. Numerous research initiatives have examined the influence of external audit on tax avoidance, with varying results. Some studies, such as Klassen *et al*. (2016) in the United States, Sunarsih & Oktaviani (2016), Sandy & Lukviarman (2015), Maraya & Yendrawati (2016), and Suyono (2018) in Indonesia, show that there is less tax avoidance in businesses that Big 4 Public Accounting Firms examine. On the other hand, McGuire *et al*. (2012) and Hogan & Noga (2015) found different results, showing that firms using tax planning services engage in more significant tax avoidance in the United States. Santos *et al.* (2021) in a study using data from Brazil, also found similar results. Therefore, based on the theoretical review and previous research findings, the research hypothesis is formulated in alternative form as follows:

Hypothesis 3: Conforming tax avoidance is positively impacted by external audit.

**METHODS**

Research Design

This study is causal research aimed at testing hypotheses regarding the effects of tax law enforcement, related-party transactions, and the use of external audit services on tax avoidance practices in manufacturing sector companies that are listed on the Indonesia Stock Exchange between 2012 and 2021.

Population and Sample

Manufacturing sector enterprises registered on the Indonesia Stock Exchange between 2012 and 2021 comprise the research population. Purposive sampling is the approach used for sample selection, in which the researcher chooses the sample based on predetermined criteria (Sekaran, 2013). To filter the data, the following steps are applied:

1. Companies with missing or incomplete data are excluded from the sample.
2. Only companies that can provide complete data to calculate the tax payment-to-operating cash flow ratio will be included in the research sample.

Table 1. Sample Criteria

|  |  |  |
| --- | --- | --- |
| No | Description | Quantity |
| 1. | Number of registered manufacturing companies in the period of 2012-2021 | 233 |
| 2. | Companies without positive profits for the fiscal year 2012-2021 | 137 |
| 3. | Companies with negative net cash flow from operating activities | 49 |
| 4.  5. | Companies without complete data  Total sample | 14  33 |
| 6. | Total research data (33 companies x 10 years) | 330 |

Source: Author’s calculation

Data Collection Method

The information provided by companies listed on the Indonesia Stock Exchange (IDX) is the source of the data used in this study. The technique utilized to obtain the necessary data is a literature study, which involves a thorough review of relevant prior research publications, books, and articles related to the research topic. These data sources were obtained from the library and online scientific journal databases. Furthermore, data was also collected through documentation or recording methods, particularly to record financial information available on the company's official website.

Operational Definitions of Variables

Dependent Variable

The dependent variable in this research is conforming tax avoidance, as proposed by Hanlon & Heitzman (2010), where the reduction in income for tax calculation purposes also diminishes commercial income, measured by the tax over operating cash flows ratio (TAXOCF). The use of this proxy refers to the study by Salihu *et al.* (2013). Therefore, conforming tax avoidance in this research is:

Independent Variables

Tax Enforcement

Law enforcement is deemed to impact company behavior because, in line with neo-institutional economic theory, companies tend to reduce aggressive tax planning if there is a threat of legal or social sanctions. One form of law enforcement conducted by the Directorate General of Taxation (DGT) is through the audit process, ultimately leading to tax assessment letters. In this study, law enforcement measurement is conducted through the amount of tax value assessed that companies are required to pay in the relevant year. The value of these tax assessments is calculated using the natural logarithm of the principal, fines, and sanctions listed in the Tax Underpayment Assessment Letter, Additional Tax Underpayment Assessment Letter, and Tax Bill resulting from tax audits. This measurement refers to the same Tax Enforcement (TAXFORCE) proxy used in the study by Satyadini (2018).

Related-party Transactions

Individuals or entities exerting significant control or influence over another entity are considered to have a related-party relationship. Transactions between parties with a related-party relationship, irrespective of the applied prices, are deemed as related-party transactions. The flexibility in determining transaction prices and terms is often used by parties involved in related-party relationships or operating within a business group to engage in tax planning that can lead to maximum tax savings. In the context of related-party transactions, there is potential for tax avoidance. In this research, sales transactions related to a special relationship are used as the measurement proxy, as per the approach utilized in the study by Park (2018). The variable focused on in this study is related-party transactions, measured by:

External Audit

This research will test hypotheses based on the framework of political power theory. Companies with sufficient resources are inclined to utilize the services of external auditors or accounting firms providing tax planning services (auditor-provided tax services) for optimal tax planning. Large accounting firms, including those in the Big Four group with audit and tax planning services, have special capabilities in designing complex transactions that are difficult to minimize tax liabilities. To capture the impact of using external audit on a company's tax avoidance practices, this variable is represented by a dummy variable as used by Maraya & Yendrawati (2016). The dummy variable is an alternative variable with the following values:

KAP = 0, for companies not audited by a Big Four accounting firm.

KAP = 1, for companies audited by a Big Four accounting firm

Control Variables

Company Size

In this study, factors proven to have an influence on tax avoidance practices, such as Company Size (SIZE), Leverage (LEV), Return on Assets (ROA), and Capital Intensity (CAPINT), are used as control variables. There is evidence that company size impacts tax avoidance practices, as larger entities tend to have resources that can be utilized for tax avoidance strategies, though in some cases, they might also face more significant political pressure. Company size is measured by calculating the natural logarithm of the company's total assets (Satyadini, 2018):

Leverage

Furthermore, the use of debt as the primary source of funding can also influence tax avoidance because companies employing this approach can benefit from the tax shield of the interest they pay. The level of debt is measured by comparing the total liabilities to the total assets of the company (Fauzan *et al.*, 2019).

Return on Assets

Companies with higher profitability levels tend to engage more in tax avoidance to reduce the tax burden that increases alongside profit growth. Company profitability is measured using the Return on Assets (ROA) ratio, calculated by comparing net income to total assets as used in the study by Dewi & Yasa (2020).

Capital Intensity

Companies with relatively large asset amounts can benefit from the tax shield of depreciation expenses that can be utilized as a tax deduction. Capital Intensity (CAPINT) is the ratio between Net Property, Plant, and Equipment to total assets (Widyastuti *et al.,* 2022)

Data Analysis Method

This research applies descriptive data analysis, including calculating the mean, median, standard deviation, as well as maximum and minimum values from the provided data. This analysis aims to evaluate the consistency of mean and median values of data and to assess whether the data distribution is normal. Moreover, this analysis helps in evaluating if the data variations are within an acceptable range.

Furthermore, this research also employs multiple regression models to test the hypotheses put forward concerning each of the researched variables. Through regression analysis, this study will statistically determine whether the proposed hypotheses can be accepted or rejected. The regression model is as follows:

**RESULTS AND DISCUSSIONS**

Descriptive Statistics

Based on Table 2, it is known that the number of observations is 330, with the mean value of the dependent variable (TAXOCF) being 0.36178 or 36.178%.

Table 2. Descriptive Statistics

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | N | *Mean* | *Median* | *Maximum* | *Minimum* | *Std. Dev.* |
| TAXOCF | 330 | 0.361708 | 0.282396 | 1.000000 | 0.000133 | 0.277611 |
| TAXFORCE | 330 | 5.803895 | 0.000000 | 22.05558 | 0.000000 | 7.879850 |
| RPTRAN | 330 | 13.51885 | 1.580000 | 92.71000 | 0.000000 | 24.32691 |
| KAP | 330 | 0.618182 | 1.000000 | 1.000000 | 0.000000 | 0.486570 |
| SIZE | 330 | 22.46481 | 22.26097 | 26.62947 | 0.000000 | 2.037672 |
| LEV | 330 | 0.390865 | 0.375599 | 0.773382 | 0.000000 | 0.173535 |
| ROA | 330 | 0.111292 | 0.087837 | 0.657066 | 0.000000 | 0.098756 |
| CAPINT | 330 | 0.396522 | 0.371384 | 0.846431 | 0.000000 | 0.185379 |

Source: Author’s calculation

Model Testing

The F-Statistic Test (Chow Test) is used to choose between the Pooled Least Square-OLS model or Fixed Effect Model (FEM) in handling panel data. The Chow test for this model has a probability value of F smaller than α (0.05), specifically the F probability value of 0.0000. Therefore, the appropriate model from these results is the FEM.

Subsequently, a Hausmann test is conducted, showing a probability lower than the value of α (0.05), specifically at 0.0106. Therefore, the FEM method is preferred over the Random Effect Model (REM).

Classical Assumptions Test

Multicollinearity Test

This test is performed to ascertain if there is a strong correlation among independent variables (Ghozali, 2011). To identify multicollinearity, attention is paid to the relationship between independent variables. If the correlation coefficient between independent variables exceeds 0.8, it indicates the possibility of multicollinearity. The correlation table's results between each independent variable show that the correlation coefficients are less than 0.70, hence it can be concluded that the model does not suffer from multicollinearity issues according to classical assumptions.

Heteroskedasticity Test

The heteroskedasticity test is conducted by re-estimating the regression model using "White Heteroscedasticity Cross-Section Standard Error and Covariance" and comparing the results (output) of this regression with the initial regression. If the results of this regression when compared to the initial estimates have higher R-squared and Adjusted R-squared coefficients, it can be concluded that the initial estimation is free from heteroskedasticity problems.

Normality and Autocorrelation Test

According to Gujarati & Porter (2009), the normality test is not necessary for research with observations exceeding 100 because the error term distribution is already close to normal. Meanwhile, the autocorrelation test is not relevant for panel data because the test's characteristic is observing the correlation between variables in time series data (Ajija, Sari, Setianto & Primati, 2011).

Hypothesis Testing

The regression results using the FEM method are displayed in the table below.

Table 3. Fixed Effect Model Regression Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|  |  |  |  |  |
|  |  |  |  |  |
| C | 0.929577 | 0.273182 | 3.402775 | 0.0008 |
| TAXFORCE | -0.004108 | 0.002482 | -1.655528 | 0.0989 |
| RPTRAN | 0.005999 | 0.003490 | 1.718634 | 0.0867 |
| KAP | 0.102052 | 0.082585 | 1.235725 | 0.2176 |
| SIZE | -0.035566 | 0.012157 | -2.925625 | 0.0037 |
| LEV | 0.604832 | 0.198704 | 3.043881 | 0.0025 |
| ROA | -0.170127 | 0.309946 | -0.548894 | 0.5835 |
| CAPINT | -0.269079 | 0.155211 | -1.733635 | 0.0840 |
|  |  |  |  |  |
|  |  |  |  |  |
|  | Effects Specification | |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Cross-section fixed (dummy variables) | | | |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Root MSE | 0.233289 | R-squared | | 0.291673 |
| Mean dependent var | 0.361708 | Adjusted R-squared | | 0.196415 |
| S.D. dependent var | 0.277611 | S.E. of regression | | 0.248858 |
| Akaike info criterion | 0.169345 | Sum squared resid | | 17.95981 |
| Schwarz criterion | 0.629841 | Log likelihood | | 12.05810 |
| Hannan-Quinn criter. | 0.353030 | F-statistic | | 3.061932 |
| Durbin-Watson stat | 2.051933 | Prob(F-statistic) | | 0.000000 |
|  |  |  |  |  |
|  |  |  |  |  |

**Coefficient of Determination (R-squared Test)**

According to the regression results in Table 3, the adjusted R-squared coefficient is around 0.291673. This suggests that approximately 29% of the variation in the dependent variable (TAXOCF) can be explained by the variation in the independent variables. Meanwhile, about 71% of the remaining variation can be attributed to the residual variable (*eit*).

**Simultaneous Significance Test (F-Test)**

This test assesses if all independent variables collectively contribute significantly to the dependent variable. The data in Table 3 reveals that the F-statistic's probability is 0.0000. As this figure is below the 5% significance level, it's concluded that at a 95% confidence level (α=5%), the null hypothesis (H0) can be rejected. This indicates that the FEM regression model is sufficiently significant in explaining the variation in the dependent variable.

**Partial Significance Test (t-Test)**

The t-test is used to assess the partial (individual) impact of independent variables on the dependent variable. Variable TAXFORCE has a probability value of 0.0989, suggesting it has no significant influence on TAXOCF. Variable RPTRAN exhibits a probability value of 0.0867, indicating no significant impact at a 5% confidence level. The dummy variable KAP shows a probability value of 0.2176, meaning there's no significant relationship between the external auditor and conformin tax avoidance. SIZE and LEV present probability values of 0.0037 and 0.0025, respectively, suggesting significant effects on conforming tax avoidance. However, ROA and CAPINT display probability values of 0.5835 and 0.0840, signifying no significant influence on conforming tax avoidance.

The Impact of Tax Enforcement on Conforming Tax Avoidance

The probability of the TAXFORCE variable, which serves as a proxy for tax enforcement, stands at the level of 0.0989 with a negative coefficient of 0.004108. This indicates that at a 95% confidence level, the TAXFORCE variable does not have a significant influence on the TAXOCF variable. Thus, Hypothesis 1 in this study is rejected. The author attributes this to the use of a conforming measurement of tax enforcement in this research, evaluated by the ratio of taxes paid to operating cash flow. Two factors could distort this ratio as a measure of conforming tax avoidance. First, the research period covers 2012-2021, a time during which the government initiated a tax amnesty program. Taxpayers participating in the tax amnesty program could pay taxes at lower rates and receive facilities to halt tax inspections. Second, the tax amnesty abolished administrative penalties arising from tax assessments and tax bills.

This study's results align with the conclusions of Damayanti & Prastiwi (2017), stating that there is no significant relationship between tax audits and the level of tax avoidance. Their research indicates that changes in the intensity of tax audits do not affect how much companies use aggressive strategies in managing their taxes. This finding indicates that companies are effective in executing their tax management strategies and are less concerned about potential tax authority inspections.

The Impact of Related-party Transactions on Conforming Tax Avoidance

The RPTRAN variable has a probability level of 0.0867 with a positive coefficient. At a 95% confidence level, this variable does not have a significant impact on the TAXOCF variable, thus leading to the rejection of Hypothesis 2 in this study. Despite being insignificant, the positive influence of the RPTRAN variable on the TAXOCF variable indicates that intuitively, the greater the portion of related-party transactions, the lower the level of conforming tax avoidance. This is in line with the findings of Aryotama & Firmansyah (2019), who argue that inter-company sales transactions among related parties in Indonesia are dominated by transactions within one jurisdiction (in Indonesia), not across borders, and thus don't negatively affect the effective tax rate of companies.

The Impact of External Audit on Conforming Tax Avoidance

The KAP variable has a probability value of 0.2176 with a positive coefficient. This implies that at a 95% confidence level, the KAP variable does not significantly influence the TAXOCF variable. External audits by Big Four or non-Big Four audit firms do not affect a company's level of conforming tax avoidance. This could be due to the auditor switching rule in Government Regulation No. 20/2015, allowing a public accountant to provide audit services for historical financial information to an entity for a maximum of 5 consecutive accounting years. This means the preference for external audits isn’t dependent on whether the services provided by internal auditors can influence the level of tax avoidance.

Control Variable Impact on Tax Avoidance

Company Size

The SIZE variable has a negative coefficient with a probability level of 0.0037. This indicates that the SIZE variable significantly influences the TAXOCF variable. The negative relationship suggests that the larger the company, the lower the ratio of tax payments to cash flow from operating activities, hence indicating higher conforming tax avoidance. This study supports previous research indicating that larger companies have the resources to engage in tax avoidance practices, although in some cases, they might face more significant political pressures.

Leverage Influence

The LEV variable significantly affects the TAXOCF variable, shown by the probability value at the level of 0.0025. The positive coefficient indicates that the higher a company's debt, the greater the ratio of tax payments to operating cash flow. This study aligns with research by Jessica & Toly (2014) and others, indicating that higher leverage has a direct effect on tax aggressiveness.

As explained in Law Number 36 of 2008 concerning Income Tax, borrowing costs are included as deductible expenses from gross income in the calculation of taxable income. Tax incentives in the form of reducing interest costs in the computation of taxable income can be utilized by companies to reduce the corporate tax burden.

Return on Assets

The ROA variable shows a negative coefficient with a probability level of 0.5835, indicating that this variable does not significantly affect the TAXOCF variable. This means that a company's profitability level does not influence conforming tax avoidance actions. This study's findings align with the research conducted by Fitri & Munandar (2018), which indicates that companies, whether highly profitable or less, have an equal chance of engaging in tax avoidance.

Capital Intensity

The CAPINT variable does not significantly affect the TAXOCF variable, as indicated by the probability level of 0.0840. This implies that even when a company has a relatively high composition of fixed assets, it does not affect the level of conforming tax avoidance. This finding contradicts the results of Sugeng *et al.* (2020), which demonstrated a positive and significant relationship between asset composition and the level of tax avoidance.

The tax shield caused by depreciation costs is a temporary difference based on the provisions of the Income Tax Law. In the long term, commercial and fiscal depreciation costs are the same.

**CONCLUSIONS**

This study enriches the body of research on tax avoidance. The significant role of taxes in development has made tax avoidance a highly attractive topic for researchers. The diverse patterns of measuring tax avoidance and their relationship with various determining factors prompted the author to investigate the influence of law enforcement variables, related-party transactions, and external audit on tax avoidance. Additionally, the author is interested in observing the impact of conforming tax avoidance, an area that is rarely explored in Indonesia.

The research results show that tax enforcement, related-party transactions, and external audits do not have a significant influence on conforming tax avoidance. However, control variables such as company size and leverage significantly impact conforming tax avoidance.

This research utilized financial report data from companies listed on the Indonesia Stock Exchange. Most variables, especially those related to tax data, stem from financial reports submitted by issuers for stock exchange regulatory purposes. The author did not use Annual Tax Return data due to limited access to tax-related information.

The TAXOCF and TAXFORCE variables might yield different results when using tax return data, which provides information on examination outcomes based on the tax year. Moreover, the author suspects that tax amnesty could influence the study's results due to the amnesty's provisions for penalty waiver and cessation of tax inspections for participating taxpayers. However, the author couldn't analyze the impact of tax amnesty due to taxpayer data confidentiality.

Future research could use tax data from Annual Tax Returns, considering the influence of tax amnesty in measuring various variables related to conforming tax avoidance.

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