

# The Influence of Thin Capitalization, Capital Intensity and Sales Growth on Tax Avoidance with Institutional Ownership as a Moderating Variable in Manufacturing Companies Registered as Indonesian Sharia Stock Index Companies

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## Abstract

This research aims to determine the effect of thin capitalization, capital intensity and sales growth on tax avoidance with institutional ownership as a moderating variable in manufacturing companies listed as Indonesian sharia stock index companies in 2021-2022. This research uses a quantitative descriptive method, with a total sample of 52 companies with 104 data used obtained from the company's annual financial reports. The results of this research show that thin capitalization, capital intensity, sales growth has an effect on tax avoidance, institutional ownership is able to moderate the effect of thin capitalization on tax avoidance, institutional ownership is able to moderate the effect of capital intensity on tax avoidance and institutional ownership unable to moderate the influence of sales growth on tax avoidance.

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## INTRODUCTION

Tax is a mandatory contribution that must be paid by taxpayers to the state based on law and is coercive, with no direct reward and is used for state needs for the greatest prosperity of the people (Mardiasmo, 2008). Indonesia receives funds from the State Revenue and Expenditure Budget (APBN) with taxes as the largest component. The large contribution of taxes to APBN revenues shows that the role of taxes in the country is very important. Reporting from ([kemenkeu.co.id](http://kemenkeu.co.id), 2023) shows that tax revenues at the end of 2022 reached IDR 1,7 trillion. This achievement shows that tax performance has reached 115.6% of the target of IDR 1,485 trillion. Because the country's largest income comes from the tax sector, this makes the government make every effort to raise the level of income from this potential sector. According to Kusnandar (2019), the sector that contributes most to tax revenue is the manufacturing sector. In providing positive chain effects, such as absorbing local employment, foreign exchange earnings from exports and increasing the added value of domestic raw materials, the contribution of the manufacturing sector is considered capable of fulfilling this.

Due to the success of this sector in contributing to state taxes, it cannot be denied that all companies operating in the manufacturing sector are free from tax avoidance and are proven to maintain compliance as taxpayers. This is proven by the existence of several cases of tax evasion in Indonesia that have occurred. Departing from the phenomena of tax avoidance cases that have occurred in previous years, namely cases that occurred at PT Astra Corp which is the parent company of PT Toyota Motor Manufacturing, Suzuki Motor Corp, PT Coca Cola Tbk and PT Garuda Metalindo. PT Garuda Metalindo is an example of a manufacturing company which is a company with a sharia stock portfolio or called ISSI. The ISSI company is a total sharia share portfolio company listed on the Indonesia Stock Exchange (BEI). In terms of benchmarks, the ISSI company is a company with a limit of 45% in the publication of its debt ownership. Given these limitations, Indonesian Sharia Stock Index companies have a small gap in utilizing debt ratio levels for tax incentives. Therefore, tax

avoidance practices cannot be easily carried out by companies registered as ISSI as can be done by other companies that are not registered as ISSI. Based on several phenomena in cases of manufacturing companies which are included in ISSI companies, it is still necessary to review and research the cases of tax avoidance in Indonesia, especially in the manufacturing sector registered as ISSI companies.

Based on the researcher's views regarding tax avoidance cases that have occurred in manufacturing companies registered as ISSI which have little opportunity to utilize their debt structure, the researcher re-observed the tax avoidance practices of ISSI manufacturing companies in the 2021-2022 period. Observations before this research was carried out were used as a reference that tax avoidance practices in ISSI manufacturing companies still often occur.

**Table 1.** ISSI Manufacturing Company Tax Avoidance Observations in 2021-2022

Information	Years	
	2021	2022
Melakukan	65	52
Tidak Melakukan	36	49
Tidak Terungkap	16	16
<b>TOTAL</b>	<b>117</b>	<b>117</b>

Based on table 1 of the tax avoidance observations of ISSI manufacturing companies above, researchers obtained the results that there are still ISSI manufacturing companies that have been detected committing tax avoidance. This means that in this case, manufacturing companies registered as ISSI can still take advantage of loopholes to carry out tax avoidance practices. Of the 117 ISSI manufacturing companies registered on the IDX, there are only 36 companies that are not really indicated to be exploiting tax loopholes for tax avoidance in 2021. So there are still 65 companies that have been detected still exploiting tax loopholes for avoidance practice mechanisms. tax and 16 other companies could not be disclosed. Meanwhile, in 2022, of the 117 ISSI manufacturing companies registered on the IDX, there will only be 49 companies that have absolutely no indication of exploiting tax loopholes for tax avoidance. So there are still 52 companies that have been detected as still exploiting tax loopholes for tax avoidance practice mechanisms and 16 other companies cannot be disclosed. With evidence from researchers' observations, this proves that ISSI manufacturing companies still have tax loopholes that are used for tax avoidance opportunities even though there are several restrictions in their tax avoidance mechanisms.

One mechanism for minimizing the tax burden that is closely related to tax avoidance practices is thin capitalization. Thin capitalization is one of the variables that encourages international tax avoidance practices (Taylor & Richardson G, 2012). Thin capitalization is an investment option for companies that finance their business operations using debt rather than equity as a source of funding in their capital structure (Taylor & Richardson G, 2012). Funding investment results in the form of dividends will be taxed. Meanwhile, for those originating from loans or debt, interest expenses are costs that can make taxable income smaller by subtracting income (Turner, 2017). Research conducted by (Rini et al., 2022) and (Andawiyah et al., 2019) also shows that thin capitalization has a negative effect on tax avoidance. The results of this research show that manufacturing companies registered as ISSI companies still have interest charges on debt even though the debt limitation regulations are very strict, namely 45% for tax avoidance purposes. Even with restrictions, thin capitalization is still high with low tax avoidance values. This can be concluded that the practice of tax avoidance is also increasing.

Capital intensity is a description of how a company invests in its fixed assets (Widani et al., 2019). What can be an opportunity for companies to minimize their tax burden can be done by investing in fixed assets. Fixed asset investments can give rise to fixed asset depreciation charges which can be a reduction in the calculation of tax payable. The greater the depreciation expense on fixed assets, the smaller the tax burden the company must pay. The results of this research are in line with research conducted by Joni & Gunawan (2021) which shows that capital intensity has a significant effect on tax avoidance. This research shows a negative coefficient value, which means that the higher the capital intensity, the lower the cash effective tax rate (CETR) or it could be said that the company's level of tax avoidance is greater. This is because if the company's fixed assets continue to grow, it will cause fixed asset depreciation expenses to arise which can be used as deductible expenses, thereby reducing the company's profit before tax so that the tax paid by the company will be lower.

Sales growth is the growth rate of a company's sales which changes from year to year (Irawati et al., 2020). Sales growth is in the form of sales growth predictions that reflect the success of investment in the last period.

Increased sales Growth tends to make a company earn higher profits. High profits can increase the company's tax burden. On the other hand, companies do not want to pay high taxes due to high profits caused by increased sales. With these high profits, companies will try to avoid taxes. Research conducted by Joni & Gunawan (2021) and Sudiby (2022) states that sales growth has an effect on tax avoidance. This research shows a negative coefficient value, which means that the higher the sales growth, the lower the cash effective tax rate (CETR) of a company or it could be said that the level of tax avoidance of a company is higher. This is because when a company records revenue growth, indirectly the company's profit before tax will also grow, growing profit before tax causes an increase in the tax burden that the company must pay so that the company will tend to take tax avoidance actions to reduce the tax burden that must be paid to a minimum.

Variable that can influence and monitor tax avoidance practices carried out by companies is institutional ownership. Institutional ownership is the amount of share ownership owned by company institutions at the end of the period. Institutional ownership has a very important role in minimizing conflicts of interest that occur between managers and shareholders (Olivia Lucky & Murtanto, 2022). The existence of this institutional party can be a product of effective monitoring of every decision-making activity carried out by managers.

## **LITERATURE REVIEW**

### **Trade Off Theory**

According to Brigham & Ehrhardt (2005), "Trade Off Theory is a capital structure theory which states that companies trade the tax benefits of debt financing for the problems posed by potential bankruptcy." Trade off theory assumes that there are tax benefits resulting from the use of debt, so that companies will use debt to a certain level to maximize their tax value. The essence of trade of theory in capital structure is to balance the benefits and sacrifices that arise as a result of the use of debt. In fact, the more debt, the higher the burden the company must bear, such as agency fees, bankruptcy costs, greater interest expenses and so on.

### **Pecking Order Theory**

Pecking Order Theory states that companies tend to use internal funds from company profits if the company has a high level of profit. The essence of this theory is that there are two types of capital sources, namely internal financing and external financing. This theory explains why profitable companies generally use less debt. This is not because the company has a low debt ratio target, but because they require little external financing. Own capital originating from within the company is preferable to own capital originating from outside the company. Therefore, this theory explains that companies prefer to use internal funding originating from cash flow, profits and depreciation (Brigham and Houston, 2006).

### **Agency Theory**

According to (Anthony & Govindarajan, 2005), agency theory is a relationship or contract between the principal and the agent where it is assumed that each individual is solely motivated by their own interests, giving rise to a conflict of interest between the principal and the agent." states that there is a cooperative relationship between the principal and the agent in the form of a cooperation contract called the nexus of contract. The assumption of this theory states that there is a cooperative relationship between the principal and the agent in the form of a cooperative contract which is called the nexus of contract. Here the principal or party who gives authority is the investor or owner of company shares and the agent or party who receives authority is the company manager. Basically, this theory arises because of differences in economic interests which are caused or cause the emergence of information asymmetry (information gap) between shareholders (principal) and agents (management).

This agency theory explains the agency relationship which can occur when the principal party gives authority to the agent to carry out some authority in his interests which involves the delegation of some decision-making authority to the agent which is ultimately the result of the decision taken by this agent a benefit to the iprincipal or The shareholder is the power grantor. The separation of functions between owners and management has the impact of management's discretion in maximizing or minimizing profits. This leads to the process of maximizing management's own interests at the expense of the company owner.

## Thin Capitalization

Thin capitalization is the formation of a company's capital structure with as much debt contribution and as little capital as possible (Razif & Vidamaya, 2018). Meanwhile, according to Taylor & Richardson G, (2012) defines thin capitalization as a practice that makes the debt structure much larger than the company's capital structure.

## Capital Intensity

Capital intensity according to (Widani et al., 2019) is the company's investment activity which is linked to fixed asset investment. Capital intensity is defined as how a company sacrifices budget funds to finance operational activities and funding of assets in order to obtain company profits (Mailia & Apollo, 2020). Capital intensity reflects the amount of capital used by the company to obtain profits, which can be obtained either from a decrease in fixed assets or an increase in the number of fixed assets.

## Sales Growth

According to Irawati et al., (2020) sales growth is something that is very important for a company to be able to predict how much sales will increase from year to year. According to (Fadjarenie & Anisah, 2022), sales growth is a major change in sales contained in financial reports and can be used as a perspective and profit power for the company in the coming years.

## Institutional Ownership

Institutional ownership is the amount of share ownership owned by company institutions at the end of the period. Institutional ownership has a very important role in minimizing conflicts of interest that occur between managers and shareholders (Olivia Lucky & Murtanto, 2022). The existence of this institutional party can be a product of effective monitoring of every decision-making activity carried out by managers.

## Framework of Thinking

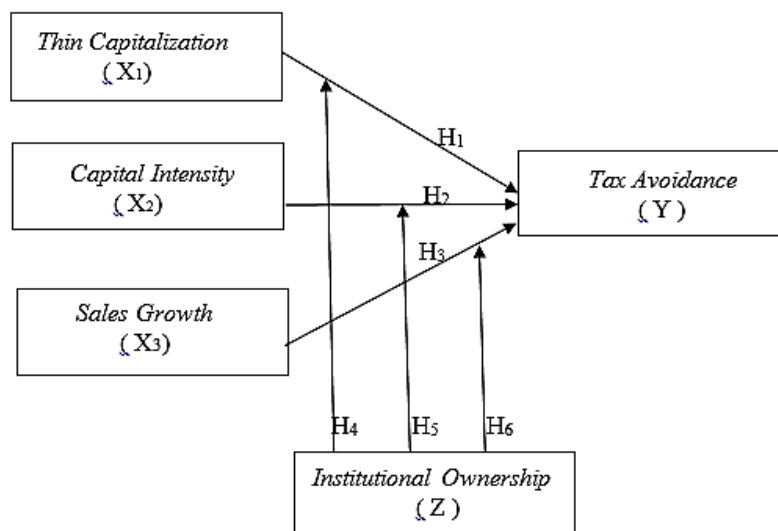


Figure 1. Research Conceptual Framework

Hypothesis:

H<sub>1</sub> : thin capitalization influences tax avoidance.

H<sub>2</sub> : capital intensity influences tax avoidance.

H<sub>3</sub> : sales growth influences tax avoidance.

H<sub>4</sub> : Institutional ownership can moderate the influence of thin capitalization on tax avoidance.

H<sub>5</sub> : Institutional ownership can moderate the influence of capital intensity on tax avoidance.

H<sub>6</sub> : Institutional ownership can moderate the influence of sales growth on tax avoidance.

## RESEARCH METHODS

This research is a type of quantitative research using a descriptive approach. The population in this study are manufacturing companies listed as Indonesian Sharia Stock Index Companies listed on the Indonesia Stock Exchange (BEI) in 2021-2022. Sample selection was carried out using the purposive sampling method. The sample criteria used are companies that are registered as producers of the Indonesian sharia stock index, companies that are indicated to be committing tax evasion, not experiencing losses (This criterion was chosen so as not to cause distortion in the measurement of tax avoidance due to fiscal loss compensation if the company has negative taxable profits (loss), and companies that disclose tax payments in their cash flow reports. The data source used is secondary data collected using documentation methods from the official IDX website or each company's website 104 observation data. This research uses an analysis method using SPSS 20 to assess the influence of thin capitalization, capital intensity and sales growth on tax avoidance which is moderated by institutional ownership.

## RESULTS AND DISCUSSION

### Descriptive Statistics

The descriptive statistical test results for thin capitalization obtained a maximum value of 2.295; minimum value of 0.003; The average value is 0.5229 and the standard deviation is 0.42613. Capital Intensity obtained a maximum value of 0.781; minimum value of 0.002; The average value is 0.4184 and the standard deviation is 0.208039. Sales Growth obtained a maximum value of 1.758; minimum value of -0.744; The average value is 0.2143 and the standard deviation is 0.292728. Tax avoidance obtained a maximum value of 0.220; minimum value of 0.004; The average value is 0.1286 and the standard deviation is 0.063817. Institutional Ownership obtained a maximum value of 0.925; minimum value of 0.141; The average value is 0.6863 and the standard deviation is 0.189363.

### Multiple Linear Regression Analysis

Based on the results of the multiple linear regression test, the following equation is obtained:

$$Y = 0,175 - 0,056 X1 - 0,037 X2 + 0,006 X3 + e \quad (1)$$

- 1) This equation is known to have a constant value of 0.175. The constant value shows that if the independent variables (Thin Capitalization, Capital Intensity, Sales Growth) have a value of zero or are assumed to be constant, then tax avoidance has a value of 0.175.
- 2) Thin capitalization variable coefficient -0.056. The results of the coefficient value of the regression analysis on the thin capitalization variable obtained a negative value, namely -0.056. Which can be interpreted as if the thin capitalization variable increases by 1 time or 1%, then tax avoidance will decrease by -0.056.
- 3) Capital intensity variable coefficient -0.037. The results of the coefficient value of the regression analysis on the capital intensity variable obtained a negative value, namely -0.037. Which can be interpreted as if the capital intensity variable increases by 1 time or 1%, then tax avoidance will decrease by -0.037.
- 4) Sales growth variable coefficient 0.006. The results of the regression analysis coefficient value on the sales growth variable obtained a positive value, namely 0.006. Which can be interpreted as if the sales growth variable increases by 1 time or 1%, then tax avoidance will increase by 0.006.

### Determination Coefficient Test (R<sup>2</sup>)

The results of the determination test show that the Adjusted R Square gain is 0.545 (54.5%). This also provides evidence that 54.5% of the tax avoidance value occurs due to thin capitalization, capital intensity, and sales growth while the remaining 45.5% occurs due to other variables outside the variables tested.

### Hypothesis Test

- 1) The results of the t test on the effect of the thin capitalization variable on tax avoidance are presented in table 2, which shows a t-value of -10.522 in a negative effect. The thin capitalization variable (X1) has a significance of  $0.000 < 0.05$ , which means it is significant. So the results can be obtained that thin

capitalization has a significant effect on tax avoidance. So Hypothesis (H1) which states "thin capitalization influences tax avoidance" is accepted.

- 2) The results of the t-test on the effect of the capital intensity variable on tax avoidance, which are presented in table 2, show a t-value of -3.404 in a negative effect. The capital intensity variable (X2) has a significance of  $0.001 < 0.05$ , which means it is significant. So the results can be obtained that capital intensity has a significant effect on tax avoidance. So Hypothesis (H2) which states "capital intensity influences tax avoidance" is accepted.
- 3) The results of the t test on the influence of the sales growth variable on tax avoidance are presented in table 2, which shows a t-calculated value of 2.824 in a positive effect. The sales growth variable (X3) has a significance of  $0.006 < 0.05$ , which means it is significant. So the results can be obtained that sales growth has a significant effect on tax avoidance. So Hypothesis (H3) which states "sales growth influences tax avoidance" is accepted.

**Table 2.** Hypothesis Test Results (t-test)

Model		Coefficients <sup>a</sup>			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	0.175	0.006		29.422	0.000
	Thin Capitalization	-0.056	0.005	-0.701	-10.522	0.000
	Capital Intensity	-0.037	0.011	-0.227	-3.404	0.001
	Sales Growth	0.006	0.002	0.189	2.824	0.006

a. Dependent Variable: Tax Avoidance

Source: Data processed by SPSS (2023)

**Table 3.** Hypothesis Test Results (Moderated Regression Analysis)

Model		Coefficients <sup>a</sup>			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	0.165	0.005		31.708	0.000
	ThinCap*Inst	-0.073	0.008	-0.675	-9.300	0.000
	CaptIn*Inst	-0.033	0.014	-0.167	-2.375	0.019
	SG*Inst	0.009	0.003	0.182	1.596	0.114

a. Dependent Variable: Tax Avoidance

Source: Data processed by SPS (2023)

- 1) The test results between the interaction of Institutional Ownership on the Relationship between Thin Capitalization and Tax Avoidance, which are presented in table 3, obtained a significance value of  $0.000 < 0.05$ , which means that the institutional ownership variable is able to moderate the influence of the thin capitalization variable on tax avoidance. So Hypothesis (H4) which states "Institutional ownership can moderate the influence of thin capitalization on tax avoidance" is accepted.
- 2) The test results between the interaction of Institutional Ownership on the relationship between capital intensity and Tax Avoidance, which are presented in table 3, obtained a significance value of  $0.019 < 0.05$ , which means that the institutional ownership variable is able to moderate the influence of the capital intensity variable on tax avoidance. So Hypothesis (H5) which states "Institutional ownership can moderate the influence of capital intensity on tax avoidance" is accepted.
- 3) The test results between the interaction of Institutional Ownership on the Relationship between sales growth and Tax Avoidance, which are presented in table 3, obtained a significance value of  $0.114 < 0.05$ , which means that the institutional ownership variable is unable to moderate the influence of the sales growth variable on tax avoidance. So Hypothesis (H6) which states "Institutional ownership can moderate the influence of capital intensity on tax avoidance" is rejected.

### The Effect of Thin Capitalization on Tax Avoidance

Thin capitalization in this study has a coefficient value with a negative value, which means that thin capitalization has a negative effect on tax avoidance as proxied by CETR. The negative effect in question is that when thin capitalization value is higher, the tax avoidance value will decrease. The decreasing tax avoidance value indicates that the company is increasingly practicing tax avoidance. Based on research data, the average value of thin capitalization carried out by ISSI manufacturing companies was 52% and the average

tax avoidance practice carried out by ISSI manufacturing companies was 13%. This shows that ISSI manufacturing sector companies still have a high percentage of debt structure. Where if the company uses debt, the debt will incur interest, where the treatment of interest in taxation is different from the treatment of dividends, interest expense in taxation provisions is allowed as a deduction from taxable income. So the higher the thin capitalization value, the practice of tax avoidance will increase, meaning that companies with high levels of debt will incur large interest expenses which can result in company profits decreasing which can reduce taxable income.

Theory that supports the assumptions in this research is trade off theory. This theory explains that companies will choose debt for funding, known as thin capitalization, to obtain tax benefits and sacrifice interest payments. When the proportion of debt used by a company is more dominant in its funding, this will have an impact on lower taxable profits. The lower taxable profit is due to the higher interest expense which can be used as a tax deduction.

The results of this research are in line with research conducted by Andawiyah et al., (2019), Indrawan et al., (2021), Winarto & Daito, (2021) and Yoshida (2023) who have research results that thin capitalization has a significant effect on tax avoidance. In this research, a negative coefficient value was obtained, which means it has a negative effect on tax avoidance. Where even though there are restrictions on the debt structure of ISSI companies, tax avoidance is still high. With this, even though there is a debt limitation of 45% on interest-bearing debt, ISSI manufacturing companies still carry interest charges on debt for tax avoidance purposes.

### **The Effect of Capital Intensity on Tax Avoidance**

Capital intensity has a coefficient value with a negative value, which means that capital intensity has a negative effect on tax avoidance as proxied by CETR. The negative effect in question is that when the capital intensity value is higher, the tax avoidance value will decrease. The decreasing tax avoidance value indicates that the company is increasingly practicing tax avoidance. Based on research data, the average value of capital intensity owned by ISSI manufacturing companies is 41%, indicating that the company uses a fixed asset structure of 41% compared to current assets and the average tax avoidance practice carried out by ISSI manufacturing companies is 13%. This value shows that the use of fixed assets over the company's total assets is high enough to support the company's operational activities. In this case, if the company's fixed assets continue to grow, it will cause fixed asset depreciation expenses to arise which can be used as deductible expenses, thereby reducing the company's profit before tax so that the tax paid by the company will be lower.

Theory that supports the presumptions in this research is pecking order theory. This theory explains that the company will use internal company funds, in this case by investing in fixed assets to support the company's operational activities. Moreover, this research was conducted on manufacturing companies that are oriented towards fixed asset needs such as buildings, land, buildings, machines, vehicles, etc. When the proportion of the company's fixed asset investment used by the company dominates the company's activities to support its operations, this will encourage the company to increase production capacity which has an impact on increasing the company's profits and profits which will also increase the company's tax burden.

The results of this research are in line with research conducted by Darsani & Sukartha (2021) and Joni & Gunawan (2021) who have research results that capital intensity has a significant effect on tax avoidance. In this research, a negative coefficient value was obtained, which means it has a negative effect on tax avoidance. The results of the research state that if the company's fixed assets continue to grow, it will cause the emergence of fixed asset depreciation expenses which can be used as deductible expenses, thereby reducing the company's profit before tax so that the tax paid by the company will be lower. The higher the capital intensity, the higher the practice of tax avoidance will be, showing a lower value.

### **The Effect of Sales Growth on Tax Avoidance**

Sales growth has a coefficient value with a positive value, which means that sales growth has a positive effect on tax avoidance as proxied by CETR. The positive effect in question is that when the sales growth value is higher, the tax avoidance value will increase. The increasing tax avoidance value indicates that the company is increasingly not practicing tax avoidance. Based on research data, the average sales growth value for ISSI manufacturing companies was 21% and the average tax avoidance practice carried out by ISSI manufacturing

companies was 13%. This shows that the ISSI manufacturing company has good sales growth in 2021-2022 with an average sales growth percentage of above 10%. So the higher the sales growth value, the higher the tax avoidance value will be, indicating low tax avoidance practices, meaning that companies with high sales growth rates will also generate high profits. With high company profits, the company's tax burden will also be high. With this high corporate tax burden, companies are trying to pay their tax burden so that tax avoidance practices decrease.

Theory that supports the presumptions in this research is pecking order theory. This theory explains that companies will use internal company funds rather than external funds, so companies prefer to utilize their profit structure to fund company operations. With high company profits, companies tend not to finance with debt or other external funds. Profitable companies generally use less debt and tend to use internal funds. So with this high profit, the company will try to protect this high profit by maintaining its reputation so that it remains trusted by the public so that the company's image is good. By having a good company image, this can indirectly increase the company's long-term profits.

The results of this research are in line with research conducted by Faradisty et al., (2019) which has research results that sales growth has an effect on tax avoidance. In this research, a positive coefficient value was obtained. These results indicate that a higher level of sales growth will influence a lower level of tax avoidance. The higher the sales growth, the lower the company's tax avoidance, so the CETR is also higher. This is because high sales growth indicates the company's high profits so that it can contribute to management not to avoid corporate taxes. This is because tax avoidance is seen as a short-term strategy to increase company profits but not in the long term which will have a negative impact on the company. So the conclusion is that a company with a high level of sales growth means the company's tax avoidance practices are also low.

### **The Effect of Thin Capitalization in Moderating The Effect of Institutional Ownership on Tax Avoidance**

Interaction of the moderating variables in this research weakens the effect of thin capitalization on tax avoidance. Based on research data, the average value of thin capitalization carried out by ISSI manufacturing companies was 52%, the average tax avoidance practice carried out by ISSI manufacturing companies was 13% and share ownership of other institutions was 68%. The research results show that companies still take advantage of the benefits of debt in carrying out tax avoidance practices. However, in the company structure, there are external parties, namely institutional ownership, who can monitor management's actions in utilizing interest charges to reduce profits. From the research data, it was also found that ISSI manufacturing companies in 2021-2022 were classified as being owned by majority shareholders whose share ownership was mostly owned by other institutions. So in this research, institutional ownership can weaken the effect of thin capitalization on tax avoidance.

Theory that supports the presumptions in this research is agency theory. Institutional ownership has a very important role in terms of minimizing conflicts of interest that occur between managers and shareholders (Olivia Lucky & Murtanto, 2022). Supervision of company management can be carried out through institutional ownership. Management supervision can be carried out by institutional parties which provides encouragement to increase more optimal supervision. The existence of this institutional party can be a product of effective monitoring of every decision-making activity carried out by managers. Institutional ownership acts as an element of corporate governance, the company's capital structure is expected to balance debt capital with shareholder equity investment. So that it can make the company unable to keep up with company financing with its debt structure which can trigger high interest which has an effect on decreasing profits.

The research results are appropriate and in line with research conducted by Jumailah (2020) which shows that institutional ownership can weaken the effect of thin capitalization on tax avoidance. This proves that with institutional ownership as an element of corporate governance, the company will balance capital from debt and capital investment from shareholders in its capital structure which can reduce the use of debt in company funding.

### **The Effect of Capital Intensity in Moderating The Effect of Institutional Ownership on Tax Avoidance**

The interaction of the moderating variables in this research strengthens the influence of capital intensity on tax avoidance. Based on research data, the average value of capital intensity for ISSI manufacturing companies

was 41%, the average tax avoidance practice carried out by ISSI manufacturing companies was 13% and share ownership of other institutions was 68%. The research results show that companies still utilize the benefits of fixed asset depreciation in carrying out tax avoidance practices. With the existence of an institutional ownership structure that is dominantly owned by other institutions, its presence here is considered to be a supervisor of company management. In this research, institutional presence is more supportive for companies to maintain high profits so that institutional parties also get the expected profits. So in this research, institutional ownership can strengthen the influence of capital intensity on tax avoidance.

Theory that supports the presumptions in this research is agency theory. Institutional ownership has a very important role in terms of minimizing conflicts of interest that occur between managers and shareholders (Olivia Lucky & Murtanto, 2022). Supervision of company management can be carried out through institutional ownership. Management supervision can be carried out by institutional parties which provides encouragement to increase more optimal supervision. The existence of this institutional party can be a product of effective monitoring of every decision-making activity carried out by managers. The existence of institutional ownership also wants to make a profit from the shares invested. So this party has more control over the company in terms of achieving high profits, one of which can be done by utilizing depreciation on its fixed asset investments.

The results of this research are in line with research conducted by Olivia Lucky & Murtanto (2022) and Wahyuni (2023) who have research results that institutional ownership is able to moderate the influence of capital intensity on tax avoidance. The results of their research also show that institutional ownership can strengthen the influence of capital intensity on tax avoidance. This proves that with institutional ownership as an element of corporate governance, it can be a company supervisor in terms of disclosing its fixed assets to obtain the maximum possible profit.

### **The Effect of Sales Growth in Moderating The Effect of Institutional Ownership on Tax Avoidance**

Based on research data, the average sales growth value for ISSI manufacturing companies was 21%, the average tax avoidance practice carried out by ISSI manufacturing companies was 13% and share ownership of other institutions was 68%. This shows that the sales growth of the ISSI manufacturing company is considered good because above the 10% standard the company is said to have good sales growth. With high sales growth, the profits generated will also be high so that companies tend not to practice tax avoidance. Based on the research results, even though 68% of ownership is owned by other institutions, it is unable to moderate the influence of sales growth on tax avoidance.

The results of this research do not match the researcher's hypothesis, but the results of this research support by Rianda (2021) and research by Wahyuni (2023) which has the result that institutional ownership is unable to moderate the influence of sales growth on tax avoidance. This means that the size of institutional ownership does not strengthen or weaken the influence of sales growth on tax avoidance. This reflects that institutions outside the company do not interfere in the company's tax affairs. Institutions outside the company only want how the company is able to manage the funds or capital that have been placed in the company, so that institutional investors get good returns in each period on the capital or funds that have been invested in the company. Institutional investors do not pay attention to the company's sales growth rate, and also institutional ownership which acts as the party that monitors the company is not necessarily able to provide good control over management actions in carrying out tax avoidance practices.

## **CONCLUSIONS**

Based on the results of research and discussion, it can be concluded that:

- 1) Thin capitalization has a significant effect on tax avoidance. This research shows a negative coefficient value, which means that the higher the thin capitalization value, the tax avoidance value will decrease, the tax avoidance value will decrease so it can be said that companies are increasingly practicing tax avoidance.
- 2) Capital intensity has a significant effect on tax avoidance. This research shows a negative coefficient value, which means that the higher the capital intensity value, the tax avoidance value will decrease, the tax avoidance value will decrease so it can be said that companies are increasingly practicing tax avoidance.
- 3) Sales growth has a significant effect on tax avoidance. This research shows a positive coefficient value, which means that the higher the sales growth value, the higher the tax avoidance value, the higher the tax avoidance value, so it can be said that companies are increasingly not practicing tax avoidance.

- 4) Institutional ownership is able to moderate (weaken) the influence of thin capitalization on tax avoidance. This means that the higher the thin capitalization value, the higher the tax avoidance. The presence of institutional ownership of the company can weaken or minimize tax avoidance practices.
- 5) Institutional ownership is able to moderate (strengthen) the influence of capital intensity on tax avoidance. Which means that the higher the capital intensity value, the higher the tax avoidance. The existence of institutional ownership of the company can strengthen or better support the company to practice tax avoidance.
- 6) Institutional ownership is unable to moderate the influence of sales growth on tax avoidance. Which means that the existence of institutional ownership is not able to strengthen or weaken the influence of sales growth on tax avoidance.

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