

# Foreign Related Parties Transactions as Tax Avoidance Strategy in Indonesia: The Role of Corporate Governance

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**Abstract**—This study presents tax avoidance practice through foreign related party transaction and the effect of corporate governance on the relationship between the shareholder's tax expenses and foreign related party transaction. Different from other studies that use related party transaction entirely, this study uses a foreign related party transaction. Related party transaction will be beneficial only if it is done on the company with the different tax rate. If it is done in Indonesia that has a flat income tax rate, foreign related party transaction can be used to avoid tax. Using data from 301 listed companies in Indonesia, this study finds that tax avoidance in Indonesia is undertaken by increasing foreign related party transaction. The use of foreign related party transaction can tell more about tax avoidance strategy compared to related party transaction in totally. The related party transaction to a country with a lower tax rate can be one of tax avoidance strategy in Indonesia to get a tax benefit. This study also finds that corporate governance can weaken the effect of the shareholder's tax expenses on the related party transaction meaning to lower the tax avoidance practice through the mechanism of related foreign party transaction.

**Keywords**—tax avoidance, tax expenses, related party transaction, marginal tax rate, corporate governance

## I. INTRODUCTION

Economic growth makes related party transaction (RPT) increased, especially in developing countries. Price Waterhouse Coopers estimated that nowadays, 2/3 from the happening transactions in developing countries are RPT linked to transfer pricing scheme [1]. Zhang stated that the increase in RPT has happened continuously with increasing number [2]. Along with the increasing of RPT, Fama & French reported that there was a decreasing dividend payment by the government [3].

Su, *et al.* also proved that an RPT correlated negatively with company dividend payment [4]. If the correlation of related party transaction is high, commonly the dividend will be paid low and vice versa. Disappearing dividend trend and the increasing of related party transactions indicate changes in the pattern of corporate cash flow to shareholders. The use of an RPT will affect the tax of the company if the transactions are done are on two different tax rates, so the tendency used in the tax avoidance is a transaction to another country with the different tax system and tax rates.

The trend of increasing RPT through transfer pricing schemes in developing countries can be caused by concentrated company ownership. This kind of ownership in

the developing countries causes the major shareholder to do RPT that may benefit them. RPT is used by the major shareholders to transfer corporate wealth to them and disadvantage the minor shareholders [5-7]. This is also suitable with the tunnelling concept [8] which stated that a family company prefers transactions with their own company to transfer assets and corporate wealth to themselves. As the major shareholders, they can easily influence management policy. It leads into a great opportunity for expropriation for the major shareholder. Expropriation can be one way that shareholders use to earn cash and avoid taxes. One of them is through an RPT.

The phenomenon of transfer pricing and tax avoidance occurs almost all over the world. However, in developing countries, the problem of transfer pricing becomes more complex because of the weak tax administration system and the inadequate database control [1]. McKinsey Global Banking Pool data published by the Indonesian Center for Business Data (PDBI) shows that the funds of Indonesian people in Singapore reached 3,000 trillion rupiahs. It is almost 2 times the amount of Indonesian Budget (APBN).

As a developing country, Indonesia also has a concentrated ownership of the family [9]. This ownership increases the chance of expropriation associated with type II agency conflict. Hence, it becomes an interesting study to do since the most happening of expropriation is through RPT and transfers pricing [4, 5]. However, research on related party transaction is still rarely done in Indonesia [10]. A large number of Indonesians funds in foreign countries is one tendency indication of transfer pricing through related party transaction in Indonesia. The case of Panama Papers also shows that this practice is done not only in Indonesia but also around the world. In addition, several major tax cases such as PT Asian Agri Resource's tax arrears also show that tax avoidance through RPT in transfer pricing schemes is a real challenge to taxation in Indonesia [11]. This study will answer the question of corporate tax avoidance strategy in Indonesia through foreign related party transaction.

Not all RPT are conducted for tax purposes. RPT can be both abusive and efficient [10]. The RPT can be done for the company's efficiency as well as other non-tax reasons. Tax benefit on related party transaction can only occur if the company transfers the profit to the company with lower tax rates. On the case in Indonesia which has a flat tax rate, the RPT will benefit if it is done overseas especially to those

with different tax rates. This study will examine the effect of the shareholder's tax expenses on foreign RPT.

Different from other studies, the measurement of the shareholder's tax expenses of this study used two approaches (i) the overall corporate tax expenses (corporate tax expenses and dividend tax expenses), and (ii) the relative tax expenses which is the ratio of tax rate in Indonesia and the tax rate on the country in which the RPT is done. It should be noted that the differences in taxes that can be caused by this foreign related party transaction.

An adequate corporate governance practices will also reduce agency conflict types I and II, thereby reducing the possibility of conducting RPT that could disadvantage the minor shareholders. Nevertheless, as far as researchers' concern, a study that links corporate governance as a moderation of the relationship between the tax expenses and RPT is still rare. Commonly, testing the role of corporate governance is only done using a macro size such as investor protection law or only relying on the quality of auditors, audit committees and the like. It certainly cannot provide an adequate result of study because of the size of corporate governance that is only able to cover a small part of corporate governance.

This study used corporate governance measurement with ASEAN Corporate Governance Scorecard approach at an enterprise level. The use of corporate governance measurement with the company's approach is expected to provide better information than using the country-level approach. This is due to the differences in governance which is also taking place at the company level, not only at the country level. Each company tends to have different corporate governance practice so the use of corporate governance at the country level will ignore the characteristics of this corporate difference. In addition, the use of the ASEAN Corporate Governance Scorecard which contains items on sound corporate governance practices will provide better information than merely measuring investor protection.

This study also examined the role of corporate governance in tax avoidance practices through the mechanism of foreign RPT. Tax avoidance through RPT is likely to have high tax risks, with strictly enforced legal arrangements. The Government has issued various regulations related to related party transaction such as regulations on Transfer Pricing Document as well as Article 18 on Indonesian Law about Income Tax. In addition, the regulation of common transactions is also done strictly by the government. Tax avoidance through an RPT will also only benefit the major shareholder, and often neglects the minor shareholders to be in conflict with the principles of good corporate governance. This study will provide empirical evidence related to tax avoidance through foreign RPT as well as the role of corporate governance in the practice of tax avoidance.

#### *A. Tax Avoidance and Related Party Transaction*

RPT through international transfer pricing schemes is one of the mechanisms by multinational corporations to avoid income taxes [12]. A survey conducted by Ernst & Young in 2013 found that since 1995, the issue of transfer pricing by a multinational company has become a major issue in

international taxation [13]. Pappas conducted a study in China and found that tax avoidance through RPT with transfer pricing scheme resulted in losses in China up to US\$ 4.7 billion annually [14].

The use of transfer pricing method can avoid the company from double taxation. Companies can also artificially distribute profits from companies in a country with a high tax rate to companies in countries with low tax rate [1]. Mostly, the practice of transfer pricing for tax avoidance is difficult to detect because of its complexity. As a means of enhancing the company's global advantage, transfer pricing practices affect the company's shares through profits, dividends, stock rate and capital returns [15].

In Indonesia, the embezzlement cases resulting from related party transaction happen quite often. One of the most notorious cases of tax embezzlement in Indonesia is the tax embezzlement case through the transfer pricing mechanism done by Asian Agri Resources. Tax embezzlement in Asian Agri Resources was done by selling Crude Palm Oil to overseas affiliates at a price below the market price and then be resold to the real buyer at a high price. The practice of transfer pricing causes the tax expenses of Asian Agri Resources in the country can be suppressed. The country is estimated to have an income tax loss of 1.5 trillion rupiahs due to tax embezzlement did by Asian Agri Resources [11]. Various studies and cases show that high tax rates will cause the company to do a related party transaction with transfer pricing schemes to avoid a large number of tax expenses. Tax avoidance practices using an RPT is also conducted to avoid high dividend taxes. Through an RPT, the company may pay dividends that should be subject to dividend tax. Chen & Gupta found that the effect of imputed credit positively affects the delivery of overseas dividends and also that on high dividend tax conditions, a company tends to do RPT to minimize their taxes [16].

Various efforts are done by companies to lower the tax costs that they have to pay. Dividends in Indonesia are on a double taxation which is levied on retained earnings (corporate income tax) and taxes on dividends in it, causing the amount of tax paid in Indonesia to be high in some neighbouring countries of Indonesia. It can also increase the tendency of companies to do RPT in order to distribute income of companies in Indonesia to be an income to companies in the country with the cheaper tax system and can be extracted into dividends or shareholders' earning at lower tax rates. Based on the explanation above, the first hypothesis for this study is that the shareholder tax expenses positively affect foreign related party transactions.

#### *B. Tax Avoidance, RPT, and The Role of Corporate Governance*

High shareholder tax expenses will cause the company to do an RPT to avoid high tax payment. However, tax avoidance practice through RPT is not always beneficial for shareholders. Abusive RPT will only benefit the major shareholders compared to the minor ones since the RPT is used as one way to exploit the wealth of the minor shareholders [5].

As one of the company's mechanisms to minimize the possibility of expropriation by the major shareholders to the minor shareholders, corporate governance is expected to

protect the minor shareholders and reduce agency costs by minimizing abusive RPT. It is not in accordance with business ethics and fair treatment for shareholders. Hence, it will defy the main principles governed by good corporate governance. Tax avoidance through RPT will provide benefits only to the controller, while it will disadvantage the minor shareholders.

Good corporate governance practices will improve fairness among shareholders [17]. It is corroborated by the Lo *et al.* who found that the quality of corporate governance plays an important role in deterring the transfer pricing manipulation on RPT [18]. Good corporate governance should be effective in reducing opportunistic management behavior [19].

As a monitoring mechanism, corporate governance is expected to minimize this unfair practice as it violates the corporate governance principles. Although tax avoidance using a related party transaction may also not be violating the law, it is not an ethical behavior and only partial to the major shareholder. Based on the explanation above, the second hypothesis of this study is that the positive effect of shareholder tax expenses on related party transaction is weakened by the corporate governance practices.

The rest of this paper is organized as follow: Section II describes the proposed research methodology. Section III presents the obtained results and following by discussion. Section IV describes the sensitivity test. Finally, Section V concludes this work.

## II. DATA AND RESEARCH METHOD

This section presents the data used and the proposed research method.

### A. Sample

The population of this study was all non-financial listed companies on the Indonesia Stock Exchange (IDX) in 2010 up to 2015. It was set from 2010 considering the issuance of Indonesian Law number 36 of 2008 about income tax changing the previous rule which is Indonesian Law number 17 of 2000 about income tax. These changes have implications for the corporate income tax and dividend tax that the company provides. To avoid loss, carry forward issues, this study eliminated sample of companies reporting negative earnings. Companies that did not do foreign related party transaction or experience corporate actions such as merger and acquisitions were not used as samples. After selecting the samples, there are 301 companies.

### B. Variable

Following Jacob, related party transaction (RPTit) is measured by (1) the number of foreign RPT sales (RPTS), the amount of foreign RPT purchase (RPTP), amount of foreign RPT Account Payable (RPTL) and amount of foreign RPT Account Receivables (RPTA) [20]. The shareholder tax expenses (TAXit) is measured using a combination of corporate tax rates and the effective tax rate on dividends (double taxation). In sensitivity testing, the researcher uses the relative tax burden by comparing the shareholder's corporate tax burden in Indonesia and the shareholder tax expenses in the affiliated company (DIFFTAXit).

Then, the company size (ASETit) uses the natural logarithm of the company's total assets at the end of the year [21]. The company growth opportunity (GROWTHit) was measured using the percentage of total asset growth [3]. Profitability (ROAit) is measured using the ratio of earnings before the tax was compared to total assets [22]. The firm's leverage rate (DERit) is measured using the total account payable ratio of the company compared to the total equity of the company [21]. Corporate governance (CGit) is measured using a checklist developed from the ASEAN Corporate Governance Scorecard.

### C. Research Design

To test our hypothesis, we use some of the following equations.

$$RPTit = \beta_0 + \beta_1 TAXit + \beta_2 ROAit + \beta_3 DERit + \beta_4 GROWTHit + \beta_5 Ln(ASET)it + \beta_6 CGit + \epsilon it \quad (1)$$

$$RPTit = \beta_0 + \beta_1 TAXit + \beta_2 ROAit + \beta_3 DERit + \beta_4 GROWTHit + \beta_5 Ln(ASET) it + \beta_6 CGit + \beta_7 TAXit * CGit + \epsilon it \quad (2)$$

The first hypothesis is tested using model 1. We expect to have score  $\beta_1 > 0$ , meaning that the shareholder tax expenses positively affect the RPT. It means that the company conducts tax avoidance practices through RPT activities. The second hypothesis uses model 2, the hypothesis is accepted if  $\beta_7 < 0$  which means corporate governance weakens the positive relationship between shareholder tax expenses and amount of foreign RPT.

## III. RESULTS AND DISCUSSION

This section presents the results obtained and following by discussion.

### A. Result

#### a. Descriptive Statistics

The total sample of research after omitting data outliers was 301 samples (see Table I). The average of sample growth is 17,04% with profitability level equals to 11,06% and DER equals to 98,69%. The CG ratio was 53.28% indicating that the average sample has a good CG. The tax expenses were on 10% to 45% with an average of 32.01%. A 10% value is earned on the property company, which is calculated by comparing the paid tax expenses and the sales made. This is due to the consequence of the tax on the final property. Related party transaction is dominated by RPT Sales with an average of 44.32%, followed by RPT Purchase of 19.33%. RPT account Receivables and account payable have balanced value for about 7.9% and 7.6%.

TABLE I. DESCRIPTIVE STATISTICS

VARIABLE	N	Min	Max	Mean	Std. Deviation
ASET	301	34372658505	2454350000000	10712968241999	27294150929102
GROWTH	301	-.20	1,15	,1704	,18750
ROA	301	,00	,42	,1106	,10101
DER	301	,01	4,03	,9869	,82773
CG	301	,08	,88	,5328	,19046
TAX	301	,10	,45	,3201	,05455
RPTS	301	,00	13,62	,4432	1,64546
RPTP	301	,00	5,76	,1933	,65872
RPTA	301	,00	2,29	,0792	,24477
RPTL	301	,00	1,98	,0760	,20369

*b. Tax Expenses and Foreign Related Party Transactions*

This study tested RPT in several ways. First, the researcher used the number of RPT on sales, purchases, payables and receivables accounts to a foreign country that had been scaled up by the assets. Second, the researcher uses RPT data wholly to prove that foreign related party transactions are the one used as tax avoidance strategies in Indonesia. Separating foreign RPT that provides tax benefits becomes important. Third, to prove that foreign RPT providing tax benefits by utilizing marginal tax rate, researchers use the relative tax expenses as a measurement of corporate tax expenses. The relative tax expenses are the tax expenses that is the ratio between the corporate tax expenses in Indonesia and corporate tax expenses in which the foreign RPT is done. This is to prove that the utilization of marginal tax rate through foreign RPT is a tax avoidance strategy used by companies in Indonesia.

TABLE II. HYPOTHESIS 1 TEST

Variable	RPTS		RPTP		RPTA		RPTL	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	-7.679891	0.0000**	1.522777	0.0000**	-0.761702	0.0000**	-0.578436	0.0000**
TAX	<b>6.213086</b>	<b>0.0000**</b>	<b>1.496881</b>	<b>0.0000**</b>	<b>0.188045</b>	<b>0.0000**</b>	<b>0.452799</b>	<b>0.0000**</b>
ROA	0.628531	0.0000**	0.049578	0.2329	-0.002384	0.8359	-0.016907	0.2185
DER	0.111463	0.0000**	0.027113	0.0000**	-0.010487	0.0000**	0.024977	0.0000**
GROWTH	0.117703	0.1412	0.048083	0.0472**	0.008358	0.0895*	-0.009123	0.0681*
LOG(ASE T)	0.225407	0.0000**	0.039124	0.0000**	0.026319	0.0000**	0.016669	0.0000**
CG	<b>0.526774</b>	<b>0.0000**</b>	<b>0.044363</b>	<b>0.0079**</b>	<b>-0.018071</b>	<b>0.0013**</b>	<b>-0.045546</b>	<b>0.0000**</b>
N	301		301		301		301	
Adjusted R2	0.526062		0.484684		0.392683		0.391897	
Prob(F-stat)	0.000000***		0.000000***		0.000000***		0.000000***	

In Table II, by using foreign RPT data, the test gave consistent results for all sizes of foreign RPT. The robust result proves that the high tax expenses of shareholder encourages the company to do RPT, either through sales, purchases, accounts receivable, and account payable to minimize the payable tax. In general, the overall results give significant results with probability values below 1%. It proves that the company conducts tax avoidance practices through foreign related party transactions. The results also show that good corporate governance of a company tends to negatively affect the foreign RPT.

RPT done by a company can be either abusive or efficient. Several related party transactions are conducted for efficiency and performance improvement. Researchers try to test the shareholder's tax expenses and all RPT (domestic and overseas) for sales, purchases, accounts receivable and accounts payable. This test provides evidence that non-foreign related party transactions cannot provide tax benefits for the company.

TABLE III. HYPOTHESIS 1 TEST USING WHOLE RELATED PARTY TRANSACTION (DOMESTIC AND FOREIGN)

Variable	RPTS		RPTP		RPTA		RPTL	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	2.452445	0.0067	0.645004	0.3735	0.540590	0.0003**	0.191394	0.18
TAX	<b>2.052741</b>	<b>0.0067**</b>	<b>0.769282</b>	<b>0.2054</b>	<b>0.002080</b>	<b>0.9865</b>	<b>0.137137</b>	<b>0.25</b>
ROA	0.826308	0.0171	0.242511	0.3834	-0.111165	0.0501*	0.040040	0.46
DER	0.116852	0.0894	0.243818	0.0000**	0.044061	0.0001**	0.071235	0.00*
GROWTH	0.176666	0.1795	0.021185	0.8415	-0.042514	0.0492**	0.003755	0.85
LOG(ASE T)	0.078843	0.0124	0.026697	0.2915	-0.015826	0.0023**	0.008585	0.08
CG	0.175723	0.4830	0.402822	0.0467	-0.041914	0.3078	0.089627	0.02
Adjusted R2	0.075488		0.070613		0.098779		0.127186	
Prob(F-stat)	0.000055***		0.000109***		0.000002***		0.000000***	
N	301		301		301		301	

From the Table III in result of the study using RPT entirely (domestic and foreign) gives different results compared to the use of only foreign RPT. In the whole of RPT, only sales transactions that effect with a probability value of 0.0067, it is lower than foreign RPT with a value of 0.0000. The adjusted R square values for these two data also give contrasting results. Consistently, foreign RPT have a higher adjusted r square value compared to the whole RPT. The overall results testing can be seen in Table III. It proves that not all RPT can be used as a tax avoidance. Foreign RPT providing tax benefit is the one that can be used by the company to conduct tax avoidance practices.

*c. Tax Avoidance and Corporate Governance*

Research on tax avoidance practices and corporate governance provides varied results. Those were not consistent results. On RPT related to purchases and account payable, corporate governance has a positive influence which means supporting the company to avoid taxes through RPT scheme. However, in foreign RPT in account receivable, the test result supports the hypothesis. The test results provide a negative value which means that corporate governance weakens the positive relationship between the shareholder's tax expenses and RPT. This result supports the second hypothesis of the study stating that the positive effect of shareholder tax expenses on RPT is weakened by corporate governance practices (see Table IV).

TABLE IV. HYPOTHESIS 2 TEST

Variable	RPTS		RPTP		RPTA		RPTL	
	Coefficien t	Prob	Coefficien t	Prob	Coefficien t	Prob	Coefficien t	Prob
C	-11.76911	0.0001**	1.071699	0.0000**	0.813067	0.0000**	0.531518	0.000*
TAX	6.072389	0.0133**	0.144637	0.3653	0.316994	0.0001**	0.077102	0.48
ROA	-1.261353	0.1070	0.025740	0.5989	0.007605	0.6120	0.022093	0.10
DER	-0.256755	0.0124**	0.029932	0.0001**	0.010673	0.0000**	0.027096	0.000*
GROWTH	-0.284567	0.4071	0.002766	0.8962	0.008894	0.1588	0.020249	0.009*
LOG(ASET)	0.388443	0.0001**	0.040805	0.0000**	0.026608	0.0000**	0.019869	0.000*
CG	-3.121009	0.0531*	1.092585	0.0000**	0.060779	0.1458	0.393339	0.000*
TAX*CG	7.280853	0.1129	3.495756	0.0000**	0.232917	0.0585*	1.018242	0.000*
Adjusted R2	0.158013		0.407877		0.392867		0.609433	
Prob(F-stat)	0.000000***		0.000000***		0.000000***		0.000000***	
N	301		301		301		301	

\* significant at 10%; \*\* significant at 5%; \*\*\*significant at 1%

Testing using the whole RPT gives slightly different results of the four-related party transaction type, corporate governance moderation only effects on RPT of account payable and the result is positive. It means that corporate governance supports tax avoidance practices through RPT. These different results can be caused by the purchase and account payable transaction that belong to transactions from a third party to the company. RPT such as purchases can be efficient because purchases and account payable to affiliates can be often beneficial for to the company, such as longer terms for account payable or cheaper rates (see Table V).

TABLE V. HYPOTHESIS 2 TEST USING WHOLE RPT DATA

Variable	RPTS		RPTP		RPTA		RPTL	
	Coefficien t	Prob	Coefficien t	Prob	Coefficien t	Prob	Coefficien t	Prob
C	2.712999	0.0043**	0.792138	0.2981	0.478065	0.0021**	0.277506	0.0
TAX	0.409468	0.8337	-0.158671	0.9197	0.396412	0.2149	-0.405960	0.0
ROA	-0.826977	0.0171**	-0.242889	0.3832	-0.111004	0.0501*	0.039818	0.0
DER	0.109841	0.1126	0.239858	0.0000**	0.045744	0.0001**	0.068917	0.00
GROWTH	-0.183215	0.1647	-0.024884	0.8148	-0.040943	0.0582*	0.001591	0.0
LOG(ASET)	-0.081943	0.0098**	-0.028447	0.2643	-0.015082	0.0038**	-0.009609	0.0
CG	-0.152643	0.7275	0.217395	0.5386	0.036883	0.6071	-0.018897	0.0
TAX*CG	3.299460	0.3613	1.863198	0.5226	-0.791762	0.1812	1.090463	0.0
Adjusted R2	0.074972		0.068743		0.101214		0.134855	
Prob(F-stat)	0.000095		0.000218		0.000002		0.000000	
N	301		301		301		301	

B. Discussion

This study shows that foreign RPT are used as corporate tax avoidance strategy in Indonesia. Foreign RPT can create tax benefits due to differences in tax rates between countries. A high shareholder tax expenses in a country will encourage companies to do RPT in countries with lower tax rates. The shareholder tax expenses have a positive effect on the foreign RPT, but it does not affect the RPT entirely. It strengthens the evidence that foreign RPT are used by companies as a tax avoidance strategy.

RPT will not be able to benefit companies if those transactions are only done between companies in Indonesia. It happens as Indonesia has adopted a flat tax rate since 2009. Hence, the RPT cannot transfer the corporate tax expenses as the tax expenses that have to be paid obtains the

same tax rate. If the transaction is done between countries, the tax benefits will be obtained. The three test results provide consistent results to support the first hypothesis of this study which states that the shareholder tax expenses positively affect foreign RPT.

Testing on the effect of corporate governance on the relationship of shareholder tax expenses and RPT is conducted to see the effect of corporate governance moderation on the relation of shareholder's tax expenses and RPT. Companies that have good corporate governance are expected to provide fair action among shareholders. Hence, it can reduce the positive influence of shareholder tax expenses on an RPT.

As one of the company's mechanisms to minimize the possibility of expropriation done by the major shareholders to the minor shareholders, corporate governance is expected to protect minor shareholders and reduce agency costs by minimizing abusive RPT. One of which is tax avoidance done through RPT. This study suspects that corporate governance weakens the positive relationship between shareholder tax expenses and RPT.

The result of this study indicates that in the RPT, especially account receivable, corporate governance will tend to weaken the relationship between the shareholder's tax expenses and related party accounts receivable. Corporate governance provides a role to avoid high related party account receivables due to the high shareholder tax expenses. However, corporate governance tends to increase tax avoidance practices through RPT of purchases and account payable. This inconsistent result is allegedly affected by RPT that can be both abusive and efficient [10]. On the efficient transaction, the corporate governance will support so that the relationship will be positive. Otherwise, if the RPT is abusive, corporate governance will weaken the relationship.

The controlled variables in this study such as profitability, leverage, growth in corporate assets, as well as company size also provide consistent result such as testing without using moderating variables. The profitability tends to negatively affect an RPT. The leverage has a positive and negative effect depending on the type of RPT. At the same time, the growth of the company is negatively linked to the RPT. Assets relate consistently positive to all RPT. In general, the test result supports the second hypothesis of this study. It states that the positive effect of shareholder tax expenses on RPT is weakened by corporate governance practice, particularly on related party accounts receivable.

IV. SENSITIVITY TEST

Foreign RPT will provide tax benefits if there is a difference between the tax rate in Indonesia and the destination country of the RPT. Corporate profit must be transferred to a country with lower tax rates to obtain tax benefits. Tax avoidance can only be done if the company is able to move profit in countries that provide a larger marginal tax rate. The researcher conducts an additional test to ensure that the foreign RPT is conducted to obtain tax benefits. Researcher uses the size of the tax expenses of shareholders of the relative tax rate (DIFFTAXit), which is the difference between the corporate tax rate in Indonesia and the tax rate in the destination country of the RPT. A positive value on the relative tax rate signifies the lower tax rate compared to the tax rate in Indonesia and vice versa.

The test provides a result which is consistent with the previous test. It proves that when the shareholder tax expenses are high, the company will tend to do RPT to countries with lower tax expenses. It shows that foreign RPT is used as a corporate tax avoidance strategy in Indonesia by utilizing the difference in tax rates. Shareholder tax rates in Indonesia which tend to be expensive due to double taxation problems are minimized through foreign RPT. A company transfers its wealth to its subsidiary/parent company in the foreign country to obtain tax benefits. The complete result of the test can be seen in Tables VI and VII. This result is consistent with the tests on model 1 and supports the first hypothesis of the study in which shareholder tax expenses positively affect foreign RPT. It proves that foreign RPT is used as a tax avoidance strategy in Indonesia.

TABLE VI. SENSITIVITY TEST HYPOTHESIS

Variable	RPTS		RPTP		RPTA		RPTL	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	-9.133801	0.0000***	-2.776581	0.0000***	-0.940976	0.0000***	-0.959899	0.0000***
DIFFTAX	<b>0.328656</b>	<b>0.0067***</b>	<b>0.980835</b>	<b>0.0000***</b>	<b>0.030520</b>	<b>0.3063</b>	<b>0.238765</b>	<b>0.0000***</b>
ROA	-0.198983	0.3157	0.394409	0.0001***	-0.013613	0.3457	0.012087	0.4525
DER	-0.284468	0.0000***	0.084482	0.0001***	-0.012636	0.0000***	0.025874	0.0000***
GROWTH	-0.120241	0.4764	0.280971	0.0354**	0.010819	0.1655	-0.038084	0.0000***
LOG(ASET)	0.350946	0.0000***	0.105181	0.0000***	0.036134	0.0000***	0.036350	0.0000***
CG	-0.056962	0.6897	-0.377092	0.0000***	-0.048059	0.0000***	-0.057315	0.0000***
Adjusted R2	0.608428		0.630575		0.382731		0.809308	
Prob(F-stat)	0.000000***		0.000000***		0.000000***		0.000000***	

The researcher also examined the effect of corporate governance on the relationship between shareholder tax expenses and foreign RPT. Different from the results of the two previous models, the test result in Table VII provides consistent evidence supporting the second hypothesis of the study stating that corporate governance will weaken the positive relationship of shareholder tax expenses to RPT. Company with good corporate governance tends to refuse tax avoidance action through foreign RPT, as it would disadvantage the minor shareholders and increase corporate risk.

TABLE VII. SENSITIVITY TEST HYPOTHESIS II

Variable	RPTS		RPTP		RPTA		RPTL	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	-8.888094	0.0000***	-3.127941	0.0009***	-0.933602	0.0000***	-0.667215	0.0000***
DIFFTAX	2.590158	0.0069***	1.016957	0.3200	0.045027	0.4646	0.142822	0.2868
ROA	-0.414408	0.0189**	0.334495	0.2917	-0.014513	0.3697	0.057003	0.0965**
DER	-0.214857	0.0000***	0.041183	0.4087	-0.012400	0.0000***	0.020465	0.0019***
GROWTH	0.026802	0.8930	0.382820	0.2083	0.009579	0.2553	-0.014416	0.7711
LOG(ASET)	0.332252	0.0000***	0.114186	0.0009***	0.035803	0.0000***	0.026109	0.0000***
CG	0.248514	0.0940*	-0.074073	0.7887	-0.044598	0.0157**	-0.074014	0.0248**
DIFFTAX*CG	<b>-4.193094</b>	<b>0.0117**</b>	<b>0.582807</b>	<b>0.7524</b>	<b>-0.028674</b>	<b>0.8082</b>	<b>0.018694</b>	<b>0.9542</b>
Adjusted R2	0.491863		0.136458		0.377393		0.071755	
Prob(F-stat)	0.000000***		0.000082***		0.000000***		0.001856***	

V. CONCLUSION

The RPT is a thing that cannot be denied at this time. The whole world has become borderless, so transaction between countries is not an extraordinary thing anymore. RPT can be easily done by the company, so that tax rates between countries can be one of the bargaining power of countries in the world. Low tax rates will provide a greater incentive for the company because it can provide a high return for the company. Like water, the whole company will look for countries that provide the most competitive tax rates. It should be an input for all tax regulators around the world, especially Indonesia, to pay attention to tax rates and tax system.

This study strongly proves that foreign RPT is used by a company as a tax avoidance strategy. The company chooses

to avoid taxes through foreign RPT since it is considered capable to provide tax benefits for companies compared to if using domestic RPT. The result of this study support by Sikka & Willmott that state the tax expenses affect the increasing of RPT [15]. This study also proves that corporate governance has an important role in minimizing tax avoidance practices through foreign RPT. It is because tax avoidance through RPT will compromise the interests of minor shareholders and increase the risk of the company.

This study provides several contributions. First, it is the first study to look RPT in tax construction by comparing taxes between the country from which and to which the RPT is done. By looking at the different tax rate, the bias of the efficient RPT can be avoided. Second, this study also proves that the use of an RPT variable entirely in measuring tax avoidance practices is inappropriate. It happens since there are various considerations of the company in doing an RPT. RPT will only provide benefits if it is done with the company on the different system and tax rates. In the future, a study linking tax avoidance and related party transaction should make a wide difference to the marginal tax rate.

Third, this study provides empirical evidence on the role of corporate governance towards tax avoidance practices through the mechanism of foreign RPT. Till today, there are very few studies examining the role of corporate governance in the relationship between shareholder tax expenses and RPT. Disclosure of the corporate governance role is an important thing done by researchers so that it can be an input for capital market regulators and taxation in conducting supervision. Finally, this study is expected to be an input for the government, especially Indonesia which has a relatively high tax rate compared to other countries to start considering cost and benefit on a tax rate and traditional tax system that caused double taxation in Indonesia. As the flow of water, investment will always look for countries with a tax system that can give them the most optimum benefits.

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