ISSN No:-2456-2165

The Impact of Thin Capitalization and Profitability on Tax Avoidance with Institutional Ownership as a Moderation Variable

(Empirical Study on Mining Companies Listed on the Indonesia Stock Exchange in 2018-2022)

Melinda Ayu Oktaviani[1]*, Lin Oktris[2], Agustin Fadjarenie[3]
Economic and Business Faculty Universitas Mercu Buana, Jakarta, Indonesia

Abstrat:- This study aims to examine the effect of *Thin Capitalization* and Profitability on *Tax Avoidance moderated* by Institutional Ownership. The sample used in this study is a mining company listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2022 (5 years) with 12 companies. The determination of the sample of this study was using the *Purposive Sampling* method and analysis using panel data with multiple regression methods. The results of this study show that *Thin capitalization* has a positive effect on *Tax Avoidance* and Profitability does not have a negative effect on Tax *Avoidance*. Institutional Ownership weakens the positive influence of *Thin Capitalization* on *Tax Avoidance* and Institutional Ownership reinforces the negative influence on *Tax Avoidance*.

Keywords:- *Thin Capitalization; Profitability, Tax Avoidance, Institutional Ownership.*

I. INTRODUCTION

Tax is a mandatory contribution of every citizen owed in accordance with the provisions of coercive laws and is a source of state income recorded in the State Budget (APBN). It is proven that the government continues to strive to improve community welfare by building and improving infrastructure. This has been going on not without obstacles but because the main source of state revenue is fully received to the maximum and in accordance with the targets set by the government. It is evident that many companies do not realize how important it is to be obedient in paying taxes. The government's efforts to optimize tax revenue by using a *self-assessment* system, where every taxpayer, both individuals and entities, is required to independently calculate, pay, and report the amount of tax they should pay in accordance with applicable tax regulations (Prayitno et al., 2023).

Tax Avoidance is not a new problem in the world of taxation, but has become a problem that always arises every year, starting from conventional businesses to digital businesses that have followed the development of the globalization era. Companies carry out tax avoidance practices, namely by minimizing tax payments that should be paid, but companies take advantage of loopholes in tax regulations and are considered legitimate and provide legal benefits for the company. Tax avoidance is a strategy legally implemented by companies. This technique does not violate tax regulations, but is done by utilizing weaknesses or *gray areas* that exist in tax regulations (Pohan & Chair, Anwar, 2016).

In line with the phenomenon *of Tax Avoidance* that occurs in mining companies in Indonesia such as PT. Adaro Energy Tbk and PT. Kaltim Prima Coal is a tax avoidance case where it utilizes its subsidiaries or often called *sister companies* abroad as intermediaries to make transactions. Transactions between company groups are no longer an open secret where companies often take advantage of existing loopholes to become opportunities in carrying out tax avoidance practices. Tax avoidance cases that occur in mining companies are more complex because according to *PricewaterhouseCoopers* (PwC) said Indonesia recorded as many as 70% of 40 large mining companies have not implemented tax transparency reports. PwC Indonesia *Mining Advisor* emphasized that tax transparency is an important indicator in *Environmental, Social and Good Governance* (ESG), which helps mining companies monitor significant financial contributions to society. The data is reinforced by the fact that Indonesia is one of the largest coal producers in the world, ranked fifth in the coal sector mining industry globally, prompting the author to conduct research related to *Tax Avoidance* in mining companies.

Weakening economic growth during the Covid-19 pandemic still greatly affects affected companies, including mining companies. Moreover, the government implements a *lockdown* system and limits community mobilization, therefore Covid-19 is one of the threats to national economic recovery, with these sausage restrictions causing Indonesia's economic growth to decline by 2.19% compared to the fourth quarter of 2019 (Official news statistics: Indonesia's economy in 2020 decreased by 2.07% (c-to-c), 2021). It is undeniable that with the era of globalization and digital has a significant impact on the world economy, thus posing challenges related to income tax regulation on an international scale (OECD , 20 22). Sears in an excerpt of his book entitled *"Minimizing tax"* published in 1922, stated that tax avoidance or reduction is considered a similar concept that has been applied to this day in America.

ISSN No:-2456-2165

Tax avoidance is a strategy legally implemented by companies. This technique does not violate tax regulations, but is done by utilizing weaknesses or *gray areas* that exist in tax regulations (Pohan & Chair, Anwar, 2016).

The first factor that is indicative of tax avoidance is *Thin Capitalization. Thin capitalization* is an approach where a company tends to fund its operations more through debt than equity capital. With the increase in the value of debt, management has a tendency to tax avoidance. This can happen because the higher the value of the debt, the greater the interest that must be paid by the company to creditors. As a result, taxable profits are lower and result in a company's tax liability falling. This strategy generally involves increasing the debt-to-capital ratio (DER). *Thin capitalization* can cause problems in taxation because of the difference in treatment between capital investment and debt. Where companies have a much larger amount of debt than capital which is often referred to as "highly leveraged" (OECD, 2012). *(G U I D A N C E N O T E Compliance Risk Management: Managing and Improving Tax Compliance, 2004).* In some jurisdictions or tax regulations reduce the amount of interest deductible from taxable income, which can impact businesses that have low capital. Therefore, thin wealth can attract the attention of tax authorities and become the subject of legislation to prevent companies that might engage in excessive tax evasion. According to Hapsari et al. (2021), in an excerpt of the book entitled "*Tax Avoidance* in International Taxes" which states that the result of many companies using avoidance measures with debt schemes has prompted several countries to impose restrictions on capital structure. Because an increase in total debt in the company can result in an increase in interest expenses, which in turn becomes a burden for the company as a profit deduction. Therefore, regulations and restrictions on *Thin Capitalization* are implied to reduce potential abuse and ensure fairness in the payment of taxes of a company.

Regulation of the Minister of Finance (PMK) Number 169 / PMK.010 / 2015, more precisely regulated through article 2 paragraph (1), states that there are restrictions on the *Debt Equity Ratio* (DER) where each company is not allowed to have a debt to capital ratio of more than 4: 1. If the ratio exceeds the established value, the interest expense on the loan debt cannot be recorded as an expense that reduces income. The government reasoned that generally companies have debt above the fairness of carrying out thin *capitalization* practices and the company may be in an unhealthy state.

Previous research proved the influence of *Thin Capitalization* variables on *Tax Avoidance* (Sueb, 2020), (Jumailah, 2020), (Gracea et al, 2022), (Nadhifah &; Arif, 2020), (Utami &; Irawan, 2022) The results of this study this research that partially *Thin Capitalization* has a significant effect on tax avoidance. Companies that fund the majority of their operations through debt can obtain tax incentives through interest expense, which serves as a deduction from taxable income. The greater the amount of company debt, the greater the interest burden to be paid. The impact of this condition is that the greater the interest expense, the smaller the tax that must be paid by the company. On the other hand, companies that fund the majority of their operations through capital or equity do not get tax incentives, and dividends paid by those companies are not a deduction from taxable income. However, the results of this study are not in line with research conducted by (Oktavia et al, 2021) (Anggraeni et al., 2021), *Thin Capitalization* has no effect on tax avoidance, which means that if *Thin Capitalization* is the level of debt carried out by the company as financing, if the company uses debt, there will be an interest burden that must be paid by the company. Corporate funding decisions (internal and external funding) can be used as an illustration of tax avoidance. However, interest expenses that can be used as a deduction from taxable profits are those that arise due to third party loans, where third parties do not have any relationship with the company.

The second factor that is indicative in tax avoidance is Profitability. According to profitability is a company's ability to generate profits with the capital scheme that works in it. The profitability ratio is often used to measure a company's ability to generate profits derived from its normal business activities; profitability reflects the net income (Sartono, 2010:122) (Hery, 2018:192) . generated from a set of company policies and decisions. Measurement of profitability is carried out through the calculation of various relevant indicators. Financial ratios are one of the main benchmarks in analyzing the financial condition, operating results, and profitability level of a company Profitability is a proportion used to assess the performance of a company in obtaining profits. This is one of the performance indicators that shows a business's ability to generate profits within a certain period of time, which can be measured by assets, share capital, and sales level (Andesto &; Author, 2022). The rate of return on a company's investment in managing all assets or funds provided by capital owners is a way to calculate profitability. And based on the investment, this ratio is divided into two categories: Return on Assets and Return on Equity. Researchers will use the Return on Assets (ROA) ratio. The likelihood of a company to engage in tax avoidance increases with the value of ROA. (Brigham & Houston:2006).

Previous research has proven the influence of Profitability variables on *Tax Avoidance* (Fitrifiani &; Oktris, 2023), (Apriatna &; Oktris, 2023), (Aulia et al, 2020), (Marlinda et al, 2020), (Susilowati et al, 2020) where profitability does not have a positive effect on tax avoidance. However, the results of this study are different from the research, (Sari &; Kinasih, 2021), (Iwanty &; Asih, 2022), (Sulaeman, 2021) stated that profitability has a significant negative effect on tax avoidance, which with higher profitability and followed by a high ROA value, the cash flow owned will be sufficient to pay, besides that supervision from shareholders to managers can minimize tax avoidance actions that may be carried out by managers in order to maximize profits to get bonuses, and shareholders realize that this act of tax avoidance can damage the company's reputation if the tax authorities know about it, if

the reputation declines then the stock price will also fall. (Andesto & Author, 2022)

Based on the explanation described above and gap research from previous studies which encouraged the author to be motivated to conduct this study due to the inconsistency of results in previous studies and the still rampant tax avoidance practices carried out by companies as taxpayers by considering economic recovery during the Covid-19 pandemic.

II. LITERATUR REVIEW

➢ *Agency Theory.*

Agency theory proposed by Jensen Meckling reveals the existence of a contract between the owner of a resource (shareholder) and the manager reveals an agreement to use and control the resource. There are differences in interests between shareholders and managers. Shareholders tend to want a large share of profits, while managers have a rational nature and are willing to get large bonuses from shareholders as a result of good performance. Agency theory states that agents will behave *self-interset* (selfish) which may conflict with the interests of the principal (Ghozali, 2020).

In addition, the tax system in Indonesia uses a *self-assessment system* that provides an opportunity for agents to calculate taxable income as little as possible, and agents are encouraged to increase company profits, and when profits obtained increase, the amount of tax to be paid will also increase. Therefore, companies are likely to carry out *tax avoidance* activities to avoid increasing the amount of tax burden.

According *to* Thin Capitalization (Sueb, 2020) is the practice of companies that are more likely to fund their operations through debt than equity capital. The higher the debt, the more likely management is to avoid taxes due to the high interest to be paid, which can reduce taxable profits. The company then conducts tax avoidance through increasing the debt-to-capital ratio (DER). Tin Capitalization is the amount of debt held by a company as financing. There will be interest to be paid if the business uses debt. Corporate decisions about funding, both internal and external, can indicate tax avoidance practices. However, the interest expense that can be used as a deduction from taxable profits is that which comes from third-party loans, which do not have any relationship with the company.

H1: *Thin Capitalization* affects tax avoidance

The effect of profitability on tax avoidance *(* Sartono, 2010: 122) Profitability reflects the ability of a company to generate profits by utilizing all the capital working in it. Company goals have different goals, Stating that each company has different goals, but generally creating profits for a company is the main goal. The nature of a company to achieve goals is known as profitability. The company's ability to create profits for the future can be used as an indicator of a company's success in managing all its wealth, which is referred to as profitability. Profitability reflects the net income resulting from a set of company policies and decisions. Profitability assessment is carried out by calculating various benchmarks that are more relevant using financial ratios, as one of the analyses used to analyze the financial condition, operating results and profitability level of a company (Brigham &; Houston: 2006). With higher profitability and high profitability, the cash flow owned will be enough to pay, in addition, shareholder supervision of managers can help minimize tax avoidance actions that may be taken by managers to maximize profits in order to obtain large bonuses from shareholders, but shareholders realize that this tax avoidance action can damage the company's reputation if known by tax authorities. And the impact will be a decline in the company's reputation which results in a decrease in stock prices.

H2: Profitability affects tax avoidance

➢ *The Effect of Institutional Ownership moderates the relationship of Thin Capitalization to Tax Avoidance*

Companies with thin capital are more likely to use debt than equity capital (Sueb, 2020). The higher the company's debt, the more likely management is to engage in tax avoidance. This is due to the high interest payable, which can lower taxable profits. To carry out tax avoidance, companies increase the debt-to-capital ratio (DER). The debt-to-equity ratio is known as thin capitalization. There will be interest to be paid if the business uses debt. In addition, debt investment is different from capital investment; The first indicates a company with greater debt than the second, which is often referred to as "highly leveraged". (OECD, 2012). (*G U I D A N C E N O T E Compliance Risk Management: Managing and Improving Tax Compliance). Tax Avoidance* is an arrangement to reduce, eliminate, or postpone tax obligations in a legal and non-unlawful way (Freedman, 2004: 36). While institutional ownership according to (Jensen, M.C &; Meckling, 1986 in Mila N &; Igusti, 2019) which states that institutional ownership plays a very important role in minimizing agency conflicts between managers and shareholders. The presence of institutional ownership is considered a very effective monitoring mechanism for decisions taken by managers. This is because corporate strategy involves institutional ownership in decision making. The more ownership of the institution, the stronger the urge to supervise management and increase the value of the company. Ultimately, this will result in a greater push to optimize the value of the company. This performance improvement will increase dividends and shareholder profits. According to (Lucky &; Murtanto, 2022) Institutional Ownership Measurement is measured using the ratio between the proportion of shares owned by institutions to the number of outstanding institutional shares. With institutional ownership in a company, it is not proven to be able to provide a management role in taking debt funding policies because it can have an impact on the assessment of *stakeholders* in reading a company's financial statements.

H3: Institutional Ownership moderates the effect of *Thin Capitalization* on *Tax Avoidance.*

ISSN No:-2456-2165

- *The Effect of Institutional Ownership moderates the relationship of Profitability to Tax Avoidance.*

Profitability reflects the ability of a company to generate profits by utilizing all the capital working in it (Sartono, 2010: 122). All businesses have different goals. Thus, this profitability ratio is often used to evaluate the ability of a company to generate profits from its routine operations (Hery, 2018: 192). Profitability is measured by calculating the net income generated from various decisions and policies made by the company. One type of analysis used to analyze the financial condition, operating results, and profitability level of a company is profitability assessment, which is carried out by calculating various benchmarks that are more relevant using financial ratios (Brigham &; Houston: 2006). Furthermore, *Tax Avoidance* is an arrangement to reduce, eliminate or postpone tax obligations that do not violate the law. And with institutional ownership is expected to be able to reduce *agency costs* by activating supervision through institutional ownership, this can happen because of institutional involvement in share ownership, company management will be more supervised by institutional investors so that it will result in management performance will also increase The more Tax Avoidance, the more dividends will be given to institutional shareholders. However, if the institutional ownership rate is high, the Tax Avoidance rate may fall. Agency theory says that agents and principals have different interests, and institutional ownership is thought to control and reduce existing agency conflicts. Thus, it can be concluded that institutional ownership can prevent companies from evading taxes. (Sisca ,2008:48) .

H4: Institutional Ownership moderates the effect of Profitability on Tax Avoidance.

III. DATA AND METHODS

The population in this study used panel data as many as 12 companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. Data analysis techniques using Eviews version 12, where the regression model of this study in examining the effect of *Thin Capitalization* and Profitability on *Tax Avoidance* is as follows:

$$ETR = \alpha + \beta 1DER + \beta 2\ ROA + \beta 3\ DER*KI + \beta 4\ DER*KI + e$$

Information:
ETF : Tax Avoidance
α : Konstanta
THE : *Thin Capitalization*
TWO PEOPLE :Profitability
TO : Institutional Ownership
ε: : *Error term*

For the thin prosperity variable, DER is used (Based on Minister of Finance Regulation No. 18/PMK.03/2021), and for profitability variable, Return of Asset (ROA) is used (Apriatna &; Oktris, 2022). For the dependent variable of tax exemption, Effective Tax Rate (ETR) is used (Apriatna &; Oktris, 2022). The proxy used to measure moderation of institutional ownership is the DER.

IV. RESULT AND DISCUSSION

A. *Result*

Table 1. Description statistics

	And	X1	X2	With
Mean	0.295987	0.850511	-0.028580	0.622156
Median	0.225488	0.879069	0.023365	0.650001
Maximum	3.370550	5.250442	0.340600	0.977303
Minimum	0.000423	-7.544322	-1.538286	0.101053
Std. Dev.	0.451864	1.961292	0.292265	0.205449

Y : *Tax Avoidance*, X1 : *Thin Capitalization*, X2 : Profitability, Z: Institutional Ownership

The results of the descriptive statistical test for the Thin Capitalization (DER) variable showed that the average was 0.850511. The company has an average variable profitability (ROA) of -0.028580, with the lowest ROA of PT. Ratu Prabu Energi Tbk amounted to -7.544322 and the highest ROA of PT. Central Omega Resources Tbk amounted to 5.250442. The standard DER value of 1.961292 is higher than the average value of 0.850511. The lowest variable profitability (ROA) of PT. Mitra Investindo Tbk amounted to -1.538286, and the highest ROA of PT. Golden Eagle Energy Tbk.Then the standard value of the revision shows the number 0.292265, which is greater than the average value of -0.028580. For the dependent variable of Institutional Ownership (IP), the resulting average value is 0.295987, with the lowest ETR of PT. Ratu Prabu Energi Tbk in the year amounted to 0.000423 and the highest ETR of PT. Perdana Karya Perkasa Tbk in the year amounted to 3.370550. Then the standard value of the revision shows a value of 0.451864, which is higher than the average value of 0.295987. Related to the selection of research models, the best model selected is the *Common Effect model (*CEM) used in this study using the *General Least Squared Effect* (GLS) approach. In the Chow test, the significance level is 0.0115 < 0.015 which means that the results of this test strengthen the assumption that the model for all data samples is better to use the *Fixed effect* Model (FEM). While the Hausman test, the significance level is 0.5028 > 0.05 which means that this test confirms that the model for all data samples is better to use the *Random Effect model* (REM). Furthermore, the *Langrange Multiplier Test* significance value is 0.1230 > 0.05, the conclusion of this test results strengthens the suspicion that the overall data sample model is better using *the Common Effect model (*CEM).

- *Classical Assumption Test Results*

This classic assumption test begins with a normality test. The results showed that the Jarque-Bera value of 0.817158 with a probability of 0.664594 was more than 0.05, which indicates that the data is normally distributed. Based on Ghozali and Ratmono (2017), the value of prob. JB must be greater than 0.05, and conversely, if the value is smaller, there is insufficient evidence to show that the residual is normally distributed. Furthermore, the multicollinearity test can be performed by assessing the

correlation value between independent variables. It is considered good by the model if there is no high correlation between the independent variables, but if there is a high enough correlation above 0.90, then a multicollinearity test can be performed. then this is an indication of multicollinearity (Ghozali, 2018). The results of the multicollinearity test showed that all explanatory variables of the regression-escape model had absolutely no multicollinearity, or the correlation value of each independent variable was less than 0.90. Next, the autocorrelation test was carried out by the Breusch-Pagan-Godfey method. If the value of Prob Chi-Square is greater than 0.05, then there is no autocorrelation. The following autocorrelation test results show values Prob *Chi-Square* is above 0.05 of 0.1975. This shows that there is no residue of research variables used in this study-there are no autocorrelation symptoms and can be used in research. Then proceed with the heteroscedasticity test. Research is said to have heteroscedasticity problems if the residual model observed does not have constant variance from one observation to another. Here are the results of the heteroscedasticity testvalue *p-value obs*R-square* 0.4673 > 0.05 so it can be concluded that H0 is accepted meaning that in this study there is no heteroscedasticity or the data are homogeneous.

➢ *Hypothesis Test Results*

Next, to prove the hypothesis made, tests t, F, and coefficient of determination are carried out. To discuss the main results of the study, the model selection test is used to examine the main hypothesis, namely the general hypothesis of the effect model (CEM).

Table 2 Panel Data Regression Model Results

Variable	Coefficent	t-Statistic	Probabilitas
C	0,210942	3,480245	0,0010
THE	0,087926	3,041735	0,0036
TWO PEOPLE	-0,359093	-1,851170	0,0693

According to Table 2, the multiple regression equation for the model's general effects panel data above was found to have a constant coefficient of 0.210942, a positive Thin Capitalization regression coefficient of 0.087926, and a negative Profitability regression coefficient of -0.259093.

ETR = 0.210942 + 0.087926 – 0.359093 ROA

Based on the information from the calculation results of regression analysis, panel data that has been processed is as follows:

- It is concluded that the value of Constanta is 0.210942 meaning that if the variables *of Thin Capitalization* and Profitability are zero, then the amount of *tax avoidance* (Y) is 0.210942.
- The value of the Thin Capitalization *regression coefficient* is 0.087926 with a probability value of 0.0036. The coefficient value of 0.087926 means that every additional 1 DER, tax *avoidance* will increase by 0.087926.
- The value of the Profitability regression coefficient is -0.359093 with a probability value of 0.0693. The coefficient value of -0.359093 means that every additional 1 ROA, tax *avoidance* will decrease by -0.359093.

In addition, the results of the regression equation above show that the regulatory variable between DER and KI has the greatest influence on tax reduction with a value of 0.292. In contrast, ROA with KI has the least influence, which is -0.820.

Next, a coefficient of determination (R2) test is performed to find out how far the model explains the variation of the dependent variable. The value of the coefficient of determination (R2), which is between zero and one, indicates that independent variables have the ability to explain very limited variation in the dependent variable. The value of the coefficient of determination used in this study is the adjusted R-Square value. The results of the R2 determination test are as follows:

Table 3 R^2 Determination Test Results

F-statistic	5.278847	Durbin-Watson stat		1.375276
Prob(F-statistic)	0.007883			

The output table shows the results of the regression analysis as a whole, with an R-squared value of 0.156277. This shows that the variables Debt Of Equity Ratio (DER), Return On Asset (ROA), and Institutional Ownership function as moderating variables of 15.62 percent of tax avoidance. Other variables not studied gave 84.38% of the total. Furthermore, conducting a hypothesis test consists of Test f, Test t, and Test *Moderated Regression Analysis* (MRA).

The F test is often referred to as a simultaneous test that aims to prove whether the independent variables (X) simultaneously or simultaneously have an influence on the dependent variable (Y). The results of the calculation of the F test (simultaneous) can be seen in the table below:

Table 4: f Test

R-squared	0.156277	Mean dependent var	0.295987
Adjusted R-squared	0.126672	S.D. dependent var	0.451864

The results of the F test (simultaneous) show that the probability value (F-statistical) of 0.007883 is smaller than 0.05. Thus, it can be concluded that Thin Capitalization and Profitability affect efforts to avoid taxes. In this case, F table is found with a probability of 0.05, while F count is 5.278847 and F table is 2.769430932, which indicates that F count is greater than F table, with a significant value of 0.000025. It is possible that H1 is accepted and this

regression model can be used because the probability value < 0.05. The independent variable consisting of Thin Capitalization (DER) and Profitability (ROA) has a significant influence on the dependent variable, Tax Avoidance.

The t-test describes how far one explanatory or independent variable is individually in explaining the variation of the dependent variable. This regression test uses one-way testing to get the table t value using α = 5% with free degrees (df) = n-k = 60-2 = 58, then the table t is 1.989318557. The calculation result of the t test (partial).

Table au 5 t Test

Variable	Coefficent	t-Statistic	Probabilitas
C	0,210942	3,480245	0,0010
THE	0,087926	3,041735	0,0036
TWO PEOPLE	-0,359093	-1,851170	0,0693

Based on the results of statistical test outputs on the t test can be explained as follows:

- It is known that Thin Capitalization (X1) has a positive and significant effect on tax prevention. This is indicated by the results of the independent variable significance test (t-test). This is because the calculated value of 3.041735 is greater than the ttable value of 1.989318557. Thus, H0 rejected Ha accepted, or Hypothesis 1 accepted.
- It is known that Thin Capitalization (X1) has a positive and significant impact on tax prevention. This is indicated by the results of the independent variable significance test (t-test). This is because the ttable value of 1.989318557 is greater than the calculated value of 3.041735. Thus, H0 rejected Ha accepted or Hypothesis 1 accepted.

➢ *Moderation Hypothesis Test Results*

Tabel 6 Uji *Moderated Regression Analysis* (MRA)

Moderation Effects	Coefficient	t-Statistic	Prob
DER*KI	-0,581488	-6,281924	0,0000
ROA*KI	3,337160	6,137052	0,0000

- *Institutional Ownership moderates the relationship between Thin Capitalization and Tax Avoidance.*

A moderation test of the relationship between institutional ownership and thin capital against tax prevention found a negative coefficient of -0.581488. Thus, the value can be interpreted as that institutional ownership has the ability to mitigate the impact between thin finance and tax avoidance. Furthermore, it is known that the probability value of 0.0000 is equal to 0.05. Thus, it can be concluded that H0 is rejected, Ha is accepted, or Hypothesis 3 is accepted. In addition, institutional ownership significantly affects the difference between thin prosperity and tax write-offs.

- *Institutional Ownership moderates the relationship between Profitability and Tax Avoidance.*

The moderation test of the relationship between institutional ownership and profitability with tax prevention showed a positive coefficient of 3.337160. The value can be interpreted as that the ownership of the company has the ability to improve the relationship between profitability and tax prevention. Furthermore, it is known that the probability value of 0.0000 is equal to 0.05. Thus, it can be concluded that H0 is rejected, Ha is accepted, or Hypothesis 4 is accepted, or institutional ownership significantly reduces the impact between profitability and tax write-off.

B. Discussion

As with all the test results described above, the researcher issued a discussion of the research results, which can be stated as follows:

- *The Effect of Thin Capitalization on Tax Avoidance*

Found *Thin Capitalization* positive and significant effect on *tax avoidance.*

The higher the value of DER carried out by the company, the higher the company will use debt on each business financing. This is because if the company uses a scheme for taking excessive loans, it will generate interest that exceeds the *maximum allowable debt* which can cause interest expenses to increase and have an impact on reducing tax debt. The 4:1 ratio rule in the use of debt burden in calculating taxable income is in accordance with PMK No.169/PMK.010/2015 which limits taxpayers from making excess loans used for business. When associated with agency theory, companies use debt to improve company performance. This can lead to management having incentives and using more loans than their own capital, and preferring to take higher risks in order to provide quick returns to shareholders. Therefore, achieving the right balance between profit and risk becomes a challenge in managing *Thin Capitalization.*

The results of this study are in line with research research (Sueb, 2020), (Jumailah, 2020), (Gracea et al, 2022), (Nadhifah &; Arif, 2020), Utami & Irawan (2022) claim that thin capital, or tax evasion attempts, affects the effective tax rate. Businesses that primarily support themselves with debt will be eligible for tax breaks through interest charges that lower their taxable income. Therefore, the amount of interest that must be paid increases with the company's debt (taxpayer). Due to these restrictions, businesses (taxpayers) that get the majority of their revenue from capital or equity are unable to deduct dividend tax incentives from their taxable income. On the other hand, the more interest the firm (taxpayer) pays, the less tax the company (taxpayer) has to pay. The results of this investigation, however, differ with those of the investigations carried out by Oktavia et al. (2021) and Anggraeni et al. (2021). This study shows that thin debt has no influence on tax evasion. To put it another way, if thin debt is the amount of debt a business utilizes for financing, it must pay interest on that loan. Internal and external company funding decisions may be a sign of tax evasion. Nonetheless, interest on loans to third parties that are

unrelated to the business might be deducted from taxable profits.

- *The Effect of Profitability on Tax Avoidance*

It was found that Profitability (ROA) had no negative and significant effect on *tax avoidance.* The high value of ROA will make companies to carry out more mature tax planning and be able to produce optimal taxes and minimize activities *tax avoidance.* Because both big and small businesses must still weigh the advantages and disadvantages of tax evasion. In the event that agency theory is used, the agent will stimulate higher business profits, which will raise income taxes. via lowering the business's tax burden and raising its net profit. Overall, a relationship between profitability and tax avoidance was demonstrated via the interplay of company tax policy, agency conflicts, and management incentives. The results of this study are in line with (Fitrifiani & Oktris, 2023), (Apriatna & Oktris, 2023), (Aulia et al, 2020), (Marlinda et al, 2020), (Susilowati et al, 2020) where profitability does not have a positive effect on tax avoidance, which means that the higher the ROA value in the company, the higher the profit that will be generated by the company. In these circumstances the company is deemed capable of paying taxes, lowering the rate *tax avoidance,* With high profits, companies will find it easier to manage finances. However, other studies (Andesto &; Author, 2022), (Sari &; Kinasih, 2021), (Iwanty &; Asih, 2022), and (Sulaeman, 2021) found that profitability has a major negative impact on tax avoidance. With a high ROA value, the cash flow owned will be enough to pay. Oversight from shareholders to managers can reduce tax avoidance efforts that managers might make to maximize profits.

- *The Effect of Thin Capitalization on Tax Avoidance moderated by Institutional Ownership.*

It found Institutional Ownership was able to weaken the influence between *Thin Capitalization* towards *tax avoidance*. If it is related to the agency's theory which states that agents will try to manage their tax burden so as not to reduce the agent's performance compensation as a result of the erosion of company profits by the tax burden. Thus agents will tend to carry out aggressive tax suppression activities. With institutional ownership as one of the elements *corporate governance,* So it is expected that the company will balance capital from debt and capital investment from shareholders in its capital structure.

Previous research (Jumailah, 2020) found that institutional ownership as part of company management can weaken the effect of thin ownership on tax avoidance. This research shows that by using institutional ownership as part of company management, a company will balance capital from debt and capital investment from shareholders in its capital structure. However, the study disagrees with these findings.

- *The Effect of Profitability on Tax Avoidance moderated by Institutional Ownership.*

Institutional ownership can increase the influence between profitability and tax avoidance. According to agency theory, this is thought to reduce conflict between agency theory that agents and principals will have different interests, and institutional ownership is thought to control and reduce tax violations.

The results of another study (Tandean &; Nainggolan, 2020) show that ownership has the ability to moderate or strengthen the relationship of profitability with preventive tax measures. In other words, if the profitability of an enterprise increases, then the opportunity to minimize taxes paid through tax precautions is even greater, and the involvement of institutional ownership is related to the amount of dividends received by the company. However, another study (Rosandi, 2022) argues that institutional ownership cannot control the relationship of profitability with tax avoidance, which means if a company has more institutional ownership, there will be fewer tax avoidance actions due to the company's responsibility to shareholders. Thus, institutional ownership will result in better oversight, which has an impact on

V. CONCLUSION

- *Thin Capitalization (X1)* has a positive and significant impact on tax prevention; it shows that thin wealth is more profitable for both companies and investors. For corporations and shareholders, the effective tax burden is lower. This is a problem for tax authorities because the consideration of companies to obtain financing through debt makes financing more widely used as a tax avoidance effort.
- *Profitability (X2) does not negatively and significantly impact tax avoidance, which means that the company has the ability to pay taxes so there are no tax avoidance practices.*
- Institutional ownership significantly moderates or weakens the influence of Thin Capitalization on tax avoidance, which means that shareholder institutions have the potential to reduce Thin Capitalization in an effort for companies to minimize the tax burden through charging debt interest by exploiting tax loopholes. By understanding the risk consequences and regulatory constraints of companies in optimizing their tax avoidance strategies, shareholder institutions have the potential to reduce thin capitalization in the presence of high institutional ownership tends to bring closer scrutiny and consider the existence of long-term risks whose impact may encourage companies to adopt more conservative financial policies and avoid the use of debt that excessive, and maintaining a balance between debt and equity as a form of tax avoidance.

- Institutional ownership significantly reduces or amplifies the influence between profitability and tax prevention, which means that when institutional shareholders have significant power, corporate profitability has a more dominant role in shaping tax avoidance policies, with significant institutional ownership able to influence the extent to which profitability affects *tax avoidance policies,* With strict control and supervision, more consideration of long-term goals and financial stability, and companies tend to better utilize their profitability to optimize tax strategies and reduce the burden of taxes imposed.

REFERENCES

[1]. Amaliah, N., & Hafiz Tanjung, D. A. (2021). Bilancia: Jurnal Ilmiah Akuntansi *THE INFLUENCE OF INSTITUTIONAL OWNERSHIP AND FIRM SIZE ON TAX AVOIDANCE IN MANUFACTURING COMPANIES IN THE CONSUMER GOOD INDUSTRY SECTOR LISTED ON THE INDONESIAN STOCK EXCHANGE FOR THE PERIOD* 2017-2019. In *Jurnal Ilmiah Akuntansi* (Vol. 5, Issue 3). http://www.ejournal.pelitaindonesia.ac.id/ojs32/index.php/BILANCIA/index

[2]. Anarky, I. R., &; Bustari, A. (2021). THE EFFECT OF COMPANY SIZE, FISCAL LOSS COMPENSATION, AND DEFERRED TAX BURDEN *ON TAX AVOIDANCE*. *Pareso Journal*, *3*(4), 757–774.

[3]. Anarky, I. R., Haryati, R., &; Bustari, A. (2021). THE EFFECT OF COMPANY SIZE, FISCAL LOSS COMPENSATION AND DEFERRED TAX BURDEN ON *TAX AVOIDANCE* (Empirical study on property and *real estate companies* listed on the Indonesia Stock Exchange for the period 2016-2018). *Pareso Journal*, *3*(4), 1–18.

[4]. Andesto, R., & Author, C. (2022). *The Effect Of Profitability, Leverage And Sales Growth On Tax Avoidance With The Size Of The Company As A Moderation Variable. Dinasti International Journal*, *4*(1), 1–15. https://doi.org/10.31933/dijms.v4i1

[5]. Anggraeni, T., Meita Oktaviani, R., Ekonomika, F., Business, D., Accounting, /, &; Semarang, U. S. (2021). The impact of thin capitalization, profitability, and company size on tax avoidance measures. *Journal of Accounting and Taxation*, *21*(2), 390–397. https://doi.org/10.29040/jap.v21i2.1530

[6]. Apriatna1, P., & Oktris2, L. (2022). *The Effect of Profitability, Company Size, and Sales Growth on Tax Avoidance with Leverage as a Moderating Variable*. In *International Journal of Innovative Science and Research Technology* (Vol. 7, Issue 8). www.ijisrt.com223

[7]. Ayu Setiawati, R., &; Ammar, M. (2022). ANALYSIS OF TAX *AVOIDANCE* DETERMINANTS OF MINING SECTOR COMPANIES IN INDONESIA. *MANOVA Journal*, *2*, 2685–4716. https://doi.org/https://doi.org/10.15642/manova.v5i2.894

[8]. Ayustina, A., &; Safi'i, M. (2023). The Effect of Sales Growth, Executive Character, and Capital Intensity on Tax Avoidance (Empirical Study on Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange for the 2016-2021 Period). *Indonesian Journal of Accounting, Business and Economics (JABEI), 2*(1), 141–149.

[9]. Cahyani, A. Z., Djaddang, S., &; Sihite, M. (2021). FACTORS AFFECTING TAX AVOIDANCE WITH INSTITUTIONAL OWNERSHIP AS A MODERATION VARIABLE. *KRISNA: Accounting Research Collection*, *13*(1), 122–135. https://doi.org/10.22225/kr.13.1.2021.122-135

[10]. Dwi Fortuna, N., &; Herawaty, V. (2022b). THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY, FAMILY OWNERSHIP AND INSTITUTIONAL OWNERSHIP ON TAX AVOIDANCE WITH BUSINESS STRATEGY AS A MODERATION VARIABLE. *Trisakti Economic Journal*, *2*(2), 1483–1494. https://doi.org/10.25105/jet.v2i2.14676

[11]. Fauzy, A. (2019). *Metode Sampling* (2nd ed., Vol. 2). www.ut.ac.id.

[12]. Fitrifiani, F., & Oktris, L. (2023a). The Effect of Profitability, Public Ownership and Fiscal Loss Compensation on Tax Avoidance Moderated by Audit Quality. *International Journal for Multidisciplinary Research (IJFMR)*, 1–15. www.ijfmr.com. https://doi.org/https://doi.org/10.36948/ijfmr.2023.v05i01.1647

[13]. Gracea Lucky, O., Murtanto, Program, S. M., &; Accounting, U. T. (2022). The Effect of Thin Capitalization and Capital Intensity with Institutional Ownership as a Moderating Variable on Tax Avoidance. *Journal of Research and Community Service (COMSERVA),* *2*(4), 950–965. https://doi.org/10.36418/comserva.v2i4.355

[14]. Heidy, M., & Ngadiman. (2021). Christian and Iskak: Factors Affecting Corporate Tax Avoidance.... Journal of Multiparadigm Accounting, Volume III No. 2/2021 April Edition p: 578-587 578. *Journal of Accounting Paradigms*, *3*(2), 578–587.

[15]. Heidy, M., & Ngadiman. (2021). THE EFFECT OF COMPANY SIZE, MULTINATIONAL and THIN CAPITALIZATION ON TAX AVOIDANCE IN MANUFACTURING COMPANIES LISTED ON THE IDX IN 2015-2019. *Journal of Multiparadigm Accounting*, *3*(2), 1–10.

[16]. Indah Iwanty, K., & Asih Surjandari, D. (2022). Journal of Economics, Finance and Accounting Studies The Effect of Sales Growth, Responsibility, and Institutional Ownership on Tax Avoidance with Profitability as Moderating Variables. *Journalof Economics, Finance and Accounting Studies (JEFAS)*, 423–436. https://doi.org/10.32996/jefas

[17]. Jumailah, V. (2020). The Effect of *Thin Capitalization* and Accounting Conservatism on *Tax Avoidance* with Institutional Ownership as a Moderation Variable. *Management &; Accounting Expose E-ISSN, 3*(1), 13–21. http://jurnal.usahid.ac.id/index.php/accounting. https://doi.org/https://doi.org/10.36441/mae.v3i1.132

[18]. Lucky, G. O., &; Murtanto. (2022). The Effect of Thin Capitalization and Capital Intesity with Institutional Ownership as a Moderating Variable on Tax Avoidance. *Journal of Research and Community Service (COMSERVA), 2*(4), 1–16. https://doi.org/10.36418/comserva.v2i4.355

[19]. Maulita, D., & Nailufaroh, L. (n.d.). EXAMINING THE IMPACT OF PROFITABILITY AND FIRM SIZE ON TAX AVOIDANCE DURING THE COVID-19 PANDEMIC ON HOTEL, RESTAURANT AND TOURISM CATEGORY COMPANIES. In *Journal of Management* (Vol. 12).

[20]. Oktavia, V., Jefri, U., &; Kusuma, J. W. (n.d.). The Effect of *Good Corporate Governance* and Company Size on *Tax Avoidance* (In Property and *Real Estate Companies* Listed on the IDX for the 2015-2018 Period). *Journal of Revenue*, *01*(02). https://doi.org/10.46306/rev.v1i2

[21]. Pratomo, D., & Risa Aulia Rana. (2021). THE EFFECT OF INSTITUTIONAL OWNERSHIP, INDEPENDENT COMMISSIONERS AND AUDIT COMMITTEES ON TAX AVOIDANCE. *JAK (Journal of Accounting) Scientific Review of Accounting*, *8*(1), 91–103. https://doi.org/10.30656/jak.v8i1.2487

[22]. Prayitno, D., Tarmidi, D., & Oktris, L. (2023). The Role of Tax Avoidance in the Impact of Ownership Structure on Corporate Performance. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *13*(1). https://doi.org/10.6007/ijarafms/v13-i1/16334

[23]. Rosandi, A. D. (2022). THE EFFECT OF PROFITABILITY, INVENTORY INTENSITY ON TAX AVOIDANCE WITH INSTITUTIONAL OWNERSHIP AS MODERATION. *Journal of Accounting of the College of Economics Muhammadiyah Palopo*, *8*(1), 19–35.

[24]. Safitri, R. S., & Oktris, L. (2023). The Effect of Institutional Ownership, Leverage, and Liquidity on Tax Avoidance with Company Size as a Moderating Variable. *Saudi Journal of Economics and Finance*, *7*(04), 220–231. https://doi.org/10.36348/sjef.2023.v07i04.003

[25]. Sari, A. Y., &; Kinasih, H. W. (2021). THE EFFECT OF PROFITABILITY, LEVERAGE, AND INSTITUTIONAL OWNERSHIP ON TAX AVOIDANCE. *Dynamics of Accounting, Finance, and Banking*, *10*(1), 51–61. https://doi.org/https://doi.org/10.35315/dakp.v10i1.8541

[26]. Sarif, A., & Surachman. (2022). THE EFFECT OF THIN CAPITALIZATION ON TAX AVOIDANCE WITH FIRM SIZE AS A MODERATION VARIABLE. *Indonesian Journal of Economy, Business, Entrepreneuship Finance*, *2*(3), 306–315. https://doi.org/10.53067/ijebef.v2i3

[27]. Setiawan, D. A., Wasif, S. K., &; Husen, I. A. (2021). THE EFFECT OF INSTITUTIONAL OWNERSHIP, MANAGERIAL OWNERSHIP, LEVERAGE, RETURN ON ASSETS ON TAX AVOIDANCE (Empirical Study of Retail Trade Sector Companies listed on IDX 2015 -2019). *Journal of Research Innovation (JIP), 2*(1), 305–318. https://doi.org/https://doi.org/10.47492/jip.v2i1.694

[28]. Sueb, M. (2020). TAX AVOIDANCE: THIN CAPITALIZATION AND ASSET MIX. *JIAFE (Scientific Journal of Accounting, Faculty of Economics), 6*(1), Press. https://doi.org/10.34204/jiafe.v6i1.2052

[29]. Sulaeman Rachmat. (2021). THE EFFECT OF PROFITABILITY, LEVERAGE AND FIRM SIZE ON TAX AVOIDANCE. *Syntax Idea*, *3*(2), 354–367. <https://jurnal.syntax-idea.co.id/index.php/syntax-idea/article/view/1050.). https://doi.org/10.36418/syntax-idea.v3i2.1050

[30]. Sugiyono. (2019). Quantitative Research Methods, Qualitative R&D. Alfabeta

[31]. Supriyono. (2018). Behavioral Accounting. Gajah Mada University Press.

[32]. Tandean, V. A., &; Nainggolan, P. (2020). FACTORS AFFECTING TAX AVOIDANCE WITH INSTITUTIONAL OWNERSHIP AS A MODERATING VARIABLE. *Journal of Business Accounting*.

[33]. Utami, M. F., &; Irawan, F. (2022b). The Effect of Thin Capitalization and Transfer Pricing Aggressiveness on Tax Avoidance with Financial Constraints as a Moderation Variable. *Owner*, *6*(1), 386–399. https://doi.org/10.33395/owner.v6i1.607

[34]. Yuliawati, Y., &; Sutrisno, P. (2021). FACTORS AFFECTING TAX AVOIDANCE. *JOURNAL OF INFORMATION, TAXATION, ACCOUNTING, AND PUBLIC FINANCE*, *16*(2), 203–222. https://doi.org/10.25105/jipak.v16i2.9125