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Exploration of Transfer Pricing Behavior: Are Foreign Ownership and Firm Size the Primary Determinants?

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Abstract

The increasingly stringent dynamics of international tax regulations, marked by the expansion of tax authorities' audit powers and low revenue target achievements, trigger the urgency to re-evaluate the determinants of tax avoidance in Indonesia. This study aims to examine the effect of foreign ownership and firm size on transfer pricing practices during the transition period of tax law enforcement. Employing a quantitative approach, the research population includes all multinational companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. Through a purposive sampling technique, 78 firm-year data were selected as samples. These secondary data were then analyzed using the Panel Data Regression method, calibrated with a series of classical assumption tests and the Common Effect Model selection. Empirical evidence shows that while foreign ownership has no significant effect and firm size has significant effect on the intensity of transfer pricing practices, showing a negative coefficient direction. These findings provide literature novelty by refuting traditional assumptions regarding corporate domination power and confirming the political cost hypothesis. The study's significance lies in its exploration of the 2022–2024 transition period under the stringent framework of PMK No. 15 of 2025, revealing that large-scale entities prioritize transparent governance to mitigate heightened litigation risks and political costs.

Keywords: Firm Size, Foreign Ownership, Transfer Pricing

1 INTRODUCTION

The opening of trade access by the World Trade Organization (WTO) has triggered the expansion of multinational enterprises (MNEs), resulting in a high volume of intra-firm transactions across jurisdictions. MNEs are closely associated with foreign direct investment and cross-border business operations; consequently, they maintain policies that influence socio-economic development [1]. This evolution underpins the necessity of determining transfer prices between related parties. Transfer pricing practices can be conducted by adhering to the arm's length principle, which utilizes comparable transactions between independent parties as a benchmark for profit allocation in related-party transactions [2].

Transfer pricing refers to the value assigned by a company to transactions involving goods, services, intangible assets, or financial transactions with related parties [3]. These practices are frequently utilized as tax planning instruments through engineered pricing mechanisms [4]. In essence, transfer pricing may involve deliberate price manipulation to suppress profits—or even simulate losses—to avoid taxes or import duties in a specific country.

In Indonesia, transfer pricing is a common practice, primarily driven by the motivation to reduce corporate tax burdens [5]. It is suspected that the prevalence of these practices negatively impacts tax collection, preventing Indonesia's tax ratio from reaching its full potential. This is supported by the Organization for Economic Co-operation and Development (OECD) report, Revenue Statistics in Asia and the Pacific 2025: Personal Income Taxation in Asia and the Pacific, which notes that Indonesia's tax ratio in 2023 was 12%. This figure sits below the Asia-Pacific average (37 countries) of 19.6% and is significantly lower than the OECD average by 22.4 percentage points.

In response, the Directorate General of Taxes (DGT) has designated transfer pricing as a primary focus for audits. The government's commitment culminated in the issuance of Minister of Finance Regulation (PMK) Number 15 of 2025, which expands the DGT's authority to extend the duration of affiliated transaction audits to a maximum of 4 months and imposes a penalty increase of

up to 50% for non-compliance in providing Transfer Pricing Documentation.

Within this increasingly stringent regulatory landscape, understanding the determinants of transfer pricing behavior is crucial. Theoretically, these practices are influenced by ownership structure and operational characteristics. Agency theory suggests that concentrated foreign ownership can trigger the expropriation of minority shareholders through transactions priced below fair market value [6]. Meanwhile, political power theory posits that large firms have higher incentives to reduce massive tax burdens through transfer price manipulation [7]. However, previous empirical literature remains fragmented and inconsistent (biased), with some studies proving a positive effect while others find no significance at all.

Addressing this research gap and the inconsistency of previous findings, this study offers novelty by re-exploring the determinants of transfer pricing during the 2022-2024 observation period, a critical transition era in which Indonesia is aggressively strengthening international tax enforcement. Unlike most prior literature, which generally assumes that foreign-owned and large-scale companies always act aggressively in tax avoidance, this study proposes an alternative thesis based on the political cost hypothesis. We hypothesize that under the shadow of heavy sanctions from PMK No. 15 of 2025 and the DGT's heightened surveillance, large entities and foreign-funded firms may shift toward more conservative transfer pricing policies to mitigate litigation risks and protect their global reputations. By examining this phenomenon, this research offers empirical justification for the government's aggressive stance in international tax enforcement, demonstrating how increased audit powers can transform corporate tax planning into more transparent and sustainable practices. This new perspective is expected to validate whether recent regulatory tightening effectively curbs transfer pricing aggressiveness, while providing contemporary literature for policymakers in the era of tax transparency and these findings are highly relevant for the DGT in evaluating whether current regulatory frameworks effectively shift corporate behavior toward tax transparency, thereby supporting Indonesia's long-term tax ratio targets.

2 LITERATURE REVIEW

2.1 Agency Theory

Agency theory, which explains the relationship between company management (the agent) and shareholders (the principal), was first proposed by [8]. Within this framework, the agent refers to the management responsible for overseeing the owner's assets, while the principal represents the shareholders. Generally, agency relationships are rarely free from "agency problems" or agency conflicts. These conflicts are rooted in self-interest behavior that can arise between management and shareholders.

Agency problems emerge due to diverging interests between the cooperating parties. Such conflicts can be detrimental to the principal, as they are not directly involved in the company's daily operations, making it difficult to obtain sufficient information. Furthermore, managers (agents) who are granted the authority to manage corporate assets have an incentive to engage in transfer pricing as a means of reducing the company's tax liabilities [9].

2.2 The Influence of Foreign Ownership on Transfer Pricing

Indonesia's concentrated ownership structure grants significant power to controlling shareholders, including privileged access to information, oversight, and control over corporate activities [10]. Consequently, a larger proportion of foreign shareholding strengthens their control over corporate management. These foreign shareholders may leverage such control to further their own interests.

The level of foreign ownership also reflects the role of shareholders in steering the company toward its objectives. General Meetings of Shareholders (GMS) are expected to establish corporate strategies and evaluate management performance, including the handling of transfer pricing issues. When foreign investors hold a larger stake as controlling shareholders, they exert significant influence over pricing policies and the volume of related-party transactions. This is often executed to maximize profits, occasionally by exploiting information asymmetry for private gain [11].

Several studies indicate a relationship between foreign ownership and transfer pricing in Indonesia. According to [12], foreign ownership influenced transfer pricing within basic materials and industrials sector companies listed on the Indonesia Stock Exchange from 2017 to 2021. Similarly, research by [13] found a comparable effect in the manufacturing sector. These findings are further supported by [11], who stated that foreign ownership affected transfer pricing in industrial sector companies during the 2016–2020 period.

H_1: Foreign ownership has an influence on transfer pricing

2.3 The Influence of Firm Size on Transfer Pricing

According to political power theory, large companies with high profitability tend to engage in transactions designed to avoid taxes. Putri [7] argues that, in many cases, these firms face heavy tax burdens, leading them to seek various methods of reduction, one

of which is transfer pricing. Firm size itself serves as a proxy for the stability and capacity of a company to conduct its economic activities.

Conversely, Micro, Small, and Medium Enterprises (MSMEs) operate under a different tax calculation framework than large corporations. MSMEs benefit from a lower final tax rate of 0.5% and simplified reporting requirements as regulated under Government Regulation (PP) Number 55 of 2022. This regulatory distinction reduces the urgency for MSMEs to engage in transfer pricing, as their tax liability is calculated based on gross turnover and is final in nature.

The influence of firm size on transfer pricing is supported by studies conducted on Indonesian firms by [14], [15], and [16]. Furthermore, international studies conducted in Vietnam, France, and India also demonstrate that firm size affects transfer pricing, as evidenced by [17], [18], and [19].

H_2: Firm size has an influence on transfer pricing

3 RESEARCH METHODS

3.1 Population

Population refers to the group of people, events, or things of interest that the researcher wishes to investigate to make inferences based on sample statistics [20]. The population in this study consists of the financial statements of all multinational companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. A company is classified as a multinational enterprise if it possesses at least one entity or permanent establishment (PE) located outside the country or jurisdiction of the ultimate parent entity, as stipulated in Minister of Finance Regulation Number 136 of 2024 concerning the Imposition of Global Minimum Tax based on International Agreement, with a total population of 86 companies.

3.2 Sample

In quantitative research, a sample comprises members selected from a population; thus, a sample represents some, but not all, elements of that population [20]. This study employs a purposive sampling technique, which limits selection to samples that can provide the required information based on specific predetermined criteria [20]. The criteria for sample selection are as follows:

1. multinational companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period;
2. companies that published annual reports for 2022–2024 and were not delisted during the data collection period;
3. companies that published financial statements in Indonesian Rupiah (IDR);
4. companies with foreign ownership; and
5. companies with receivables from related parties.

Table 1. Research Sample Selection

No	Criteria	Number of Companies
1	Multinational companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period	86
2	Companies that not published annual reports for 2022–2024 and were delisted during the data collection period	(1)
3	Companies that not published financial statements in Indonesian Rupiah (IDR)	(18)
4	Companies that do not have foreign ownership	(23)
5	Companies that do not have receivables from related parties	(18)
Number of Company Samples Used		26
Number of Data in Research (3 years)		78

Based on the table above, the sample in this study consists of the financial statements of multinational companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period that meet the five aforementioned criteria, resulting in 26 companies with a total of 78 firm-year observations.

3.3 Research Variables

3.3.1 Transfer Pricing

The OECD (2009) defines transfer pricing as the price at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises. Following [18], this study measures transfer pricing using Transfer Pricing Intensity (TPI), which focuses on related-party receivables as a component of total assets:

$$\text{TPI} = \frac{\text{Related Party Receivables}}{\text{Total Receivables}}$$

3.3.2 Foreign Ownership

Foreign ownership refers to the percentage of a company's shares held by foreign parties [22]. In accounting standards (PSAK 15), a controlling shareholder is defined as an entity holding 20% or more of the shares, directly or indirectly. Accordingly, foreign ownership is formulated as follows [23]:

$$\text{FO} = \frac{\text{Total Foreign} - \text{Owned Shares}}{\text{Total Outstanding Shares}}$$

3.3.3 Firm Size

Firm size is used to assess corporate performance based on total assets, reflecting the operational scale and resource capacity of an entity [24]. According to [25], firm size can be measured using the natural logarithm of total assets:

$$\text{SIZE} = \text{Ln (Total Assets)}$$

3.4 Analysis Model

This study utilizes quantitative analysis methods to test hypotheses through statistical testing. Specifically, parametric statistics are applied to test population parameters using ratio-scale sample data. The collected data is processed using panel data regression analysis [26], chosen because the dataset combines cross-sectional and time-series characteristics. The study utilizes secondary data encompassing 78 financial reports from 2022–2024 for companies listed on the Indonesia Stock Exchange.

4 RESULTS AND DISCUSSION

4.1 Chow Test

The Chow test is employed to determine whether the Fixed Effect Model (FEM) or the Common Effect Model (CEM) is more appropriate for the regression analysis [26].

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.825973	(25,50)	0.6926
Cross-section Chi-square	26.965021	25	0.3576

Based on the results of the Chow test presented in Table 2, the probability value (p-value) obtained is 0.692, which is greater than the significance level of 0.05. Therefore, it can be concluded that the Common Effect Model (CEM) is more appropriate for this study than the Fixed Effect Model (FEM).

4.2 Hausman Test

The Hausman test is utilized to determine the most appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The Hausman test statistic follows a Chi-Square distribution, with degrees of freedom (*df)* determined by the number of independent variables in the model [26].

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.027215	2	0.3629

Based on the Hausman test results in Table 3 above, the probability value (p-value) obtained is 0.362, which is greater than 0.05. Consequently, it is concluded that the Random Effect Model is more appropriate for use than the Fixed Effect Model.

4.3 Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test is conducted to determine the superior model between the Random Effect Model (REM) and the Common Effect Model (CEM). This test is based on the Chi-Square distribution, with degrees of freedom (*df*) equal to the number of independent variables [26].

Table 4. Lagrange Multiplier (LM) Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.481211	0.906226	1.387437
	(0.4879)	(0.3411)	(0.2388)

Based on the Lagrange Multiplier test results in Table 4 above, the probability value (p-value) obtained is 0.238, which is greater than 0.05. Therefore, it is concluded that the Common Effect Model is more appropriate than the Random Effect Model. Following the results of all three selection tests, it can be concluded that the Common Effect Model is the most suitable model for this study.

4.4 Normality Test

The normality test is used to determine whether the residuals in the regression model follow a normal distribution pattern. If this assumption is not met, the results of the statistical tests may be inaccurate, particularly in small sample sizes. There are two primary approaches to assessing whether residuals are normally distributed: graphical analysis and statistical testing [26].

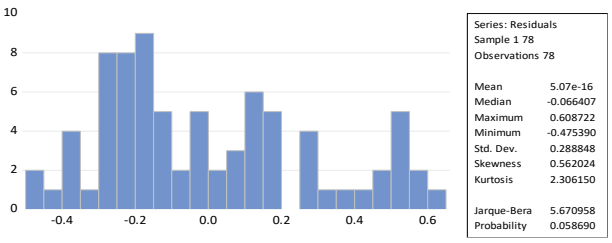

Figure 1. Normality Test

Based on the normality test results presented in Figure 1, the probability value (p-value) is 0.058, which is greater than 0.05. Consequently, it is concluded that the residual data are normally distributed.

4.5 Multicollinearity Test

The multicollinearity test is conducted to determine whether there is a correlation between the independent variables within the regression model. One method to identify the presence of multicollinearity in a regression model is by analyzing the correlation between independent variables. If the Variance Inflation Factor (VIF) of an independent variable is less than 10, it indicates the absence of multicollinearity in the study; conversely, a value greater than 10 suggests the presence of multicollinearity [27].

Table 5. Multiocollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.349316	318.0867	NA
FO	0.023655	6.964146	1.145760
SIZE	0.000348	283.5005	1.145760

Table 5 regarding the multicollinearity test results above shows that the VIF values for all independent variables are less than 10. Consequently, it is concluded that there is no multicollinearity among the independent variables.

4.6 Heteroscedasticity Test

The heteroscedasticity test is used to determine whether there is an inequality of variance in the residuals from one observation to another within the regression model. If such a variance exists, the condition is referred to as heteroscedasticity [26]. This study detects the presence or absence of heteroscedasticity in the regression model using the Glejser test.

Table 6. Heteroscedasticity Test

F-statistic	8.504012	Prob. F(2,75)	0.0692
Obs*R-squared	14.41859	Prob. Chi-Square(2)	0.0740
Scaled explained SS	8.706010	Prob. Chi-Square(2)	0.1287

Based on the heteroscedasticity test results in Table 6, the probability value is 0.069, which is greater than 0.05. Therefore, the decision is to fail to reject H_0 concluding that there is no heteroscedasticity in the residual data.

4.7 Autocorrelation Test

The autocorrelation test is used to detect the presence of a correlation between the error term in period t and the error term in the previous period t-1. Autocorrelation is caused by the dependence between successive observations over time. This phenomenon typically occurs in time-series data, indicating that a disturbance affecting a single individual or group may influence subsequent periods. This study employs the Lagrange Multiplier (LM Test) to detect the presence of autocorrelation [26].

Table 7. Autocorrelation Test

F-statistic	0.603979	Prob. F(2,73)	0.5493
Obs*R-squared	1.269686	Prob. Chi-Square(2)	0.5300

Table 7 regarding the autocorrelation test results above shows a probability value of 0.549, which is greater than 0.05. Consequently, the decision is to fail to reject H_0 leading to the conclusion that there is no autocorrelation in the residual data.

4.8 Panel Data Regression Model

In this study, panel data regression analysis is employed to examine the influence of the independent variables on the dependent variable. Specifically, this method is used to test the effect of the independent variables such as Foreign Ownership (FO) and Firm Size (SIZE) on the dependent variable, Transfer Pricing Intensity (TPI).

Table 8. Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.711704	0.591029	2.896141	0.0049
FO	-0.039477	0.153803	-0.256670	0.7981
SIZE	-0.045915	0.018646	-2.462435	0.0161

Consequently, the panel data regression equation is obtained as follows:

$$Y = 1{,}711 - 0{,}039FO - 0{,}045SIZE + e$$

Based on Table 8 and the regression equation above, it is concluded that the Foreign Ownership (FO) variable has a negative coefficient of 0.039, indicating that an increase in FO leads to a decrease in Transfer Pricing Intensity (TPI) by 0.039. Similarly, the Firm Size (SIZE) variable has a negative coefficient of 0.045, meaning that an increase in SIZE results in a decrease in TPI by 0.045. These negative coefficients reflect an inverse relationship, where higher corporate scale and

foreign shareholding are associated with more conservative transfer pricing practices in this study's sample.

4.9 T-Test

The partial test is conducted to determine the extent to which each independent variable individually influences the dependent variable within a regression model [26]. The t-test is performed by comparing the calculated t-statistic with the critical t-value from the t-distribution table. The decision-making process in the t-test utilizes a comparison against a significance level of 0.05.

Table 9. T-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.711704	0.591029	2.896141	0.0049
FO	-0.039477	0.153803	-0.256670	0.7981
SIZE	-0.045915	0.018646	-2.462435	0.0161

Based on Table 9 above, the results of the variable significance tests are as follows:

1. Based on Table 9, the Foreign Ownership (FO) variable has a p-value of 0.798, which is greater than 0.05. This indicates that FO has a negative but non-significant effect on Transfer Pricing Intensity (TPI) at a 95% confidence level. Consequently, the first hypothesis (H_1) is rejected.
2. Based on Table 9, the Firm Size (SIZE) variable has a p-value of 0.016, which is less than 0.05. This indicates that SIZE has a negative and significant effect on TPI at a 95% confidence level. Consequently, the second hypothesis (H_2) is accepted.

4.10 F-Test

The F-statistic test is used to determine whether all independent variables included in the model have a simultaneous influence on the dependent variable [26].

Table 10. F-Test

R-squared	0.079826	Mean dependent var	0.319994
Adjusted R-squared	0.055288	S.D. dependent var	0.301116
S.E. of regression	0.292674	Akaike info criterion	0.418185
Sum squared resid	6.424340	Schwarz criterion	0.508828
Log likelihood	-13.30922	Hannan-Quinn criter.	0.454471
F-statistic	3.253158	Durbin-Watson stat	1.978474
Prob(F-statistic)	0.044170		

In this study, the F-test results presented in Table 10 show a significance value of 0.044, which is less than 0.05. This indicates that the regression model is feasible for use in this research. These results signify that the independent variables simultaneously have a significant effect on Transfer Pricing Intensity (TPI).

4.11 Coefficient of Determination Test (R^2)

The coefficient of determination (R^2) is used to measure the extent to which the independent variables can explain the variation in the dependent variable. The value of the coefficient of determination ranges from 0 to 1. A low R^2 value indicates that the independent variables have a limited ability to explain the variation in the dependent variable.

Table 11. Coefficient of Determination Test

R-squared	0.079826	Mean dependent var	0.319994
Adjusted R-squared	0.055288	S.D. dependent var	0.301116
S.E. of regression	0.292674	Akaike info criterion	0.418185
Sum squared resid	6.424340	Schwarz criterion	0.508828
Log likelihood	-13.30922	Hannan-Quinn criter.	0.454471
F-statistic	3.253158	Durbin-Watson stat	1.978474
Prob(F-statistic)	0.044170		

Based on Table 11, it is found that the R-squared (R^2) value is 0.079 or 7.9%. This means that 7.9% of the variation in TPI is influenced by FO and SIZE. While this value indicates that 92.1% of the variation is influenced by variables outside the model, the low explanatory power reflects the inherent complexity of transfer pricing behavior during Indonesia's 2022–2024 transition period. Critically, this low R^2 suggests that during this era, corporate decision-making was likely dominated by external systemic shocks rather than internal structural determinants. The introduction of PMK No. 15 of 2025 and the Directorate General of Taxes' (DGT) heightened audit surveillance created a an universal pressure on multinational entities, where the urgent need to mitigate litigation risks and political costs outweighed the influence of ownership structure or scale alone. Furthermore, the remaining variance is likely attributed to multifaceted factors not captured in this study, such as international tax rate differentials, the utilization of intangible assets, and specific internal management incentives aimed at safeguarding global corporate reputation. Rather than weakening the model, this result emphasizes that in a stringent regulatory landscape, the Political Cost Hypothesis operates within a broader web of global compliance risks that transcend basic financial metrics.

4.12 Influence of Foreign Ownership on Transfer Pricing

Empirically, the test results show a coefficient for the foreign ownership variable of -0.039 with a significance value of 0.7981. Since the significance

value is greater than 0.05, this variable has no influence on transfer pricing; thus, Hypothesis 1 (H_1) is rejected. This finding strengthens previous research by [28], [29], [30], and [31].

Beyond statistical reporting, the non-significance suggests that transfer pricing practices within a company tend to be driven by the internal agreements of the board of directors to maximize specific corporate objectives or personal interests rather than by direct investor intervention [28]. Although there may be a large amount of foreign shareholding, this does not necessarily grant foreign parties strong control over pricing policies, primarily because investors often face limited access to daily operational information and internal management systems.

From an agency theory perspective, the "agent" (management) maintains greater control over technical pricing mechanisms than the "principal" (foreign shareholders) due to this information asymmetry. Furthermore, during the 2022–2024 transition period, foreign-invested companies likely prioritized global corporate reputation and tax compliance to avoid international litigation risks. The introduction of PMK No. 15 of 2025 and heightened surveillance by the Directorate General of Taxes (DGT) has created a uniform pressure for compliance across all multinational entities. Consequently, when the threat of audits and heavy sanctions becomes a universal constraint, the percentage of foreign ownership ceases to be a decisive factor in determining the aggressiveness of transfer pricing policies.

4.13 Influence of Firm Size on Transfer Pricing

Empirically, the test results show a coefficient for the firm size variable of -0.045 with a significance value of 0.0161. Since the significance value is less than 0.05, this variable has influence on transfer pricing; thus, Hypothesis 2 (H_2) is accepted.

This finding is supported by research from [14], [15], [16], and [32]. These findings refute the Political Power Theory, which has long assumed that giant corporations invariably leverage their resource strength to aggressively reduce tax burdens.

Notably, the negative coefficient indicates an inverse relationship, where an increase in a company's scale is associated with a decrease in the intensity of its transfer pricing practices. These findings refute the Political Power Theory, which assumes that giant corporations invariably leverage their resource strength to aggressively reduce tax burdens. Instead, this inverse relationship is best explained through the Political Cost Hypothesis. Companies with massive asset scales automatically possess high visibility and a high public profile, making them primary targets for scrutiny by both the Directorate General of Taxes (DGT) and the general public.

During the 2022–2024 observation period, a time when the Indonesian government was aggressively tightening regulations via PMK No. 15 of 2025, large corporations recognized that the potential political costs, such as maximum administrative fines, prolonged investigative audits, and irreversible damage to global corporate reputation, far outweighed the tax-saving benefits of aggressive transfer pricing. Consequently, rather than risking earnings management that could trigger litigation, large-scale entities strategically opted for a conservative and more transparent financial reporting approach to maintain institutional legitimacy [32]. This suggests that as a company grows, the risk of "being caught" and the subsequent social or regulatory backlash become a more powerful deterrent than the incentive to minimize tax liabilities.

5 CONCLUSION

Empirical analysis of multinational companies listed on the Indonesia Stock Exchange for the 2022–2024 period demonstrates that transfer pricing practices are significantly influenced by firm size, whereas foreign ownership does not exert a significant effect. The statistical results provide evidence that during this transition era of tax enforcement, the scale of a company's assets acted as a primary determinant of its transfer pricing intensity, while the foreign capital structure did not play a decisive role in these tax planning decisions. The non-significance of foreign ownership is likely attributed to the tendency of foreign-invested companies to prioritize global corporate reputation and tax compliance to avoid international litigation risks.

Theoretically, these findings provide a significant contribution to the development of accounting literature by challenging the traditional assumptions of the Political Power Theory, which posits that larger entities invariably utilize their resource superiority to aggressively manipulate prices and reduce tax burdens. In contrast, the negative relationship found between firm size and transfer pricing intensity provides robust empirical support for the Political Cost Hypothesis. This implies that as an entity's scale increases, its heightened visibility creates "transparency pressure" that outweighs the financial benefits of tax avoidance. Under the pressure of stringent regulations such as PMK Number 15 of 2025, large-scale companies are compelled to be more strategic and conservative in their transfer pricing policies to mitigate potential political costs, such as prolonged investigative audits and public sanctions.

While this study offers contemporary insights, it is limited by its broad sample and specific observation window. There is an opportunity for future research to

refine these theoretical results by extending the observation period and utilizing a more homogeneous sample within specific industry sectors to better capture sector-specific dynamics. Furthermore, incorporating qualitative variables such as corporate governance quality or executive characteristics could be explored to deepen the nuances of the Political Cost Hypothesis in corporate tax behavior.

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