

Corporate Strategy and Tax Avoidance: The Mediation Effect of Profitability in the Dynamics of Transfer Pricing, Leverage, and GCG

Corporate Strategy and
Tax Avoidance: The
Effect of Profitability

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ABSTRACT

The background of this research is driven by the increasing practice of tax avoidance in Indonesia, particularly through transfer pricing mechanisms and the utilization of corporate financing structures. This study examines the effect of transfer pricing, leverage, and good corporate governance on tax avoidance in Indonesian food and beverage manufacturing firms. This study uses a quantitative approach with secondary data from companies' financial statements for the 2020–2024. Based on the results, transfer pricing has an insignificant effect on tax avoidance and profitability, including its mediation through profitability. Leverage has an insignificant effect on tax avoidance and a significant effect on profitability, while its indirect effect on tax avoidance through profitability is not significant. Good corporate governance has a significant effect on tax avoidance, an insignificant effect on profitability, and no significant mediating effect through profitability. Profitability itself has an insignificant effect on tax avoidance. These findings highlight that corporate governance is a more decisive factor in promoting tax compliance compared to technical instruments such as transfer pricing and leverage in the food and beverage manufacturing sector. This study contributes to the development of tax policy, the strengthening of fiscal oversight, and the improvement of corporate governance implementation in Indonesia.

Keywords: Food and Beverage, Good Corporate Governance, Leverage, Manufacturing Sector, Tax Avoidance, Transfer Pricing.

INTRODUCTION

Indonesia's food and beverage manufacturing sector is a major contributor to national economic growth, accounting for over 38% of the non-oil and gas processing industry's GDP in 2023. Despite this contribution, the sector faces governance and tax compliance challenges, particularly tax avoidance practices. Tax avoidance involves minimizing tax liabilities by exploiting regulatory loopholes, often through complex financial structures and transfer pricing (Nuraini, 2025). Through intra-group transactions that may not reflect market value, firms can shift profits to lower-tax jurisdictions, potentially reducing state revenues and weakening fiscal fairness. Zahri et al. (2025) found that profitability and transfer pricing significantly influence tax avoidance in multinational companies in Indonesia (2019–2022), supporting the role of transfer pricing as a tax strategy. In contrast, Manullang and Ismail (2023) reported no significant effect of transfer pricing on tax avoidance in the coal sector, indicating sectoral differences. Leverage is also linked to tax avoidance because higher debt generates interest expenses that reduce taxable income. Caroline and Fajriana (2025) found a positive and significant effect of leverage on tax avoidance in industrial firms, while Manullang and Ismail (2023) again found no significant effect in coal companies, possibly due to stricter fiscal oversight and conservative financing policies.

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Good Corporate Governance (GCG) serves as an internal control mechanism through independent commissioners, audit committees, and transparent reporting. However, in Indonesia's food and beverage sector, its implementation is often formalistic and less effective in limiting tax aggressiveness. Pratama et al. (2024) found that ROA and independent commissioners significantly affect tax avoidance, while Hidayat and Rachmawati (2023) showed that GCG is ineffective when applied only symbolically. Profitability also influences tax avoidance, as highly profitable firms have incentives to reduce tax burdens yet tend to maintain greater transparency, positioning profitability as a potential mediating variable in the relationship between transfer pricing, leverage, GCG, and tax avoidance. This relationship can be explained by agency theory, which emphasizes conflicts between principals and agents, and signaling theory, which suggests firms manage tax strategies to sustain positive market perceptions, thereby supporting the examination of profitability's mediating role.

Empirical findings on the relationship between transfer pricing, leverage, GCG, and profitability remain inconsistent. Limajatini et al. (2024) found that transfer pricing had no significant effect on profitability in mining companies, whereas Zikri and Winarningsih (2024) reported that profitability positively influenced transfer pricing decisions. Devi et al. (2024) showed that leverage negatively affected profitability at PT Pabrik Kertas Tjiwi Kimia Tbk, supporting Monica and Ulil (2021), who also found leverage had a negative and significant effect on profitability, although liquidity and firm size were insignificant, while activity ratios were positive. Regarding governance, Sianturi et al. (2025) demonstrated that GCG components, such as independent commissioners and directors, positively and significantly affected ROA in property and real estate firms, while Syaiah et al. (2023) found no significant effect of GCG on ROE in manufacturing companies, suggesting that the effectiveness of GCG depends on its substantive implementation rather than formal compliance.

Studies on profitability and tax avoidance present inconsistent findings. Maharani and Akbar (2025) found that profitability negatively affects tax avoidance, while Al-Hadi (2024) reported a significant positive relationship. Limajatini et al. (2024) showed that transfer pricing has no direct effect on profitability, though the relationship becomes more complex when moderated by institutional ownership, suggesting potential indirect effects. Nugroho et al. (2024) found that multinationality positively influences tax avoidance. Yanti et al. (2023) demonstrated that profitability mediates the relationship between leverage and tax avoidance despite an insignificant direct effect, whereas Malinda and Pradana (2022) found leverage positively affects tax avoidance and negatively affects profitability, with no mediating role of profitability. Furthermore, Wijayanti and Wafiroh (2025) reported that institutional ownership and independent commissioners significantly influence profitability, although audit quality does not moderate the relationship, and Maharani and Akbar (2025) found that these GCG indicators do not significantly affect tax avoidance.

Based on the literature review, it can be concluded that the relationships among transfer pricing, leverage, GCG, profitability, and tax avoidance demonstrate inconsistent empirical findings. These inconsistencies are influenced by differences in industry sectors, firm characteristics, and regulatory environments across studies. Therefore, the primary research gap addressed in this study lies in the variation of prior empirical results and the limited exploration of profitability as a mediating variable, particularly within the Indonesian food and beverage manufacturing sector. This study investigates the effect of transfer pricing, leverage, and good corporate governance on tax avoidance in Indonesian food and beverage manufacturing firms.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect on Profitability

Transfer pricing refers to the pricing of transactions involving goods, services, or intangible assets between related parties within a business group. Darussalam and Septriadi (2021) define it as a mechanism for allocating profits and costs among affiliated

entities in accordance with the arm's length principle. In practice, transfer pricing is frequently associated with profit shifting to low-tax jurisdictions. Gunadi et al. (2020) and Tambunan et al. (2022) argue that globalization has encouraged multinational corporations to use transfer pricing not only as an operational efficiency tool but also as a tax-planning instrument. Nevertheless, stricter regulatory frameworks, including mandatory documentation requirements and enhanced fiscal supervision, have constrained its aggressive implementation. Empirical findings remain inconclusive; some studies identify a positive association between transfer pricing and tax avoidance, while others report no significant relationship, depending on firm characteristics, governance quality, and the intensity of regulatory enforcement.

Leverage reflects the proportion of corporate assets financed through debt (Kasmir, 2023). According to Gitman and Zutter (2015), although debt financing can enhance shareholder returns, it also increases financial risk. From a taxation perspective, leverage generates a tax shield through interest deductibility, thereby reducing taxable income. Firms with high leverage may depend on debt-related tax benefits, and, in certain cases, employ thin capitalization strategies to optimize these advantages. However, empirical evidence remains mixed: some studies find a positive relationship between leverage and tax avoidance, whereas others observe no significant effect, particularly in jurisdictions with strict regulatory limitations. Meanwhile, Good Corporate Governance (GCG) aims to strengthen transparency, accountability, and oversight mechanisms (Siantury et al., 2025). While effective governance may curb aggressive tax avoidance, it may also enable strategic, lawful tax planning aligned with risk management and sustainability objectives.

H1: Transfer pricing has a significant effect on profitability.

H2: Leverage has a significant effect on profitability.

H3: Good corporate governance has a significant effect on profitability.

The Effect on Tax Avoidance

Tax avoidance refers to corporate strategies aimed at minimizing tax liabilities by exploiting legal loopholes, often perceived as conflicting with fiscal fairness and social responsibility. Richardson et al. (2021) describe it as a gray area between compliance and aggressive tax planning, implemented through transaction structuring and financial reporting policies. Austin and Wilson (2022) and Tang and Firth (2023) further explain that tax avoidance involves manipulating the timing, character and structure of income to capitalize on weaknesses in tax systems. In developing countries such as Indonesia, tax avoidance presents significant challenges to government revenue and fiscal sustainability. Empirical findings regarding its determinants remain mixed, indicating that tax avoidance arises from complex interactions among firm characteristics, governance structures, and regulatory environments rather than from a single explanatory factor. Transfer pricing, defined as the pricing of transactions between related parties under the arm's length principle, is frequently associated with profit shifting to low-tax jurisdictions (Darussalam & Septriadi, 2021).

Empirical evidence on the relationship between transfer pricing and tax avoidance remains inconclusive. Similarly, studies on Good Corporate Governance (GCG) indicate mixed results regarding its impact on tax avoidance. Some research suggests that stronger GCG mechanisms reduce the likelihood of tax avoidance by improving oversight and accountability, while other studies find limited or context-dependent effects. Future studies by Limajatini et al. (2024) find a positive effect, especially in multinational firms with intensive cross-border transactions, while others report no significant association under strict regulatory oversight. These differences indicate that its effectiveness depends on ownership structure and enforcement strength. Similarly, leverage creates tax shields through interest deductibility, yet empirical findings on its link to tax avoidance are mixed. Similarly, profitability reflects a firm's ability to generate earnings and may increase incentives for tax avoidance, yet heightened scrutiny and reputational concerns

create balancing pressures, leading to inconsistent empirical outcomes (Sartono, 2021; Harahap, 2022).

H4: Transfer pricing has a significant effect on tax avoidance.

H5: Leverage has a significant effect on tax avoidance.

H6: Good corporate governance has a significant effect on tax avoidance.

H7: Profitability has a significant effect on tax avoidance.

The Effect of Profitability as a Mediating Variable

Profitability may mediate the relationship between transfer pricing, leverage, GCG, and tax avoidance. Conceptually, transfer pricing policies can influence reported earnings through the allocation of revenues and costs across affiliated entities, thereby affecting overall profitability. Similarly, leverage decisions may alter net income through interest expenses and tax shield effects, which subsequently shape firms' incentives to engage in tax planning. GCG mechanisms such as independent boards, audit committees, and effective internal controls can also enhance profitability by improving operational efficiency, reducing agency costs, and strengthening strategic decision-making. Prior empirical studies provide partial support for this mediating perspective. For example, research by Graham et al. (2014) and Undie et al. (2020) suggests that profitability is associated with greater tax planning incentives, while studies by Pitulice et al. (2016) indicate that financial performance may channel the impact of corporate policies into tax outcomes.

However, prior findings also reveal that profitability does not consistently serve as a significant mediator. Some studies report that regulatory enforcement, ownership concentration, and industry characteristics exert stronger direct effects on tax avoidance than profitability levels. Elumilade et al. (2022) argue that institutional pressures and tax authority monitoring often limit the extent to which profitability translates into aggressive tax strategies. In highly regulated environments, firms may prioritize compliance and reputational considerations over profit-driven tax minimization. Empirical evidence in emerging markets further demonstrates that operational complexity and governance quality frequently moderate the profitability tax avoidance relationship. These findings highlight that the mediating role of profitability is context-dependent and influenced by legal frameworks, monitoring intensity, and firm-specific characteristics, underscoring the multifaceted determinants of corporate tax behavior.

H8: Profitability mediates the effect of transfer pricing on tax avoidance.

H9: Profitability mediates the effect of leverage on tax avoidance.

H10: Profitability mediates the effect of good corporate governance on tax avoidance.

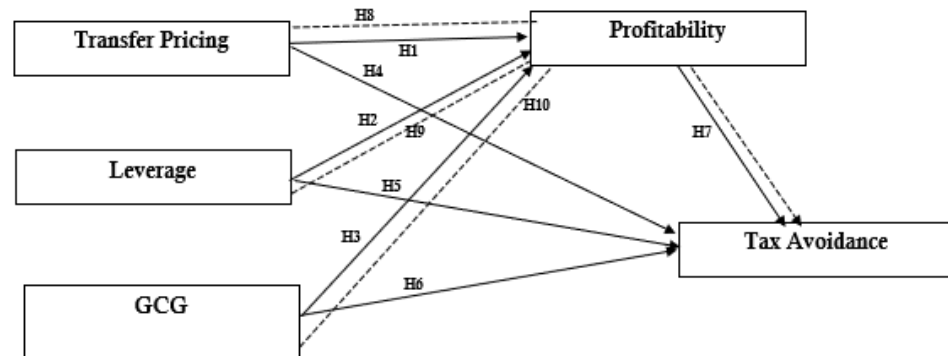


Figure 1. Conceptual Framework

Figure 1 illustrates the research model examining the direct and indirect effects of transfer pricing, leverage, and GCG on tax avoidance, with profitability serving as a

mediating variable. The solid arrows represent direct relationships, while the dashed arrows indicate mediated effects. Specifically, transfer pricing, leverage, and GCG are hypothesized to directly influence both profitability and tax avoidance, and indirectly affect tax avoidance through profitability. Additionally, profitability is proposed to have a direct effect on tax avoidance, thereby functioning as an intervening variable that mediates the relationships between the independent variables and tax avoidance.

RESEARCH METHODS

This study employs a quantitative research design with a causal approach to examine the direct and indirect effects of transfer pricing, leverage, and Good Corporate Governance (GCG) on tax avoidance, with profitability positioned as a mediating variable. A causal design is selected because the study seeks to test cause-and-effect relationships among variables based on previously formulated hypotheses. The quantitative method is appropriate as all variables are measured using numerical indicators derived from corporate financial statements, enabling objective hypothesis testing through statistical procedures. This design also facilitates systematic analysis and enhances the generalizability of the findings.

Data collection is conducted using the documentation method, relying on secondary data obtained from annual reports and audited financial statements. These data are accessed through the official website of the Indonesia Stock Exchange (IDX) and the respective corporate websites. The collected information includes related-party transactions, capital structure, corporate governance mechanisms, profitability indicators, and corporate tax expenses. All data are carefully screened, classified, and tabulated to ensure completeness, consistency, and comparability across the 2020–2024 observation period.

The population of this study consists of all food and beverage manufacturing companies listed on the IDX. The sampling technique applied is purposive sampling based on specific criteria: companies must be consistently listed during the 2020–2024 period, provide complete data for all research variables, and not experience consecutive losses during the observation period. These criteria are established to maintain data validity and ensure that the selected firms reflect stable operational conditions, thereby enabling a more accurate assessment of financial and tax-related policies.

Leverage in this study is proxied by the Debt to Asset Ratio (DAR), which reflects the proportion of company assets financed through debt and indicates the firm's financial risk exposure. GCG is measured by the Board of Commissioners (BOC), representing the effectiveness of supervisory and monitoring functions within the company. Tax avoidance is proxied by the Effective Tax Rate (ETR), which illustrates the extent to which a company minimizes its tax burden relative to its earnings. Profitability is measured using P2, representing the company's ability to generate profit from its operational activities. It is commonly represented by financial ratios such as Return on Assets (ROA) and Return on Equity (ROE). Meanwhile, Transfer Pricing (TP) refers to transactions conducted between related parties and is used to assess the extent of intra-group pricing policies that may influence corporate tax strategies.

Data analysis is performed using an inferential statistical framework to evaluate both direct and mediating relationships among variables. The study applies Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) approach, as it is suitable for analyzing complex models involving mediation effects and does not require strict normality assumptions. The analysis is conducted using the latest version of SmartPLS software, including assessment of the measurement model (outer model) to test validity and reliability, as well as evaluation of the structural model (inner model) to examine path coefficients and mediation effects.

RESULTS

Before presenting a detailed analysis, it is important to examine the descriptive statistics of the variables used in this study. Table 1 summarizes the mean, median,

minimum, maximum, and standard deviation values for leverage, good corporate governance, tax avoidance, profitability, and transfer pricing, providing an overview of the data distribution and variability.

Table 1. Descriptive Statistical Test Result

Variable	Mean	Median	Observed Min	Observed Max	Standard Deviation
Leverage	0.407	0.420	0.010	1.430	0.252
Good Corporate Governance	4.179	4.000	2.000	8.000	1.501
Tax Avoidance	19.017	4.350	0.000	95.020	28.408
Profitability	73.359	13.480	0.068	4838.400	492.770
Transfer Pricing	0.058	0.010	0.000	1.110	0.139

Table 1 presents the descriptive statistical results of the research variables. Leverage shows a mean value of 0.407 with a median of 0.420, indicating that, on average, approximately 40.7% of total assets are financed by debt. The minimum value of 0.010 and the maximum of 1.430 suggest considerable variation in capital structure among firms, supported by a standard deviation of 0.252. Good corporate governance has a mean of 4.179 and a median of 4.000, implying that companies generally have four commissioners, with board sizes ranging from 2 to 8 members.

Tax avoidance records a mean of 19.017 and a median of 4.350, with values varying widely from 0.000 to 95.020 and a relatively high standard deviation of 28.408, indicating substantial differences in effective tax rates across firms. Profitability demonstrates a mean of 73.359 but a much lower median of 13.480, suggesting the presence of extreme values, as reflected by the very high maximum of 4838.400 and standard deviation of 492.770. Meanwhile, transfer pricing shows a relatively low mean of 0.058 and median of 0.010, with a maximum of 1.110 and standard deviation of 0.139, indicating limited but varying related-party transaction intensity among the sampled companies.

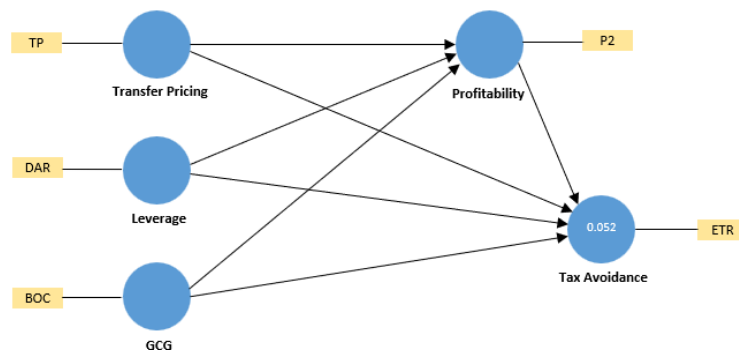


Figure 2. Partial Least Square Model

Figure 2 presents the analytical results of the statistical model examining the effects of transfer pricing, leverage, good corporate governance, and profitability on corporate tax avoidance as measured by the effective tax rate. It shows the estimated relationships of these independent variables with the dependent variable and includes coefficients such as 0.052 to indicate the magnitude and direction of influence, thereby illustrating how each predictor is associated with variations in tax avoidance within the context of the study (Hair et al., 2021).

Table 2. Outer Loading

Variable	Outer Loading
Leverage	1.000
Good Corporate Governance	1.000
Tax Avoidance	1.000
Profitability	1.000
Transfer Pricing	1.000

Table 2 presents the outer loadings for each indicator on its respective construct. All variable leverage, GCG, tax avoidance, profitability, and transfer pricing exhibit an outer loading of 1.000, indicating that each indicator perfectly reflects its corresponding latent variable. This suggests that each construct in the model is measured by a single indicator and demonstrates very strong convergent validity within the measurement model.

Table 3. Multicollinearity Test

Relationship	VIF
Good Corporate Governance → Tax Avoidance	1.045
Good Corporate Governance → Profitability	1.028
Leverage → Tax Avoidance	1.353
Leverage → Profitability	1.219
Profitability → Tax Avoidance	1.116
Transfer Pricing → Tax Avoidance	1.226
Transfer Pricing → Profitability	1.203

Based on Table 3, the Collinearity Statistics (VIF) were used to assess multicollinearity. The VIF values are as follows: GCG on tax avoidance = 1.045, GCG on profitability = 1.028, leverage on tax avoidance = 1.353, leverage on profitability = 1.219, profitability on tax avoidance = 1.116, transfer pricing on tax avoidance = 1.226, and transfer pricing on profitability = 1.203. Since all VIF values are below 10, there is no indication of multicollinearity among the variables.

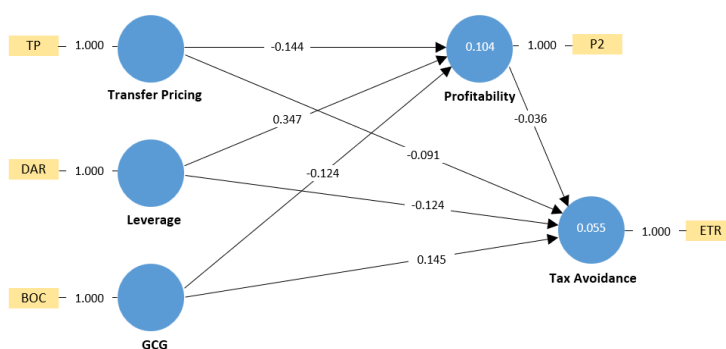


Figure 3. Inner Model Evaluation

Figure 3 presents the structural model illustrating the relationships between transfer pricing, leverage, and GCG on profitability and tax avoidance. The results show that transfer pricing and leverage influence profitability, while transfer pricing, leverage, and GCG have direct effects on tax avoidance. Profitability also affects tax avoidance, although the effect is relatively small.

Table 4. R Square

Variable	R-Square	R-Square Adjusted
Tax Avoidance	0.055	0.013
Profitability	0.104	0.074

Table 4 shows that the coefficient of determination (R^2) indicates the extent to which independent variables explain the variation in a dependent variable. An $R^2 \geq 0.67$ is considered strong, 0.33–0.67 moderate, and 0.19–0.33 weak. The R^2 value of 0.104 indicates that 10.4% of profitability is explained by the independent variables, while the R^2 value of 0.055 shows that 5.5% of tax avoidance is explained by the model, suggesting relatively low explanatory power. Based on the results, the R^2 for tax avoidance and profitability are both categorized as weak.

Table 5. Hypothesis Testing

Relationship	Original Sample	Sample Mean	Standard Deviation	t-statistics	p-value	Information
Transfer Pricing → Tax Avoidance	-0.091	-0.080	0.166	0.868	0.386	Negative and insignificant
Transfer Pricing → Profitability	-0.144	-0.083	0.071	1.271	0.204	Negative and insignificant
Leverage → Tax Avoidance	-0.124	-0.105	0.101	1.230	0.219	Negative and insignificant
Leverage → Profitability	0.347	0.443	0.097	3.579	0.000	Positive and significant
GCG → Tax Avoidance	0.145	0.144	0.073	1.997	0.046	Positive and significant
GCG → Profitability	-0.124	-0.094	0.112	1.104	0.270	Negative and insignificant
Profitability → Tax Avoidance	-0.036	-0.069	0.061	0.585	0.558	Negative and insignificant
Transfer Pricing → Profitability → Tax Avoidance	0.005	0.002	0.016	0.315	0.752	Positive and insignificant
Leverage → Profitability → Tax Avoidance	0.004	0.004	0.011	0.409	0.683	Positive and insignificant
GCG → Profitability → Tax Avoidance	-0.012	-0.033	0.085	0.351	0.726	Negative and insignificant

Based on the hypothesis testing results presented in Table 5, transfer pricing has no significant effect on profitability ($p = 0.204 > 0.05$), leading to the rejection of H1. Leverage significantly affects profitability ($p = 0.000 < 0.05$), so H2 is accepted, while GCG does not significantly influence profitability ($p = 0.270 > 0.05$), resulting in the rejection of H3. Regarding tax avoidance, transfer pricing ($p = 0.386 > 0.05$) and leverage ($p = 0.219 > 0.05$) have no significant effects, leading to the rejection of H4 and H5, whereas GCG significantly affects tax avoidance ($p = 0.046 < 0.05$), so H6 is accepted. Profitability also does not significantly influence tax avoidance ($p = 0.558 > 0.05$), causing H7 to be rejected. Furthermore, profitability does not mediate the relationships between transfer pricing and tax avoidance ($p = 0.752 > 0.05$), leverage and tax avoidance ($p = 0.683 > 0.05$), or GCG and tax avoidance ($p = 0.726 > 0.05$), resulting in the rejection of H8, H9, and H10.

DISCUSSION

The results indicate that transfer pricing does not have a significant effect on profitability (p -value $0.204 > 0.05$), leading to the rejection of the proposed hypothesis. This finding suggests that transfer pricing primarily functions as an internal allocation and tax compliance mechanism rather than as a key determinant of corporate profitability. These results are consistent with Mediaty et al. (2024), who also found that transfer pricing does not have a direct impact on profitability. While the leverage has a significant effect on company profitability (p -value $0.000 < 0.05$), confirming that the level of debt within the capital structure plays a crucial role in determining financial performance. This finding suggests that effective debt management enables companies to enhance profitability through optimal capital utilization, particularly when returns exceed

borrowing costs. In the context of manufacturing firms in Indonesia's food and beverage sector, leverage serves as an important strategy to support operational expansion and working capital needs. These findings are consistent with Daruwala (2023), who also found that leverage has a significant effect on profitability.

The results show that GCG does not have a significant effect on profitability (p -value $0.270 > 0.05$), leading to the rejection of the hypothesis. This indicates that GCG implementation has not directly improved financial performance and may function more as a compliance mechanism than as a strategic driver of profit. These findings differ from Sianturi et al. (2025), who found that GCG has a significant positive effect on profitability, suggesting that its impact may vary depending on industry and organizational context. The study shows that transfer pricing does not significantly affect tax avoidance, indicating it is not a primary tool for reducing corporate taxes. Strict regulations, such as the Minister of Finance Regulation Number 213/PMK.03/2016, requiring transfer pricing documentation (master file, local file, and CbCR) in accordance with OECD standards and the Arm's Length Principle, limit aggressive profit-shifting. Companies often use transfer pricing for operational purposes rather than tax avoidance, while other factors like leverage, firm size, profitability, and alternative tax strategies play a more dominant role. These findings are consistent with Manullang and Ismail (2023) and Barus et al. (2024), who also reported no significant effect of transfer pricing on tax avoidance.

The study shows that leverage does not significantly affect tax avoidance (p -value $0.219 > 0.05$), indicating that a company's debt level does not determine its tax avoidance behavior. Although interest expenses theoretically reduce taxable income (tax shield effect), debt decisions in Indonesian manufacturing firms are driven more by operational needs, and high leverage increases financial risk. Regulations such as Ministry of Finance Regulation Number 169/PMK.010/2015, which limits the debt-to-equity ratio to 4:1 for tax purposes, further restrict the use of leverage as a tax avoidance tool.

The results indicate that GCG significantly affects tax avoidance (p -value $0.046 < 0.05$), showing that effective governance influences how companies manage tax obligations. Strong GCG mechanisms based on transparency, accountability, responsibility, independence, and fairness help control opportunistic managerial behavior and encourage legal, strategic tax planning rather than aggressive avoidance. This finding aligns with Pratama et al. (2024) and regulatory frameworks such as POJK Number 21/POJK.04/2015, which enhance oversight and mandatory disclosure. In contrast, profitability does not significantly affect tax avoidance (p -value $0.558 > 0.05$), indicating that both highly and less profitable firms in Indonesia's food and beverage manufacturing sector show similar tax compliance. Strict regulations and transparent reporting limit the influence of profit levels on tax strategies. These results are consistent with Dewi and Noviyari (2017), highlighting that factors like governance, ownership structure, and managerial ethics have a stronger role than profitability in determining tax compliance behavior.

Regarding the mediating role of profitability, the results indicate that it does not mediate the relationship between transfer pricing, leverage, or GCG and tax avoidance, with p -values of 0.752, 0.683, and 0.726, respectively. This shows that financial performance does not serve as a pathway linking these variables to tax avoidance. These findings are supported by Ardillah and Halim (2022), Wulandari et al. (2022), and Nugroho et al. (2023), who also found that profitability does not mediate the effects of transfer pricing, leverage, or GCG on tax avoidance. The results imply that managerial ethics, legal compliance, and internal corporate policies are more decisive than financial motives in determining tax avoidance strategies.

CONCLUSION

Based on the data analysis, this study provides a comprehensive understanding of the relationships between transfer pricing, leverage, GCG, profitability, and tax avoidance in Indonesian food and beverage manufacturing companies. The results show that transfer pricing and GCG do not significantly affect profitability, suggesting that these

mechanisms have not directly enhanced corporate earnings. In contrast, leverage positively influences profitability, indicating that debt financing plays a critical role in determining profit levels. Regarding tax avoidance, transfer pricing, and leverage are not significant factors, while GCG has a notable impact, highlighting the importance of corporate governance in shaping tax compliance policies. Profitability neither affects tax avoidance nor mediates the relationships between transfer pricing, leverage, or GCG and tax avoidance, suggesting that other factors beyond profitability drive corporate tax strategies.

These findings have practical implications. Company management should strengthen the implementation of GCG principles of transparency, accountability, and integrity in reporting to reduce tax avoidance, while shareholders and investors are advised to consider governance and tax compliance alongside profitability when evaluating firm performance. Theoretically, future research could incorporate additional mediating or moderating variables, such as tax aggressiveness, company size, or audit committee effectiveness, to better explain the determinants of tax avoidance. Moreover, expanding the research to include other sectors (mining, energy, or financial services) and longer observation periods could enhance the generalizability of the results and capture long-term dynamics. Limitations of this study include its focus on a single sector and a limited observation period, which may restrict the applicability of findings across industries and over time.

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