

## **THE EFFECT OF THIN CAPITALIZATION AND CAPITAL INTENSITY ON TAX AVOIDANCE WITH INSTITUTIONAL OWNERSHIP AS MODERATING VARIABLES**

Yeni Arifah<sup>1</sup>, Dianwicakasih Arieftiara<sup>2</sup>

<sup>1,2</sup>Universitas Pembangunan Nasional Veteran Jakarta, Jakarta, Indonesia

<sup>1</sup>yeniarifah@upnvj.ac.id, <sup>2</sup>dianwicakasih@upnvj.ac.id

### ***ABSTRACT***

*This research is a quantitative study that aims to determine the effect of thin capitalization and capital intensity on tax avoidance with institutional ownership as a moderating variable. This study uses the Abnormal Book Tax Difference (ABTD) to measure tax avoidance. The object of this research is manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period, with a total sample of 74 companies. The technique for analyzing data in this research used a regression model selection test, classical assumption test, multiple linear regression test, and hypothesis testing using STATA program and use significance level of 5% (0.05). The results of this study indicate that (1) thin capitalization has no effect on tax avoidance, (2) capital intensity has a significant positive effect on tax avoidance, and (3) institutional ownership is able to moderate the effect of thin capitalization on tax avoidance, and (4) institutional ownership cannot moderate the effect of capital intensity on tax avoidance.*

**Keywords:** *Thin Capitalization; Capital Intensity; Institutional Ownership; Tax Avoidance.*

### **INTRODUCTION**

Tax is one of the state revenues that is recorded in the State Revenue and Expenditure Budget (APBN). According to Law No. 28 of 2007 concerning General Provisions and Tax Procedures (KUP), the definition of tax is a form of participation by personal or corporate taxpayers that is coercive in nature, but does not get direct reciprocity with the aim of prospering and prospering the community. Therefore, the function of the tax itself is that it can be used to carry out national development such as education and infrastructure. Based on this, of course, the government hopes that tax revenues can be optimal, by obliging taxpayers to comply with tax payments. However, in reality there are still many tax avoidance practices carried out by taxpayers.

Tax avoidance is an action that managers can take aimed at reducing the amount of tax debt but not against regulations or laws (Salwah & Herianti, 2019). The practice of tax

avoidance can be done by taking advantage of opportunities in tax regulations and taking advantage of the situation or condition of a company that is in trouble (Kanagaretnam et al., 2016). As for tax avoidance, it can be done because some taxpayers feel unwilling to pay the amount of the tax burden in accordance with the mechanisms and provisions that have been regulated by the state. In addition, another reason corporate taxpayers do not comply with their tax obligations is because the tax burden will reduce the company's profits so that the profits that can be allocated to investors and managers as company agents are low.

Based on the report from the State Revenue and Expenditure Budget (APBN), tax revenue from January to May 2020 for the manufacturing or manufacturing industry sector is the largest tax contributor with a value of IDR 126.14 trillion or equivalent to 29.2% of the total realized tax revenue. However, in reality, tax avoidance behavior is still found by several manufacturing companies, one of which is PT Garuda Metalindo. PT Garuda Metalindo is a multi-industrial sector manufacturing company that produces and trades tools and components for all types of motorized vehicles. The company is doing tax avoidance by utilizing the capital obtained from debt. As of June 2016, the value of short-term bank loans in the financial statements of PT Garuda Metalindo reached Rp 200 billion. PT Garuda Metalindo is suspected of carrying out tax avoidance by increasing their debt in order to reduce their tax burden because interest costs from debt are included in costs that can reduce taxable income. So the higher the debt, the higher the interest costs, and the lower the amount of tax to be paid (JayantoPurba & Kuncahyo, 2020).

The next phenomenon related to tax avoidance is by PT Bentoel Internasional Investama Tbk. In Indonesia, the company is the second largest cigarette company. Reporting from Kontan.co.id, Bentoel Group avoided tax by obtaining loan funds from its consolidation company, Rothmans Far East BV, located in the Netherlands. The loans made between 2013 and 2015 were used to pay off the company's bank debt and pay for equipment and machinery. From this loan, Bentoel Group finally paid the total interest fee of US\$ 164 million or equivalent to Rp 2.25 trillion. In Indonesia, the interest expense of the credit will reduce taxable income, and ultimately the tax burden will be small. Bentoel Group's mechanism eventually caused Indonesia to lose tax revenue of US\$ 11 million per year.

There are several factors that can influence companies to practice tax avoidance. The first factor is thin capitalization, which is a method in which companies prioritize funding through debt rather than equity capital in the composition of their capital to fund business operations. (Taylor & Richardson, 2013). So that the higher the value of debt, the higher the tendency of management to avoid tax (Sueb, 2020). According to Buettner et al. (2012) taxation stipulates that interest expense can be used as an expense that can reduce company income, so that the amount of tax paid becomes smaller.

The next factor is capital intensity. Capital intensity is an investment activity where the company invests its capital in the form of fixed assets ('Amala & Safriansyah, 2020). Tax regulations stipulate that the depreciation value of assets can be used as a tax deduction. When a company decides to invest in fixed assets, it will generate depreciation expense as an expense that can be deducted from revenue. This is an incentive for companies to avoid taxes by reducing revenue (Noor & Sari, 2021).

Institutional ownership is the next factor that can influence tax avoidance practices. Institutional ownership or institutional ownership is the percentage of an institution from all outstanding shares. Companies with high institutional ownership tend to make efforts to minimize their tax reports (Ariawan & Setiawan, 2017). Institutional ownership functions to monitor management performance because institutional ownership will make supervision more optimal so that it is expected that the company's tendency to carry out tax avoidance can be minimized (Khan et al., 2017). In this study, the variable of institutional ownership serves as a moderating variable. So if the level of thin capitalization carried out by the company is high, but the company has institutional ownership, the practice of tax avoidance can be minimized because institutional ownership will oversee the manager's decision to do thin capitalization so that the decision will not have an impact on tax avoidance activities. Thus, the thin capitalization decision was indeed made to save the company, not merely to avoid taxes.

Likewise, when the capital intensity ratio of a company is high, the interest in avoiding taxes will also be great. Institutional ownership will carry out effective supervision by providing direction to managers in fixed asset investment decisions. So the decisions made are not aimed at avoiding taxes. In this way, supervision from other institutions is expected to weaken the effect of the fixed asset investment activity ratio on tax avoidance. However, on the other hand, the existence of institutional owners can be a driving force for management to earn profits, so that these investors support management's decision to carry out tax planning.

Another factor that can influence tax avoidance practices is profitability. The higher the level of profitability calculated by ROA or Return on Assets, it indicates the high profit earned and makes the company's tax burden increase. So with an increase in the tax burden, companies will tend to take tax avoidance actions. In addition to profitability, the next factor that can influence tax avoidance is firm size. The company's total assets can be used as a parameter in assessing the size of the company or firm size. The large amount of company wealth indicates that the company has the opportunity to carry out company operations optimally so as to generate long-term profits (Kalbuana et al., 2020). The large amount of company wealth also indicates that the business processes experienced will become increasingly complicated. This causes entities to tend not to pay taxes by taking advantage of loops in laws and regulations (Devi & Dwinranda, 2020).

Research on tax avoidance behavior has been carried out by previous researchers. In research, Noor & Sari (2021) and Jumailah (2020) state that the thin capitalization variable has a positive influence on tax avoidance. Meanwhile, research by Olivia & Dwimulyani (2019) and Selistiawani et al. (2020) stated that the thin capitalization variable has no effect on tax avoidance.

Research with the variable capital intensity has been carried out by Manihuruk et al. (2021) and Wardhana et al. (2021) which states the results that the capital intensity variable has no effect on the practice of tax avoidance. However, research conducted by Cahyani et al., (2021), Kasim & Saad (2019), and Dwiyantri & Jati (2019) showed different results. Their research shows that there is an effect of capital intensity activities on tax avoidance practices.

In this research, the variable of institutional ownership serves as a moderating variable. Research by Jumailah (2020) states that the effect of thin capitalization on tax avoidance practices can be weakened by the presence of institutional ownership. These results are not in line with the research results of Cahyani et al. (2021) which states that institutional ownership cannot moderate thin capitalization on tax avoidance.

Based on the background of the problems above, the purpose of this study is to determine the effect of thin capitalization and capital intensity on tax avoidance. In addition, this study also aims to determine the effect of institutional ownership in moderating thin capitalization and capital intensity on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange. This research was carried out by referring to the research of Abdillah & Yulianti (2021), with several differences, namely: (1) using a different independent variable, namely capital intensity, (2) measuring the tax avoidance variable using the Abnormal Book Tax Difference (ABTD), (3) measuring instrument for thin capitalization variable, namely by dividing total debt by total capital, (4) adding control variables, namely profitability and firm size, (5) examining manufacturing companies listed on the Indonesia Stock Exchange.

## METHOD

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. Determination of the sample in this study using purposive sampling technique with several criteria, namely:

- a. Manufacturing companies that publish annual reports in the period from 2018-2020.
- b. Manufacturing companies that have all the necessary data for the variables in the study.

Based on these criteria, there were 74 companies that became the research sample.

### *Operational Definition and Variable Measurement*

#### **a. Tax Avoidance**

Tax avoidance in this research is calculated by Abnormal Book Tax Difference (ABTD) which is a measurement of the residual value of the total BTD regression to the accrual value of components that can produce the difference between book income and taxable income (Arieftiara et al., 2020). According to Tang & Firth (2012), the ABTD value is the residual or residual value to measure the opportunistic element of company managers. A high ABTD value is suspected that tax avoidance by an entity tends to be higher through the opportunist component (Falbo & Firmansyah, 2018). The measurements for calculating ABTD are as follows:

$$BTD_{it} = h_0 + h_1\Delta INV_{it} + h_2\Delta REV_{it} + h_3NOL_{it} + h_4TLU_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Where:

1.  $BTD_{it}$  : Book-tax difference for company i in year t, scaled with total assets. (Scaled by *total assets*)

2.  $\Delta INV_{it}$  : Changes in investment in tangible fixed assets (gross PPE) and intangible assets of year  $t_1$  to year  $t$  at company  $i$ . (Scaled by total assets)
3.  $\Delta REV_{it}$  : Changes in income from year  $t_1$  to year  $t$  at company  $i$ . (Scaled by total assets)
4.  $NOL_{it}$  : Corporate net operating loss  $i$  in year  $t$ . (Scaled by total assets)
5.  $TLU_{it}$  : Compensation value of company tax losses  $i$  in year  $t$ . (Scaled by total assets)
6.  $\varepsilon_{it}$  : BTD abnormal/*discretion* (ABTD) for company  $i$  in year  $t$

To obtain the BTDi<sub>t</sub> value, use the following formula:

$$BTDi_t = BI_{it} - \left( \frac{CTE_{it}}{STR_{it}} \right) \dots \dots \dots (2)$$

Where:

1.  $BI_{it}$  : *Book Income before Tax*
2.  $CTE_{it}$  : *Current Tax Expense*
3.  $STR_{it}$  : *Statutory Tax Rate*

**b. Thin Capitalization**

Thin capitalization is a strategy or method for funding business operations where the company focuses more on funding through the proportion of debt rather than equity capital in its capital composition. In this study, thin capitalization is measured by comparing total liabilities with equity (Jumailah, 2020). The formula is:

$$TCAP = \frac{Total Liabilities}{Total Equity} \dots \dots \dots (3)$$

**c. Capital Intensity**

Capital intensity is an activity ratio that shows the company's investment in fixed assets. Capital intensity will see a picture of the size of the company's wealth in the form of fixed assets from the total assets owned (Kalbuana et al., 2020). In this study, capital intensity is measured by comparing total fixed assets with total assets (Marsahala et al., 2020). The formula is:

$$CIR = \frac{Total Fixed Assets}{Total Assets} \dots \dots \dots (4)$$

**d. Institutional Ownership**

Institutional ownership is the percentage owned by an institution of the total outstanding shares. Institutional ownership is the number of shares owned by institutions or institutions such as banks, investment companies, foundations, pension funds, and other

institutions. (Edison, 2017). In this study, institutional ownership is measured using the following formula (Mulyani et al., 2018).

$$KI = \frac{\text{Number of shares owned by the Institution}}{\text{Number of shares outstanding}} \dots \dots \dots (5)$$

**e. Profitability**

Profitability is a ratio to review the performance of an entity in obtaining profit and can be calculated using the Return on Assets ratio (ROA) (Nadhifah & Arif, 2020). The formula is:

$$ROA = \frac{\text{Net Profit}}{\text{Total Asset}} \dots \dots \dots (6)$$

**f. Firm Size**

The natural logarithm of total assets can be used as a calculation to calculate the size of the company (Putri et al., 2018). The formula is as follows:

$$SIZE = Ln (\text{total asset}) \dots \dots \dots (7)$$

**Data Analysis Method**

In this study, the data analysis used was multiple linear regression analysis. The multiple regression model in this study is formulated in the following equation:

**Model 1:**

$$ABTD_{it} = \alpha + \beta_1TCAP_{it} + \beta_2CIR_{it} + \beta_3ROA_{it} + \beta_4SIZE_{it} + \varepsilon_{it} \dots \dots \dots (8)$$

**Model 2:**

$$ABTD_{it} = \alpha + \beta_1TCAP_{it} + \beta_2CIR_{it} + \beta_3INS_{it} + \beta_4TCAP_{it} * INS_{it} + \beta_5CIR_{it} * INS_{it} + \beta_6ROA_{it} + \beta_7SIZE_{it} + \varepsilon_{it} \dots \dots \dots (9)$$

**RESULTS AND DISCUSSION**

**Descriptive Statistic Analysis**

Descriptive statistical analysis was carried out in order to see the description or characteristics of the results of data processing from the variables studied (Riyanto & Hatmawan, 2020 p.39). Descriptive statistical values consist of mean, standard deviation, minimum, and maximum. Here are the results:

**Table 1. Descriptive Statistic Analysis**

| Variable | Obs | Mean     | Std. Dev. | Min      | Max     |
|----------|-----|----------|-----------|----------|---------|
| ABTD     | 222 | 0.00489  | 0.06933   | -0.15660 | 0.22350 |
| TCAP     | 222 | 1.25102  | 2.25728   | -3.43355 | 9.55451 |
| CIR      | 222 | 0.39295  | 0.20051   | 0.00095  | 0.94959 |
| KI       | 222 | 0.33122  | 0.31513   | 0.00011  | 1.25178 |
| ROA      | 222 | 0.02434  | 0.09868   | -0.21397 | 0.29050 |
| SIZE     | 222 | 28.79838 | 1.660637  | 22.6410  | 33.4945 |

Source: Output STATA 16

Abnormal Book Tax Difference (ABTD) is a measure that reflects the tax avoidance carried out by a company. The mean value of tax avoidance in this study, which is 0.00489, indicates that the average company sampled in this study does not carry out tax avoidance. The mean value of thin capitalization in this study is 1.25102 which indicates that overall thin capitalization in this study occurs in a low or insignificant level. The mean value of capital intensity is 0.39295 or 39.29%, which indicates that the level of capital intensity of the companies that are sampled as a whole is moderate and tends to be high, which means that the average sample of companies has fixed assets with a composition of one third (1/3) of the total value of its assets. The mean value of institutional ownership is 0.33122, which indicates that the supervision carried out by the institution in the sample companies in this study is relatively low. The mean value of profitability is 0.024342 which indicates that the level of profitability of all sample data in this study is at a low point. The mean value of the company size in this study is 28.79, which means that the assets owned by the sample companies are high so that the average sample is included in the large company size.

**Panel Data Estimation Test**

To determine the best estimation of panel data, it can be done by doing several tests, including:

**a. Chow Test**

This test is conducted to determine the research model between the common effect and fixed effect.

**Table 2. Chow Test**

|         | Probability F | $\alpha$ |
|---------|---------------|----------|
| Model 1 | 0.0000        | 0.05     |
| Model 2 | 0.0000        | 0.05     |

Source: Output STATA v.16

Based on Table 2, the results obtained are that model 1 and model 2 have a Prob value < Alpha value, therefore the model selected in the Chow Test is the Fixed Effect Model. (FEM).

**b. LM Test**

This test was conducted with the aim of comparing the common effect and random effect models. Here are the results:

**Table 3. Lagrange Multiplier Test**

|         | <i>Probability</i> | $\alpha$ |
|---------|--------------------|----------|
| Model 1 | 0.0134             | 0.05     |
| Model 2 | 0.0042             | 0.05     |

Source: Output STATA v.16

Based on Table 3, the results show that model 1 and model 2 have a value of Prob < Alpha, therefore the model selected in the Lagrange Multiplier Test is the Random Effect Model (REM).

**c. Hausman Test**

This test is intended to choose a model between Random Effect and Fixed Effect. Here are the results:

**Table 4. Hausman Test**

|         | <i>Probability</i> | $\alpha$ |
|---------|--------------------|----------|
| Model 1 | 0.0016             | 0.05     |
| Model 2 | 0.0042             | 0.05     |

Source: Output STATA v.16

Based on Table 4, it can be interpreted that model 1 and model 2 have a Prob value < Alpha value, therefore the model selected in the Hausman test is the Fixed Effect Model. So it can be concluded that the appropriate model used in this study is the Fixed Effect Model.

**Classic Assumption Test**

Classic assumption test in this study consisted of normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. Here is the explanation:

**Table 5. Normality Test – Skewness Kurtosis**

| <b>Variable</b> | <b><i>Skewness</i></b> | <b><i>Kurtosis</i></b> |
|-----------------|------------------------|------------------------|
| ABTD            | 0.79874                | 5.92036                |
| TCAP            | 1.99646                | 8.85801                |
| CIR             | 0.31988                | 2.44077                |
| KI              | 0.84031                | 2.4816                 |
| ROA             | 0.28134                | 4.48346                |
| SIZE            | 0.72341                | 3.60711                |

Source: Output STATA v.16



Based on Table 5, it can be seen that after the normality test using the Skewness Kurtosis Test, all variables have a skewness value below 3 and the kurtosis value is below 10. Therefore, it can be concluded that the research data has a normal distribution.

**Table 6. Multicollinearity Test**

| Variable | VIF  | 1/VIF    |
|----------|------|----------|
| TCAP     | 1.27 | 0.786865 |
| CIR      | 1.20 | 0.834704 |
| KI       | 1.20 | 0.835436 |
| ROA      | 1.08 | 0.925869 |
| SIZE     | 1.05 | 0.954561 |

Source: Output STATA v.16

Based on the information in Table 6, it was found that the value of VIF < 10 and Tolerance > 10 for all variables. So, it can be concluded that in this study there is no multicollinearity problem.

**Table 7. Heteroscedastisity Test**

|             |        |
|-------------|--------|
| chi2        | 0.04   |
| Prob > chi2 | 0.8383 |

Source: Output STATA v.16

Based on the information in Table 7, obtained a probability value of > 5%, it is concluded that there is no heteroscedasticity problem in this study.

**Table 8. Autocorrelation Test**

|          |        |
|----------|--------|
| $\alpha$ | 0.05   |
| Prob > F | 0.6773 |

Source: Output STATA v.16

Based on Table 8, it shows a probability value of > 5%, so it can be interpreted that there is no autocorrelation problem in this study.

### Discussion

The results of panel data regression analysis for the two models are shown in the following table:

**Table 9. t - Test – Model 1**

| Variable | <i>Regression Model:<br/>Fixed Effect Model – Model 1</i> |          |                   |                              |                   |
|----------|---|----------|-------------------|------------------------------|-------------------|
|          | <i>Coef.</i>  | <i>t</i> | <i>P &gt;  t </i> | <b>Hypothesis Prediction</b> | <b>Conclusion</b> |
| Constant | 0.7044766   | 1.02     | 0.312             |                              |                   |
| TCAP     | 0.0020474   | 0.63     | 0.530             | H1 : +                       | H1: rejected      |
| CIR      | 0.2861266   | 3.96     | 0.000*            | H2 : +                       | H2: accepted      |
| ROA      | 0.3711253   | 4.68     | 0.000*            |                              |                   |
| SIZE     | -0.028599   | -1.17    | 0.244             |                              |                   |

|            |  |        |  |  |  |
|------------|--|--------|--|--|--|
| No. of Obs |  | 222    |  |  |  |
| R-Square   |  | 0.0327 |  |  |  |
| Prob > F   |  | 0.0000 |  |  |  |

Source: Output STATA v.16

**Table 10. t Test – Model 2**

| Variable   | <i>Regression Model:<br/>Fixed Effect Model – Model 2</i> |          |                   |                              |                   |
|------------|---|----------|-------------------|------------------------------|-------------------|
|            | <i>Coef.</i>  | <i>t</i> | <i>P &gt;  t </i> | <b>Hypothesis Prediction</b> | <b>Conclusion</b> |
| constant   | 0.353314  | 0.51     | 0.614             |                              |                   |
| TCAP       | -0.005019   | -1.23    | 0.222             |                              |                   |
| CIR        | 0.228776  | 2.68     | 0.008*            |                              |                   |
| KI         | 0.092523  | 0.60     | 0.548             |                              |                   |
| TCAP_KI    | 0.02342   | 2.79     | 0.006*            | H3 : +/-                     | H3 : accepted     |
| CIR_KI     | 0.116251  | 0.49     | 0.626             | H4 : +/-                     | H4 : rejected     |
| ROA        | 0.342380  | 4.42     | 0.000*            |                              |                   |
| SIZE       | -0.017258   | -0.69    | 0.489             |                              |                   |
| No. of Obs |   | 222      |                   |                              |                   |
| R-Square   |   | 0.0453   |                   |                              |                   |
| Prob > F   |   | 0.0000   |                   |                              |                   |

Source: Output STATA v.16

### 1. The effect of thin capitalization on tax avoidance

Based on the test results, the results obtained that thin capitalization does not have a significant effect on tax avoidance, so the first hypothesis is rejected. So it can be said that manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period use their debt for the company's operational purposes, not for tax avoidance. In other words, the debt is indeed needed with the aim of being able to fund the company and be able to carry out its operational activities properly so as to obtain maximum profit (Irawan & Novitasari, 2021).

The result of this study is in line with agency theory because the agent tries to carry out its operational activities so well to minimize agency conflict and ultimately the alignment of goals between the agent and the principal can be achieved (Jensen and Meckling, 1976). This result is also in line with the carrying capacity theory, where tax collection is carried out based on the ability of the taxpayer so that if the operations run well, it is considered that the entity has a better ability to pay off the tax amount. The results of this study are in accordance with the research of Olivia & Dwimulyani (2019) and Selistiaweni et al. (2020) which revealed that thin capitalization has no significant effect on tax avoidance.

### 2. The effect of capital intensity on tax avoidance

The test results in this study indicate that capital intensity has a significant positive effect on tax avoidance, so the second hypothesis is accepted. Capital intensity describes the

amount of an entity's investment in fixed assets. So it can be said that manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period use fixed assets as a mechanism to reduce the amount of taxes paid. This is done because fixed assets will cause depreciation value. The depreciation value is a deductible expense which means that it can reduce taxable income so that the amount of tax burden paid is small (Wardhana et al., 2021). According to Maulana et al. (2018), if the company invests in fixed assets, it is judged that the better the management's performance to earn profits by utilizing its fixed assets

The results of this study are not in line with agency theory, because management as an agent tends to take advantage of the costs of its fixed assets to make opportunistic decisions, which can lead to agency conflicts. The results of this study are also not in line with the carrying capacity theory which explains that tax collection is carried out by assessing the ability of each taxpayer, so that if the fixed assets of an entity tend to be large, it is considered to have more ability to fulfill its obligations in paying taxes. However, in this study, companies with large fixed asset values were actually used to avoid tax. Thus, the decision resulted in capital intensity influencing management to carry out tax avoidance.

The results of this study are in line with the research of Noor & Sari (2021), Kalbuana et al. (2020), and Kasim & Saad (2019), which explain that the larger the fixed assets belonging to the company, the higher the tax avoidance practice is indicated.

### **3. Institutional Ownership Moderates the Effect of Thin Capitalization on Tax Avoidance**

The test results in this study indicate that institutional ownership has a role to moderate thin capitalization in indicating tax avoidance behavior. Where the effect of thin capitalization moderated by institutional stocks shows a positive direction. This means that the size of institutional shares can strengthen the company's decision to minimize the amount of tax through the value of debt owned.

Institutional ownership is an external party to the company that can supervise managers' decisions, including in terms of taxation (Salsabila et al., 2021). Thus, it can be said that the results of this study are in line with agency theory, where the control exercised by the owner of the institution as the principal is able to influence the company's management policy as the agent (Jensen and Meckling, 1976). This can happen because institutional shareholders feel that they have invested in the company, so that it will ensure that management can be held accountable by taking an action that can ultimately optimize the welfare of shareholders (Arianandini & Ramantha, 2018). As also explained by Krisna (2019) that the institutional owner will also support the agent's decision if the decision can bring benefits to the company in general. Therefore, institutional owners will ensure that tax avoidance by managers is still within tolerable limits, so that it does not pose a risk to the company in the future.

#### **4. Institutional Ownership Moderates the Effect of Capital Intensity on Tax Avoidance**

The test results from this study prove that institutional ownership has no role or cannot moderate the relationship between capital intensity and tax avoidance practices. This means that the size of institutional shares cannot influence management related to tax avoidance decisions by utilizing investments in fixed assets. Institutional ownership is the amount of share ownership by other institutions.

Institutional ownership can act to oversee and discipline the decisions of managers within an entity (Darsani & Sukartha, 2021) and institutional ownership can also play a role in overseeing the company's performance so that it does not act for its own so that the company's performance is getting better (Prasatya et al., 2020). The results of this study do not support agency theory. Based on agency theory, there is a separation between the agent and the principal. Here, institutional ownership is the principal. The existence of this separation is intended to minimize agency conflicts. Therefore, the role of institutional owners as external parties is needed to monitor the occurrence of differences in interests (Prakoso et al., 2021). However, the results of this study indicate that ownership by other institutions has no role or can not affect the relationship between capital intensity and tax avoidance.

Capital intensity is a picture of the company's investment in fixed assets that can be used as opportunities by managers to avoid taxes. Institutional owners are unable to moderate the effect of capital intensity on tax avoidance because institutional owners view that investment in fixed assets for manufacturing companies is a natural thing to do. This implies that the fixed asset is seen as an asset used to support the company's operational processes in producing goods, not merely seeing it as a manager's effort to influence taxes. So that supervision by institutional shareholders has no effect.

In addition, institutional owners also only focus on their interests, namely obtaining future welfare (Tandean & Winnie, 2016). As stated by Rizki et al. (2021) in their research that supervision from the institution is carried out only on essential things. In addition, less than optimal supervision can also occur because institutional owners do not have quality resources and institutions are not actively involved in the company's operations. (Oktaviani & Solikhah, 2019).

#### **CONCLUSION**

This research was conducted with the aim of knowing the effect of thin capitalization and capital intensity on tax avoidance with institutional ownership as a moderating variable. Based on the test results, it can be concluded that thin capitalization has no significant effect on tax avoidance. This can happen because the funding structure with debt is indeed needed by the company and is not intended solely to reduce the amount of the tax burden paid. The results of the next test show that capital intensity has a significant positive effect on tax avoidance, which means that if the fixed assets of a company experience an increase, then the practice of tax avoidance will also increase. Further testing concluded that institutional

ownership can moderate thin capitalization with tax avoidance, which means that institutional owners can play a role in influencing thin capitalization on tax avoidance. Testing the fourth hypothesis, it is concluded that institutional ownership is not able to moderate the relationship between capital intensity and tax avoidance, which means that regardless of the amount of institutional ownership in an entity, it is not proven to play a role in influencing company management in terms of investment in fixed assets.

This study has limitations including there is a limitation on the number of samples because some samples do not meet the predetermined criteria and the influence of the variables in this study on tax avoidance is very small, so the effect of tax avoidance can still be explained by other variables outside of this study.

Therefore, future researchers are expected to be able to overcome the limitations that exist in this study, one of which is by adding other variables that might affect the practice of tax avoidance. The government is expected to make more specific policies, especially regarding reasonable limits on the company's capital structure so that the tendency of companies to avoid taxes through their capital structure can be minimized. It is recommended for companies to be able to control fixed assets and their funding structure for operational activities effectively and efficiently so as not to pose a risk to various parties in the future. Furthermore, investors are advised to first review aspects such as fixed assets and the funding structure prepared by the company.

## REFERENCES

- 'Amala, M. A. & Safriansyah, 2020. Analisis Faktor-faktor Yang Memengaruhi Penghindaran Pajak Pada Perusahaan Pertambangan Yang Terdaftar di Bursa Efek Indonesia. *SPREAD*, 9(2), pp. 97-119.
- Abdillah, M. F. & Yulianti, N. W., 2021. Pengaruh Thin Capitalization dan Karakter Eksekutif dengan Kepemilikan Institusional sebagai Variabel Moderasi terhadap Penghindaran Pajak dalam Perspektif Corporate Life Cycle. *Akuntansi Dewantara*, 5(1), pp. 71-85.
- Arianandini, P. W. & Ramantha, I. W., 2018. Pengaruh Profitabilitas, Leverage, dan Kepemilikan Institusional pada Tax Avoidance. *E-Jurnal Akuntansi Universitas Udayana*, 22(3), pp. 2088-2116.
- Ariawan, I. M. A. R. & Setiawan, P. E., 2017. Pengaruh Komisaris Independen, Kepemilikan Institusional, Profitabilitas dan Leverage Terhadap Tax Avoidance. *E-Jurnal Akuntansi Universitas Udaya*, 18(3), pp. 1831-1859.
- Arieftiara, D., Utama, S., Wardhani, R. & Rahayu, N., 2020. Contingent Fit between Business Strategies and Environmental Uncertainty. *Meditary Accountancy Research*, 28(1), pp. 139-167.
- Buettner, T., Overesch, M., Schreiber, U. & Wamser, G., 2012. The Impact of Thin-Capitalization Rules on the Capital Structure of Multinational Firms. *Journal of Public Economics*, Volume 96, pp. 930-938.

- Cahyani, A. Z., Djaddang, S. & Sihite, M., 2021. Faktor-faktor yang Mempengaruhi Tax Avoidance dengan Kepemilikan Institusional sebagai Variabel Moderasi. *Jurnal KRISNA: Kumpulan Riset Akuntansi*, 13(1), pp. 122-135.
- Darsani, P. A. & Sukartha, I. M., 2021. The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance. *American Journal of Humanities and Social Sciences Research*, 5(1), pp. 13-22.
- Devi, D. A., & Dwinranda, A. N. (2020). Moderasi GCG dan Leverage terhadap Pengaruh Ukuran Perusahaan pada Tax Avoidance. *E-Jurnal Akuntansi*, 30(10), 2578-2590. doi:10.24843/EJA.2020.v30.i10.p11
- Dwiyanti, I. A. I. & Jati, I. K., 2019. Pengaruh Profitabilitas, Capital Intensity, dan Inventory Intensity pada Penghindaran Pajak. *E-Jurnal Akuntansi Universitas Udayana*, Volume 27(3), pp. 2293-2321.
- Edison, A., 2017. Struktur Kepemilikan Asing, Kepemilikan Institusional, dan Kepemilikan Manajerial Pengaruhnya Terhadap Luas Pengungkapan Corporate Social Responsibility (CSR). *Bisma: Jurnal Bisnis dan Manajemen*, Volume 11(2), pp. 164-175.
- Falbo, T. D. & Firmansyah, A., 2018. Thin Capitalization, Transfer Pricing Aggressiveness, Penghindaran Pajak. *Indonesian Journal of Accounting and Governance (IJAG)*, Volume 2(1), pp. 1-28.
- Irawan, F. & Novitasari, R., 2021. The Impact of Thin Capitalization Rules as a Tool of Tax Avoidance on Tax Revenue. *International Journal of Economics, Business and Accounting Research (IJEBAR)*, 5(4), pp. 270-281.
- JayantoPurba, C. V. & Kuncahyo, H. D., 2020. Pengaruh Profitabilitas, Likuiditas, dan Leverage, Terhadap Agresivitas Pajak pada Perusahaan Manufaktur Sektor Lainnya yang Terdaftar di BEI. *Jurnal Bisnis Net*, 3(2), pp. 158-174.
- Jensen, M. & Meckling, W., 1976. Theory of the Firm : Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 4(3), pp. 305-360.
- Jumailah, V., 2020. Pengaruh Thin Capitalization dan Konservatisme Akuntansi terhadap Tax Avoidance dengan Kepemilikan Institusional sebagai Variabel Moderasi. *Management & Accounting Expose*, Volume 3(1), pp. 13-21.
- Kalbuana, N. et al., 2020. The Influence of Capital Intensity, Firm Size, and Leverage on Tax Avoidance on Companies Registered in Jakarta Islamic Index (JII) Period 2015-2019. *International Journal of Economics, Bussiness and Accounting Research (IJEBAR)*, 4(3), pp. 272-278.
- Kanagaretnam, K., Lee, J., Lim, C. Y. & Lobo, G. J., 2016. Relation between Auditor Quality and Corporate Tax Aggressiveness: Implications of Cross-Country Institutional Differences. *Auditing: A Journal of Practice and Theory*. 35(4), pp. 105-135.

- Kasim, F. M. & Saad, N., 2019. Determinants Corporate Tax Avoidance Strategies Multinational Corporations in Malaysia. *International Journal of Public Policy and Administration Research*, 6(2), pp. 74-81.
- Kemenkeu, 2020. *Informasi APBN Kita*. Accessed on 27 October 2021 from <https://www.kemenkeu.go.id/apbnkita>
- Khan, M., Srinivasan, S. & Tan, L., 2017. Institutional Ownership and Corporate Tax Avoidance: New Evidence. *The Accounting Review*, 92(2), pp. 101-122.
- Krisna, A. M., 2019. Pengaruh Kepemilikan Institusional dan Kepemilikan Manajerial pada Tax Avoidance dengan Kualitas Audit sebagai Variabel Pemoderasi. *Wacana Ekonomi (Jurnal Ekonomi, Bisnis dan Akuntansi)*, 18(2), pp. 82-91.
- Manihuruk, R. S., Arieftiara, D. & Miftah, M., 2021. Tax avoidance in the Indonesian Manufacturing Industry. *Journal of Contemporary Accounting*, 3(1), pp. 1-11.
- Marsahala, Y. T., Arieftiara, D. & Lastiningsih, N., 2020. Profitability, Capital Intensity and Tax Avoidance in Indonesia: The Effect Board of Commissioners' Competencies. *Journal of Contemporary Accounting*, 2(3), pp. 129-140.
- Maulana, Marwa, T. & Wahyudi, T., 2018. The Effect of Transfer Pricing, Capital Intensity and Financial Distress on Tax Avoidance with Firm Size as Moderating Variables. *Modern Economics*, pp. 122-128.
- Mulyani, S., Wijayanti, A. & Masitoh, E., 2018. Pengaruh Corporate Governance terhadap Tax Avoidance (Perusahaan Pertambangan yang terdaftar di BEI). *Jurnal Riset Akuntansi dan Bisnis Airlangga*, 3(1), pp. 322-340.
- Nadhifah, M. & Arif, A., 2020. Transfer Pricing, Thin Capitalization, Financial Distress, Earning Management, dan Capital Intensity Terhadap Tax Avoidance Dimoderasi Oleh Sales Growth. *Jurnal Magister Akuntansi Trisakti*, 7(2), pp. 145-170.
- Noor, I. N. & Sari, D., 2021. Pengaruh Intensitas Modal, Thin Capitalization dan Kepemilikan Keluarga terhadap Tax Avoidance (Pada Perusahaan Manufaktur Yang Terdaftar Di BEI Tahun 2013-2017). *Jurnal Bisnis, Ekonomi dan Sains*, 01(1), pp. 31-38.
- Oktaviani, D. & Solikhah, B., 2019. Peran Kepemilikan Institusional Dalam Memoderasi Faktor-faktor Yang Mempengaruhi Tax Avoidance. *Akuntansi Dewantara*, 3(2), pp. 169-178.
- Olivia, I. & Dwimulyani, S., 2019. *Pengaruh Thin Capitalization dan Profitabilitas Terhadap Penghindaran Pajak dengan Kepemilikan Institusional sebagai Variabel Moderasi*. s.l.:Prosiding Seminar Pakar Ke 2.
- Prakoso, F. B., Arieftiara, D. & Sumilir, 2021. *Tax Avoidance Di Indonesia: Dampak Kepemilikan Institusional dan Financial Reporting Aggressiveness*. s.l., Business Management, Economic, and Accounting National Seminar, pp. 1021-1035.
- Prasatya, R. E., Mulyadi, M. & Suyanto, 2020. Karakter Eksekutif, Profitabilitas, Leverage, dan Komisaris Independen Terhadap Tax Avoidance Dengan Kepemilikan

- Institusional Sebagai Variabel Moderasi. *JRAP (Jurnal Riset Akuntansi dan Perpajakan)*, 7(2), pp. 153-162.
- Putri, R. T., Ulum, I. & Prasetyo, A., 2018. Company Risk, Size, Fiscal Loss Compensation, and Tax Avoidance: Evidence from Indonesian Islamic Companies. *Journal of Innovation in Business and Economics*, 2(2), pp. 87-94.
- Riyanto, S. & Hatmawan, A. A., 2020. *Metode Riset Penelitian Kuantitatif Penelitian di Bidang Manajemen, Teknik, Pendidikan dan Eksperimen*. Jakarta: Deepublish.
- Rizki, P., Arieftiara, D. & Masripah, 2021. Pengaruh Karakteristik Eksekutif dan Kepemilikan Institusional terhadap Tax Avoidance dengan Corporate Governance sebagai Variabel Moderasi. *Jurnal Indonesia Sosial Sains*, 2(9), pp. 1541-1557.
- Salsabila, A. H., Arieftiara, D. & Widiastuti, N. P. E., 2021. Intensitas Penghindaran Pajak pada Perusahaan: Dampak Corporate Social Responsibility dan Corporate Governance. *Jurnal Informasi, Perpajakan, Akuntansi, dan Keuangan Publik*, 16(1), pp. 65-84.
- Salwah, S. & Herianti, E., 2019. Pengaruh Aktivitas Thin Capitalization Terhadap Penghindaran Pajak. *Jurnal Riset Bisnis*, 3(1), pp. 30-36.
- Selistiaweni, S., Arieftiara, D. & Samin, 2020. *Pengaruh Kepemilikan Keluarga, Financial Distress dan Thin Capitalization terhadap Penghindaran Pajak*. s.l., Business Management, Economic, and Accounting National Seminar, pp. 751-763.
- Sueb, M., 2020. Penghindaran Pajak: Thin Capitalization dan Asset Mix. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, 6(1), pp. 41-52.
- Tandean, V. A. & Winnie, 2016. The Effect of Good Corporate Governance on Tax Avoidance: An Empirical Study on Manufacturing Companies Listed in IDX period 2010-2013. *Asian Journal of Accounting Research*, 1(1), pp. 28-38.
- Tang, T. Y. & Firth, M., 2012. Earnings Persistence and Stock Market Reactions to the Different Information in Book-Tax Differences: Evidence from China. *The International Journal of Accounting*, 47(3), pp. 369-397.
- Taylor, G. & Richardson, G., 2013. The determinants of thinly capitalized tax avoidance structures: *Journal of International Accounting, Auditing and Taxation*, Volume 22, pp. 12-25.
- Wardhana, M. D., Arieftiara, D. & Setiawan, A., 2021. Pengaruh Capital Intensity, Corporate Social Responsibility, dan Environmental Uncertainty Terhadap Tax Avoidance. *EQUITY*, 24(2).
- Zoobar, M. K. Y. & Miftah, D., 2020. Pengaruh Corporate Social Responsibility, Capital Intensity dan Kualitas Audit Terhadap Penghindaran Pajak. *Jurnal Magister Akuntansi Trisakti*, 7(1), pp. 25-40.