



THE INFLUENCE OF CAPITAL INTENSITY AND THIN CAPITALIZATION ON TAX AVOIDANCE MODERATED BY PROFITABILITY

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ARTICLE INFO	ABSTRACT
Published: July 30 th , 2023	<i>The purpose of this research is to examine the effect of capital intensity and thin capitalization on tax avoidance with profitability as a moderating variable. The sample for this study was selected using a purposive sampling method where the data used was 116 data from manufacturing companies in the consumer goods industry sector that were listed on the Indonesia Stock Exchange (IDX) consistently from 2018 to 2021. Research data analysis was assisted with the Econometric Views (EViews) software program. The results of the study show that capital intensity and thin capitalization have a positive effect on tax avoidance, profitability does not moderate the effect of capital intensity on tax avoidance and profitability can weaken the effect of thin capitalization on tax avoidance.</i>
Keywords: tax avoidance, capital intensity, thin capitalization, profitability	
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INTRODUCTION

One of the country's largest sources of income is obtained from taxes. Tax is a mandatory levy by individuals or entities that is coercive to the state based on the law, without any direct compensation and is used for the needs of the state for the prosperity of the people (Kurniawan, 2020). Therefore, tax is one of the most important aspects for the state, because its purpose will return to the people of the country.

In general, the more advanced a country's tax system, the higher the country's tax ratio (Besley & Persson, 2014). The tax ratio is a comparison between tax revenue and Gross Domestic Product (GDP). The tax ratio can be an assessment of the country's performance in collecting taxes. The tax ratio can also be a measure of the government's ability to finance state needs for the prosperity of the people. According to data from the Indonesian Ministry of Finance, the 2017 tax ratio was 8.47%, then it increased in 2018 to 11.5%. In 2019 and 2020 the tax ratio has decreased from 9.76% to 8.33% and increased in 2021 to 9.11%.

The response of taxpayers to taxation is not always good, especially corporate taxpayers, due to the nature of the tax that does not provide direct compensation to the taxpayer (Musseng et al., 2023). Meanwhile for the government, high tax revenues will be useful for financing state needs. Therefore, many taxpayers minimize their tax burden by legal or illegal means. One of them is by exploiting the loopholes in tax regulations which are commonly called tax avoidance.

Issues regarding recent tax avoidance are quite interesting to discuss, because there are still gaps that can be adjusted related to tax regulations. The company's management will do tax evasion by taking advantage of loopholes in tax regulations, because it is judged that it tends not to have a risk that will have an impact on the company. By observing the problems that arise,

The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

then tax evasion should be considered because it does not violate the law on tax provisions. Even though it is not against the law, tax evasion is often seen as a bad thing. So the topic of tax avoidance is still very interesting to discuss because it does not violate applicable tax laws.

In practicing tax avoidance there are several factors that can influence it, such as capital intensity, thin capitalization, and profitability. Capital intensity is one of the company's strategies aimed at investing in fixed assets. Fixed assets owned by the company will generate depreciation expenses. The depreciation expense will later be deducted from income taxes. Capital intensity is a measurement of company performance that will describe the company's fixed assets to the total assets owned by the company.

Thin capitalization is the formation of a company's capital structure with a combination of large debt holdings and small capital (Fadillah et al., 2021). The company can reduce interest expenses, so the taxable income will be smaller. Reductions like this cause macro effects in the form of reduced potential state revenues from taxes. Thin capitalization can be a problem in taxation due to differences in treatment between capital investment and debt investment. In capital investment, the return on capital in the form of dividends will be taxable, whereas through debt financing it will generate interest expenses which can be used as a deduction from taxable income.

Thin capitalization actions carried out by companies, have the aim of reducing corporate taxes. The higher the level of corporate debt, the higher the interest expense that must be paid so that the company's fiscal profit will decrease (Utami & Irawan, 2022). The company's taxable income can be smaller because in tax regulations in calculating fiscal profit, interest on debt is included as a deduction from income. Therefore, companies can take advantage of incentives in the form of reducing the amount of corporate taxes due to interest expenses resulting from the use of debt.

Profitability is a measure of company performance to show a company's ability to generate profit from revenue in a certain period related to sales, assets, and equity. Profitability is the ratio used to assess a company's ability to make a profit or profits. Profitability can be measured using Return On Assets (ROA). When the company earns high profits, the taxes that must be paid are even greater. So that the tendency of companies to avoid taxes will be higher.

There are several theories that support this research, one of which is agency theory. Agency theory or agency theory is a theory that explains the relationship between the principal and the agent. This agency theory was first introduced by Jensen and Meckling (1976). Agency theory is a theory that describes an employment relationship or contract in which one or more people (principals) bind another person (agent) to perform a service or act on behalf of the principal by authorizing the agent to manage the company and make the best decisions for the principal. In other respects, the principal can be said to be the shareholder and the agent as the company's management.

Jensen and Meckling (1976) explain that this theory is due to information asymmetry between company management and shareholders which creates conditions where management knows better information than the principal. This makes management perform earnings

The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

management to make profits in the financial statements look good. One of the policies implemented to increase profits is to reduce the company's tax burden by practicing tax avoidance.

Agency theory is closely related to tax avoidance. Where the shareholders want the company or management to arrange the company's financial statements that are profitable for the shareholder side. The company's management is expected to be able to manage large corporate profits with the smallest tax burden payments. Therefore, company management will tend to avoid taxes in managing company financial reports, Anggraeni and Oktaviani (2021).

The more investment in fixed assets, the higher the practice of tax avoidance. This is because the cost of depreciation resulting from fixed assets is a cost that can be deducted from the company's income or income when calculating taxes (Dharma and Noviari, 2017). Almost all fixed assets experience depreciation, which will become a depreciation charge on the company's financial statements. Depreciation expense is a deductible expense, which is a cost that can be used as a deduction from tax income or the company's gross income. The greater the cost of depreciation of fixed assets, the lower the tax rate that must be paid by the company, according to Kalbuana et al. (2020).

Profitability is a measure in assessing company performance, which can be measured by various financial ratios, one of which is by using return on assets (ROA). Companies that have a large ROA, meaning that they generate large asset profits, so that corporate tax payments are also getting bigger. Therefore companies can take advantage of company profits to invest in fixed assets or what is known as capital intensity. By investing in fixed assets, it will cause depreciation costs which will be a deduction in the company's tax calculations.

Increased profitability also results in increased taxes that companies must pay. Therefore many companies are trying to minimize the tax burden by using tax avoidance practices. Companies that experience high levels of profitability will have strong financial ability to generate sufficient income to pay interest on debt. The use of this debt will generate interest expenses which will be a deduction from the company's gross income. The less the gross income, the less the tax burden paid by the company.

The purpose of this research is to examine the effect of capital intensity and thin capitalization on tax avoidance with profitability as a moderating variable. The basis for research development was taken from previous researchers, namely Hidayat (2018). As for the hypothesis used are:

- 1) H₁: Capital intensity has a positive effect on tax avoidance ;
- 2) H₂: Thin Capitalization has a positive effect on tax avoidance ;
- 3) H₃: Profitability can moderate capital intensity effect on tax avoidance ; And
- 4) H₄: Profitability can moderate thin capitalization's effect on tax avoidance.

METHODS

The method in this study was quantitative methods. The data used in this study is secondary data, where data is collected from pre-existing data. Researchers search for and collect

The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

financial report data through the idx website and the company's official website, because they have complete data and are easily accessible to anyone. The object of this study uses a population of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) in the 2018-2021 period, using the purposive sampling method, where the population to be sampled in this study must meet the required sample requirements or criteria. researchers to obtain a representative sample.

Tax avoidance in this study is measured using the cash effective tax rate with the formula for paying taxes divided by profit before tax. The CETR ratio is the amount of cash issued to pay corporate taxes with profit before tax. The lower the CETR value, the higher the level of tax evasion. Research conducted by Andawiyah (2019); Tebiono and Sukadana (2019); Hidayat (2018); Yohan and Pradipta (2019); Puspita and Febrianti (2017); Sari and Ajengtiyas (2021) and Mayndarto (2022) also use CETR in measuring tax avoidance variables. laba

$$CTR = \frac{\text{Tax payment}}{\text{Profit before tax}}$$

Capital intensity in this study is measured by using the ratio of the intensity of fixed assets to the formula of total fixed assets compared to the company's total assets. This ratio describes the proportion of fixed assets owned by the company from the total assets of the company. Research conducted by Dharma and Noviri (2017) and Kalbuana et al. (2020) also uses the fixed asset intensity ratio in measuring the variable capital intensity.

$$CI = \frac{\text{Total fixed asset}}{\text{Total asset}}$$

Thin capitalization in this study is measured using the debt to equity ratio with the debt formula divided by the company's capital. This ratio describes the use of debt in the company's capital. Research conducted by Anggraeni and Oktaviani (2021) and Olivia and Dwimulyani (2019) also uses the debt to equity ratio in measuring the thin capitalization variable.

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Capital}}$$

Profitability in this study is measured using the return on assets ratio with the profit after tax formula divided by the company's total assets. This ratio is used to assess the company's performance in generating profits. Research conducted by Hidayat (2018) and Rahmawati et al (2021) also uses the return on assets ratio in measuring the variable profitability.

$$\text{Return on Assets} = \frac{\text{Profit after tax}}{\text{Total asset}}$$

Multiple regression analysis in this study was used to measure the effect of more independent variables on the dependent variable. Then the model in this study to determine the

The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

effect of capital intensity and thin capitalization on tax avoidance with profitability as a moderating variable, is as follows:

$$TA = \alpha + \beta_1 CI + \beta_2 TC + \beta_3 CI \times ROA + \beta_4 TC \times ROA + \varepsilon$$

Information:

TA = Tax avoidance

α = Constant

$\beta_1 - \beta_2$: Regression Coefficient

$\beta_3 - \beta_4$: Interaction Coefficient

CI : Capital Intensity

TC: Thin Capitalization

CIxROA: The interaction between capital intensity and profitability

TCxROA: The interaction between thin capitalization and profitability

ε : Error Term

RESULTS AND DISCUSSION

Table 1. Descriptive Statistical Test Results

	CETR	CI	tc	M1	M2
Means	0.259647	0.347869	0.728236	0.040511	0.093500
Maximum	0.763617	0.762247	3.824780	0.253996	1.102030
Minimum	0.014727	0.040647	0.121670	0.002272	0.005274
std. Dev.	0.138021	0.165965	0.650725	0.045958	0.190604

Source: Output Eviews version 10

Table 2. Statistical Test Results T

Variables	coefficient	Prob.
C	0.045000	0.6374
CI	0.569725	0.0321
TC	0.122097	0.0003
M1	-0.420111	0.5431
M2	-0.592922	0.0196

Source: Output Eviews versi 10

This study uses descriptive statistical analysis test descriptive statistical analysis in order to see the average value, minimum value, maximum value and standard deviation. Based on the results of descriptive statistical tests from 116 data samples of manufacturing companies in the consumer goods industry sector studied during 2018-2021. The Tax Avoidance (CETR) variable has an average value of 0.259647, a maximum value of 0.763617, a minimum value of 0.014727 and a standard deviation of 0.138021. For the Capital Intensity (CI) variable, it has an average value of 0.347869, a maximum value of 0.762247, a minimum value of 0.040647 and a standard

The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

deviation of 0.165965. The Thin Capitalization (TC) variable has an average value of 0.728236, a maximum value of 3.824780, a minimum value of 0.121670 and a standard deviation of 0.650725. For the interaction variables on Capital Intensity (CI) and Profitability (ROA), the average value is 0.040511, the maximum value is 0.253996, the minimum value is 0.002272 and the standard deviation is 0.045958. For the interaction variables on Thin Capitalization (TC) and Profitability (ROA), the average value is 0.093500, the maximum value is 1.102030, the minimum value is 0.005274 and the standard deviation is 0.190604.

The T statistical test in research is used to show how far the influence of one independent variable individually on the dependent variable. The confidence level used is 95%, so that α is 5%. If the probability significant value is greater than α , then the independent variable cannot influence the dependent variable. Conversely, if the probability significant value is smaller than α , then the independent variable can affect the dependent variable.

Based on the results of the Statistical Test T, the Capital Intensity variable has a probability value of $0.0321 < 0.05$, it can be explained that the Capital Intensity variable has an influence on the dependent variable, namely Tax Avoidance. Capital Intensity has a positive effect on Tax Avoidance, meaning that the greater the intensity of fixed assets in a company, the greater the practice of tax avoidance that will be carried out. Fixed assets owned by each company will experience depreciation, where the depreciation expense in the financial statements is considered a cost or expense. These costs will be deducted from income in calculating company taxes, so taxes will also be reduced. This research is in line with research conducted by Dharma and Noviari (2017) and Kalbuana et al (2020), which revealed that Capital Intensity has a positive effect on Tax Avoidance.

The results for the Thin Capitalization variable have a probability value of $0.0003 < 0.05$, so it can be explained that the Thin Capitalization variable has an influence on the dependent variable, namely Tax Avoidance. Thin Capitalization has a positive effect on Tax Avoidance, meaning that the greater the Thin Capitalization is carried out, the greater the practice of tax avoidance will be carried out. This is because Thin Capitalization is able to reduce taxable income through loan interest. This interest expense will reduce income because it is considered a deductible expense. This research is in line with research conducted by Utami and Irawan (2022) and Nadhifah and Arif (2020).

The Capital Intensity and Profitability variables have a probability value of $0.5431 > 0.05$, so it can be explained that the interaction variable between Capital Intensity and Profitability has no effect on the dependent variable, namely Tax Avoidance. This indicates that if the company's profitability is high, it will show that the company can utilize its assets effectively. This research is in line with research conducted by Sari and Ajengtyas (2021) and Stawati (2020), that profitability does not moderate the effect of Capital Intensity on Tax Avoidance.

Whereas the Thin Capitalization and Profitability variables have a probability value of $0.0196 < 0.05$, so it can be explained that the Thin Capitalization and Profitability variables have an influence on the dependent variable, namely Tax Avoidance. In this study, the interaction variable Thin Capitalization and profitability has a negative effect as seen from the coefficient

The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

value. It can be concluded that profitability can weaken the effect of Thin Capitalization on Tax Avoidance. If the company has the ability to generate profits, it will increase the company's income. Meanwhile, Thin Capitalization provides interest expense to the company which will later be deducted from the company's taxable income. This is in line with research conducted by Mayndarto (2022), Tebiono and Sukadana (2019), Oktaviana and Kholis (2021), Yohan and Pradipta (2019), Puspita and Febrianti (2017), Rahmawati et al. (2021), and Hidayat (2018), that profitability weakens the effect of Thin Capitalization on Tax Avoidance.

CONCLUSION

This research was conducted with the aim of obtaining statistical evidence of the influence between Capital Intensity and Thin Capitalization on Tax Avoidance with Profitability as a moderating variable. From the results of testing the hypothesis of 29 manufacturing companies in the consumer goods industry sector during the 2018-2021 period, it was found that the Capital Intensity and Thin Capitalization variables had a positive effect on Tax Avoidance. For the moderating variable profitability does not moderate the effect of Capital Intensity on Tax Avoidance, on the contrary profitability can moderate and weaken the effect of Thin Capitalization on Tax Avoidance.

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The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability

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