



## How Profitability, Thin Capitalization, and Company Size Affect Tax Avoidance

Nadien Ayatilla<sup>1\*</sup>, Intan Kurnia Permatasari<sup>2</sup>

<sup>1,2</sup> State University of Surabaya, Surabaya, Indonesia

### Abstract

The aim of this research is to obtain empirical evidence of the influence of profitability, thin capitalization, and company size on tax avoidance. This research is quantitative research. Profitability variable is measured using the Return on Asset Ratio. Thin Capitalization variable is measured using the Debt-to-Equity Ratio. Company Size variable is measured using Natural Logarithm of Total Asset. Tax Avoidance variable is measured using Effective Tax Rate. 94 sample companies were obtained after purposive sampling, in the form of manufacturing sector companies listed on the IDX between year 2019 until 2021. The data was tested using multiple linear regression analysis techniques including classical assumption test, F Test, T Test, and coefficient of determination with the help of IBM Statistics SPSS 23 software. The results of this research profitability had a negative effect on tax avoidance, thin capitalization does not affect tax avoidance, and company size does not affect tax avoidance.

**Keywords:** Company Size, Profitability, Tax Avoidance, Thin Capitalization

### Article History:

Received September 09, 2024; Revised September 28, 2024; Approved October 09, 2024; Published October 31, 2024.

### \*Correspondence Author:

[ayatillamq@gmail.com](mailto:ayatillamq@gmail.com)

DOI:

<https://doi.org/10.60036/jbm.v4i4.art6>

## INTRODUCTION

Tax, as the leading contributor of state funds, has a major role in driving economic progress and national development. Tax comes from the obligatory contribution that must be paid by all people as taxpayers (Undang-Undang (UU) Nomor 28 Tahun 2007 Tentang Perubahan Ketiga Atas Undang-Undang Nomor 6 Tahun 1983 Tentang Ketentuan Umum dan Tata Cara Perpajakan, 2007). This mandatory nature is fully supported by standard tax regulations that have been established by the government of a country. Tax regulations are drawn up by considering various tax interests so that they can become legal protection for tax activities. Taxes can be imposed on various types of tax objects, including: transactions, consumption, wealth, to individual and corporate income. A company, according to Law Number 28 of 2007, is a group of people and/or capital that are united, both those who are active and actively running a business or those who are not. This includes companies, where there is a combination of people/capital that work together to achieve certain goals.

Companies have contributed significantly to the movement of the Indonesian economy and state tax revenues. Their existence is very essential for the state and society. However, on the other hand, taxes are a burden for companies whose main orientation is to maximize profits. Therefore, in realizing the goal of maximizing profits, companies develop tax strategies to minimize tax liabilities as much as possible (Dang & Tran, 2021). Efforts to reduce taxes legally are known as tax planning, while illegal ones are called tax evasion. One of the tax planning tactics is tax avoidance, which optimizes the imperfections of tax regulations (Suryantari & Mimba, 2022). Because their actions are not against the law, the business world is always motivated to minimize the tax burden in meeting the target of maximizing profits through tax avoidance (Dang & Tran, 2021).

The Tax Justice News report entitled "The State of Tax Justice 2020: Tax Justice in the time of COVID-19" revealed that Indonesia suffered a loss of IDR 67.6 trillion due to tax avoidance by corporate taxpayers ([www.pajakku.com](http://www.pajakku.com)). This finding places Indonesia in fourth place in Asia in terms of tax violations after China, India, and Japan. The object of this study uses manufacturing sector companies, where this sector is one of the largest industrial sectors that drives economic growth and has a significant share in state tax revenues (Kementerian Perindustrian, 2018). This is shown through tax revenue data which shows that the manufacturing sector often dominates the figures from the total state tax revenues each year. Even so, the growth in the contribution of the manufacturing sector in the realization of tax revenues from year to year forms a sloping pattern.

The growth rate of tax revenue in the manufacturing sector in 2017 was 18.39%, with a tax contribution from the manufacturing sector of 31.8% of the total realization of tax revenue in 2017 of IDR1.151 trillion, which is approximately IDR366 trillion (Kementerian Perindustrian, 2018). The growth of tax revenue in the manufacturing sector in 2018 was 12.74%, which is a decline from the previous year, with a tax contribution from the manufacturing sector of 30% of the total realization of tax revenue until November 2018, which was IDR315.13 trillion (Kementerian Keuangan, 2018). The following year, the growth of tax revenue in the manufacturing sector in 2019 decreased to -3.10%, but this sector was still able to dominate by 29.7% of the total realization of tax revenue in 2019 with a realization figure of IDR312.90 trillion (Kementerian Keuangan, 2019). Furthermore, it was recorded in September 2020, the growth of tax revenue in the manufacturing sector decreased drastically to -17.16% from previous years with a contribution of IDR208.02 trillion, but could increase in the following year with 13.70% growth in tax revenue in the manufacturing sector for the period of September 2021 and contributing IDR236.5 trillion (DDTC News, 2021).

The decline in tax revenue presented in the data above was caused by the decreasing level of consumption, the economic slowdown, and tax incentive policies. However, the

government has consistently tried to implement various tax recovery strategies and stabilize the Indonesian economy through various regulations (Warsito & Samputra, 2021). However, tax avoidance remains a potential challenge for business actors (Susanti & Satyawan, 2020), as long as there are still loopholes in the applicable regulations that can be utilized to reduce the amount of tax payable. This tax avoidance action can be influenced by a number of factors, including financial indicators such as profitability, thin capitalization, and company size.

Profitability is one of the determining factors of tax avoidance. Increasing the amount of profit drives a proportional level of tax payable. According to Widadi et al. (2022), companies with high profit margins more often engage in tax avoidance to reduce their tax liabilities. Profitability is a reflection of a company's financial performance using the Return on Assets ratio as a measure. ROA shows the effectiveness of the company in optimizing its assets to generate profits (Novriyanti & Dalam, 2020). Profit growth contributes to the accumulation of tax debt, so companies will try their best to pay as little tax as possible (Widadi et al., 2022). Therefore, tax avoidance becomes a possibility in this business (Sofiamanan et al., 2023; Suryantari & Mimba, 2022; Anggraeni & Oktaviani, 2021; Tanjung & Nazir, 2021; Mahdiana & Amin, 2020; Novriyanti & Dalam, 2020; Rahmadani et al., 2020). However, the results of research by Moeljono (2020) and Faradilla & Bhilawa (2022) found that profitability actually has a negative impact on tax avoidance.

The supporting aspect of tax avoidance practices is through the use of debt that is greater than capital or thin capitalization. The motive behind this practice is the difference in response to debt interest and dividends on capital from shareholders (Prastiwi & Ratnasari, 2019). Loan interest can benefit companies because it meets one of the requirements for tax deductions from the government as a deductible expense and, therefore, the tax to be paid becomes less (Widadi et al., 2022). Thus, according to Andawiyah in Hermi & Petrawati (2023), the company's efforts to avoid taxes can be seen from the high value of thin capitalization or the large tendency of companies to use debt rather than capital. Several studies have stated that the influence of the thin capitalization variable on the tax avoidance variable has a positive direction (Hermi & Petrawati, 2023; Firmansyah et al., 2022; Utami & Irawan, 2022; Nadhifah & Arif, 2020; Afifah & Prastiwi, 2019; Prastiwi & Ratnasari, 2019). However, research conducted by Nurhidayah & Rahmawati (2022), Suryantari & Mimba (2022), and Andawiyah et al. (2019) explains that tax avoidance is negatively influenced by thin capitalization.

Research shows that tax avoidance tends to be carried out by companies that are classified as large (Pamungkas & Fachrurrozie, 2021). This company size classification is determined from the total assets it owns. Business entities that are categorized as large are expected to be able to fulfil their tax responsibilities properly because they have more resources. A more significant total asset value allows companies to build more sophisticated tax avoidance strategies, so that company size can also be used to measure its effect on tax avoidance (Suryatna et al., 2023). From this explanation, it can be seen that the effect of company size on tax avoidance has a positive direction (Sofiamanan et al., 2023; Suryatna et al., 2023; Faradilla & Bhilawa, 2022; Sulaeman, 2021). Then, several studies (Wulansari & Nugroho, 2023; Tanjung & Nazir, 2021; Rizky & Puspitasari, 2020) describe the opposite.

## LITERATURE REVIEW

### Agency Theory

Agency theory describes the contractual connection between the principal or stakeholder and the agent or company management (Jensen & Meckling, 1976). Tax avoidance is determined by the nature and extent of the agency conflict or conflict of interest between the principal and the agent (Zhang et al., 2022). The conflict that arises between the principal and the agent is often triggered by information inequality, where the company management as an

agent has wider access to internal company information than the principal. This can affect the company's work capacity, one of which concerns company policies related to corporate taxes (Tebiono & Sukadana, 2019). Thus, there are two different interests of the principal and the agent, both of which will try to maintain their goals for their respective prosperity (Ibrahim et al., 2021).

### **Tax Avoidance**

Tax avoidance is defined by Pohan in Moeljono (2020) as an effort to minimize the amount of tax payable by taxpayers without breaking the law. This is done by taking advantage of the gray area in tax laws and regulations. Companies with a profit orientation assume that the obligation to pay taxes is something that reduces the level of satisfaction in maximizing profits (Sitompul, 2022). This condition triggers the tendency of companies to find loopholes to minimize tax payments (Prastiwi & Ratnasari, 2019).

### **Profitability**

Profitability is a ratio that represents how well a business entity's financial performance is in obtaining profits from managing its assets. Profitability uses Return on Assets as a measure. A high ROA value indicates good effectiveness for a business entity in obtaining profits by optimizing its assets (Tebiono & Sukadana, 2019). The relationship between ROA and company profits can affect the imposition of income tax for the company (Suryantari & Mimba, 2022).

### **Thin Capitalization**

Thin capitalization is a condition in which the company's operational financing decisions, as seen from the capital structure, rely more on debt than capital (Andawiyah et al., 2019). The decision on the composition of corporate financing like this is based on the policy that debt financing can give rise to interest expenses. Interest expense is a deductible expense that can reduce tax income or fiscal profit. Therefore, the tax that must be paid becomes less (Utami & Irawan, 2022). On the other hand, the form of repayment of corporate capital financing to investors in the form of dividends cannot be deducted for fiscal profit (Nurhidayah & Rahmawati, 2022).

### **Company Size**

Company Size is defined by Saifudin and Yunanda in Tanjaya & Nazir (2021) as the scale of grouping companies into large, medium, or small company criteria. According to Chu in Widyari & Rasmini (2019), large category entities have large amounts of assets or resources. This can be utilized in meeting certain business goals or targets.

### **The Effect of Profitability on Tax Avoidance**

Profitability reflects an indicator of a company's financial working capacity that can be measured using ROA (Return on Assets). ROA shows the effectiveness of a business entity's performance in earning profits by utilizing its assets (Novriyanti & Dalam, 2020). The relationship between ROA and company profits can affect the imposition of income tax for companies (Suryantari & Mimba, 2022). A high ROA figure indicates that profits are also high, so the higher the tax value that must be paid (Moeljono, 2020). The amount of tax that must be paid increases as the company's profit level increases, so that there is a tendency for companies to avoid taxes (Trisanti & Aisyaturrahmi, 2023).

H1: Profitability has a positive effect on Tax Avoidance.

### The Effect of Thin Capitalization on Tax Avoidance

Thin capitalization is a condition in which the determination of a company's operational financing, seen from the capital structure, relies more on debt than capital. The decision on the composition of the company's financing is based on the difference in treatment of debt and capital (Andawiyah et al., 2019). Debt financing that presents interest expenses that can reduce tax income or fiscal profit (deductible expense). Thus, the tax burden that must be paid is also reduced (Utami & Irawan, 2022). On the other hand, the form of repayment of the company's capital financing to investors, in the form of dividends, cannot be deducted for fiscal profit (Nurhidayah & Rahmawati, 2022). Thus, the company's efforts to avoid taxes can be seen from the high value of thin capitalization or the large tendency of the company to use debt. Thus, the interest burden will increase along with the amount of debt used, where interest expenses can reduce fiscal profit to minimize tax payable (Hermi & Petrawati, 2023).

H2: Thin Capitalization has a positive effect on Tax Avoidance.

### The Effect of Company Size on Tax Avoidance

The definition of company size by Saifudin and Yunanda in Tanjaya & Nazir (2021) is a scale of grouping entities into large, medium, or small company criteria. According to Chu in Widyari & Rasmini (2019), large category entities have large amounts of assets or resources. This can be utilized in fulfilling certain business goals or targets. Tax avoidance decisions can be influenced by Company Size, where the greater the number of assets owned by the company, the higher its productivity level. Increased productivity is in line with increased profitability, so that profit income is also greater. As a result, the tax burden also increases. This can be an ambition for companies to avoid taxes (Mutia et al., 2021). Apart from profitability, company size has an impact on tax avoidance through the significance of the number of assets in the company which allows the company to build a more sophisticated tax strategy (Suryatna et al., 2023).

H3: Company Size has a positive effect on Tax Avoidance.

## METHOD

### Research Type

The type of research applied is quantitative research. Quantitative methods are carried out to examine the influence between independent variables and dependent variables through numerical data analysis.

### Variable Definition and Measurement

#### Tax Avoidance (Y)

Tax avoidance is defined as a strategy to legally reduce tax obligations by maximizing opportunities for legal loopholes and weaknesses in tax regulations, measured using the Effective Tax Rate (Nurhidayah & Rahmawati (2022), Utami & Irawan (2022), Sofiamanan et al. (2023)). A low ETR value indicates high tax avoidance practices, while a high ETR value indicates the opposite.

$$ETR = \frac{\text{Total of tax burden}}{\text{Profit before tax}}$$

#### Profitability (X1)

Profitability is a benchmark that shows a company's ability to generate profits from managing its assets. The independent variable Profitability (X1) is proxied by Return on Assets (Rahmadani et al. (2020), Tanjaya & Nazir (2021), Sofiamanan et al. (2023)). A high ROA value indicates high profits generated, which results in the potential for increased tax burdens to be paid. ROA is calculated using the following formula.

$$ROA = \frac{\text{Profit after tax}}{\text{Total asset}}$$

### Thin Capitalization (X<sub>2</sub>)

Thin Capitalization is a condition in which the company's operational financing decisions as seen from the capital structure rely more on debt than capital. Measurement of the independent variable Thin Capitalization (X<sub>2</sub>) is calculated by calculating the ratio of the quantity of debt to the quantity of capital, which is proxied by the Debt to Equity Ratio (Winarto & Daito (2021), Mahardika & Irawan (2022), Gindara et al. (2023)). The higher the DER number indicates a greater use of debt by the company compared to its use of capital. This is accompanied by the emergence of interest expenses that can be used as a large deductible expense.

$$DER = \frac{\text{Total liabilities}}{\text{Total equity}}$$

### Company Size (X<sub>3</sub>)

Companies that are categorized into large, medium, or small companies are referred to as company size. Large entities have abundant assets or resources in large amounts. This can be utilized in fulfilling certain business goals or targets. The Natural Logarithm of Total Assets is used as a measurement proxy for the independent variable Company Size (X<sub>3</sub>) (Tanjaya & Nazir (2021), Sofiamanan et al. (2023), Suryatna et al. (2023)).

$$\text{Company Size} = \ln(\text{Total asset})$$

### Research Data

This research data is a secondary data. The population of this research data focuses on the manufacturing sector recorded on the Indonesia Stock Exchange (IDX) between 2019 and 2021, access to the financial reports needed for research data is through the IDX website ([www.idx.co.id](http://www.idx.co.id)) or the website of each company.

**Table 1.** Purposive Sampling

Description	Sum
Manufacturing companies listed on the IDX between 2019 and 2021	213
1. Companies aren't listed on the IDX consecutively during 2019-2021	(31)
2. Companies didn't publish audited annual financial statements during 2019-2021	(6)
3. Companies doesn't earn profit	(82)
Research Sample	94
Total Sample = 94 x 3 years	282

### Analysis Techniques

#### Descriptive Statistical Analysis

Descriptive statistical analysis provides the mean, maximum and minimum values, and standard deviation of each variable studied to help understand the data properties, distribution patterns, and variability contained in each research variable.

#### Classical Assumption Test

This test aims to ensure that the regression model used is free from assumption deviations and meets good linear requirements. This test contains normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

### Multiple Linear Regression

This test to study comprehensive information from the results of statistical analysis on the influence between more than one independent variable and one dependent variable. The influence between variables is modelled in the following mathematical equation.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

- Y = Tax Avoidance
- $\alpha$  = Constant
- $\beta$  = Regression coefficient of independent variables
- X<sub>1</sub> = Profitability
- X<sub>2</sub> = Thin Capitalization
- X<sub>3</sub> = Company Size
- e = Error

### F Test

The F test is a tool to evaluate the influence of independent variables simultaneously on the dependent variable. This test helps determine whether there is an influence between all independent variables and the dependent variable as a whole, based on the interpretation of the significance value (Sig.) from the ANOVA Output and/or the comparison of the calculated f value with the f table.

### T Test

T-test is a tool to assess the influence of independent variables individually (partially) on dependent variables. This test helps determine whether there is an influence of independent variables on dependent variables, and whether the hypothesis is accepted or rejected, based on the interpretation of the significance value (Sig.) and/or comparison of the calculated t value with the t table.

### Coefficient of Determination

The coefficient of determination ( $R^2$ ) is a statistical tool used to predict how much influence the independent variable contributes to the dependent variable. The  $R^2$  value ranges between 0 and 1 with the interpretation of the  $R^2$  value approaching 1 (100%) indicating a strong influence between the influencing variable (independent) and the receiving variable (dependent).

## RESULTS AND DISCUSSION

### Descriptive Statistics

**Table 2.** Descriptive Statistics

	N	Min	Max	Mean	Standard Deviation
Profitability (X <sub>1</sub> )	193	,01	,20	,0718	,04530
Thin Capitalization (X <sub>2</sub> )	193	,07	2,05	,6961	,45286
Company Size (X <sub>3</sub> )	193	25,05	32,48	28,8057	1,56117
Tax Avoidance (Y)	193	,13	,34	,2424	,04279
Valid N (listwise)	193				

Source: Output SPSS, processed by author

This study has 282 research data taken from the financial statements of 94 companies during 2019-2021 as research samples. However, 89 extreme data were found in the outlier test

that had to be eliminated from the research data (Ghozali, 2021). Thus, a total of 193 data remain that can be studied further in the research data analysis.

The following are the results of the descriptive statistical analysis. Based on the results of the descriptive statistical analysis in Table 2, the minimum value of the Profitability variable (X1) is 0.01; maximum value 0.20, average value 0.0718, and standard deviation 0.04530. Then the minimum value of the Thin Capitalization variable (X2) is 0.07, maximum value 2.05, average value 0.6961, and standard deviation 0.45286. Next, the minimum value of the Company Size variable (X3) is 25.05, the maximum value is 32.48, the average value is 28.8057, and the standard deviation is 1.56117. Next, the minimum value of the Tax Avoidance variable (Y) is 0.13, the maximum value is 0.34, the average value is 0.2424, and the standard deviation is 0.04279.

### Normality Test

**Table 3. Normality Test**

<b>Unstandardized Residual</b>	
N	193
Asymp. Sig. (2-tailed)	,200

Source: Output SPSS, processed by author

Initially, the normality test result using Kolmogorov-Smirnov method showed that the data was not normally distributed, so it is necessary to remove extreme data through outlier test. After conducting the outlier test three times and eliminating 89 research data, the data presented in Table 3 produced a significance level of 0.200. This figure successfully exceeded 0.05, so it can be said that the distribution of research data after the outlier test is normal.

### Multicollinearity Test

**Table 4. Multicollinearity Test**

<b>Model</b>	<b>Collinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
1 (Constant)		
Profitability	,766	1,305
Thin Capitalization	,713	1,403
Company Size	,887	1,128

Source: Output SPSS, processed by author

Based on the data presented in Table 4, the Tolerance value of the Profitability (X1), Thin Capitalization (X2), Company Size (X3) variables exceed 0.10, and the VIF value is below the limit of 10.00. This means that the independent variables are independent of each other and are not correlated with each other.

### Autocorrelation Test

**Table 5. Autocorrelation Test**

<b>Model</b>	<b>Durbin-Watson</b>
1	1,964

Source: Output SPSS, processed by author

The Durbin Watson value in Table 5 is 1.964. For the dU value with  $k = 3$  and  $N = 193$ , it is 1.7960. Thus, the Durbin Watson value of 1.964 has fulfilled  $dU > \text{Durbin Watson} > 4-dU$  or  $1.7960 > 1.964 > 2.2040$ . This means that there is no autocorrelation symptom, or the time-series data in the study are not serially correlated.

## Heteroscedasticity Test

**Table 6.** Heteroscedasticity Test

		X1	X2	X3
Unstandardized Residual	Sig. (2-tailed)	,891	,846	,289
	N	193	193	193

Source: Output SPSS, processed by author

Based on the results of the heteroscedasticity test using Spearman Rho method presented, the significance value for each independent variable exceeds 0.05 or none are significant. This means that there is no symptom of heteroscedasticity, or the variance of the residual values of this research data is consistent.

## F Test

**Table 7.** F Test

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,031	3	,010	6,017	,001 <sup>b</sup>
	Residual	,321	189	,002		
	Total	,351	192			

Source: Output SPSS, processed by author

Based on the data presented in Table 7 regarding the results of the F test, the resulting regression model significance value is 0.001 where this figure is within the significance limit of 0.05 so that it can be interpreted that variables X1, X2, and X3 can simultaneously have an influence on the Tax Avoidance variable.

## T Test

**Table 8.** T Test

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,227	,056		4,044	,000
	X1	-,192	,075		-,203	,011
	X2	,013	,008		,138	,096
	X3	,001	,002		,026	,730

Source: Output SPSS, processed by author

Based on the data presented in Table 8 regarding the results of the T-test, the significance value of the Profitability variable (X1) is 0.011 where this figure is within the significance limit of 0.05, with a regression coefficient value of -.192, so that the X1 variable negatively affects Tax Avoidance (Y). Furthermore, the significance value of 0.096 belonging to the Thin Capitalization variable (X2) exceeds the significance limit so that the X2 variable is concluded to have no effect on the Y variable. Then the significance value of 0.730 belonging to the Company Size variable (X3) exceeds the significance limit so that the X3 variable is concluded to have no effect on the Y variable.

## Coefficient of Determination

**Table 9.** Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,295 <sup>a</sup>	,087	,073	,04120

Source: Output SPSS, processed by author

Based on the data from the determination coefficient test, the  $R^2$  value is 0.087. This means that only 8.7% of the variation in Tax Avoidance is explained by Profitability, Thin Capitalization, and Company Size which are independent variables in this study.

## Discussion

The results of the study indicate that profitability has a negative effect on tax avoidance. With these results, H1 is not accepted. The higher the profitability of a company, the lower the tendency of the company to avoid taxes. Companies that have high profits tend to manage taxes well without engaging in aggressive tax avoidance. Many companies now prioritize long-term business sustainability, including implementing tax practices that comply with regulations, because they are aware of the legal and reputational risks of tax avoidance. Avoiding taxes can damage relationships with external parties, such as the government and investors. Companies that care about their reputation and want to build a sustainable business prefer to comply with tax regulations rather than engage in tax avoidance. In addition, taxes paid by companies contribute to society, which is also their consumer. By fulfilling tax obligations, companies maintain the trust of consumers and shareholders, and build better relationships with stakeholders.

The results of the study indicate that thin capitalization has no effect on tax avoidance. With these results, H2 is not accepted. Although thin capitalization can reduce the tax burden through debt interest, it is not always related to tax avoidance. According to PMK regulation 169/PMK.010/2015, the maximum debt-to-equity ratio is 4:1 (80%). In this study, all sample companies followed this rule, so that their use of debt did not exceed the specified limit. Because of this limitation, companies cannot use excessive debt for tax avoidance purposes. Although debt can reduce taxes through interest deductions, if it is too high, interest costs can erode profits and disrupt business growth. In addition, companies with a lot of debt can experience financial difficulties if there is a decrease in income, are at risk of bankruptcy, or reduce the trust of creditors and investors. With the debt ratio limit, companies can maintain financial stability, minimize risk, and comply with applicable tax regulations.

The results of the study indicate that company size has no effect on tax avoidance. With these results, H3 is not accepted. This means that the size of a company's assets does not affect their tax decisions. Large companies usually have many fixed assets that generate depreciation expenses, which naturally reduce taxable income. Therefore, companies do not need to rely on tax avoidance. However, if the company does not utilize fixed assets properly, the profit and taxes paid will remain low. Both large and small companies are required to comply with tax regulations, and tax officers will take action against violations. In addition, large companies with complex operations require strict supervision to prevent tax avoidance, because the risk of being sanctioned and damaging their reputation is very high.

## CONCLUSION

### Conclusion

The study shows that the higher a company's profitability, the less likely it is to avoid taxes. Companies with high profits tend to manage their taxes well without resorting to aggressive tax avoidance. Many companies now focus on long-term sustainability and comply with tax regulations to avoid legal and reputational risks. Paying taxes also helps maintain good relationships with the government, investors, and consumers. Then, although using debt can reduce the tax burden through interest deductions, it does not necessarily lead to tax avoidance. The debt-to-equity ratio is regulated by PMK 169/PMK.010/2015, which limits debt to 80% of total capital. All companies in this study complied with this rule, so they couldn't use excessive debt to avoid taxes. Excessive debt can also harm profits and business growth, making companies

more vulnerable to financial difficulties and reducing creditor and investor trust. Then, the size of a company's assets doesn't influence its tax decisions. Large companies often have fixed assets that naturally reduce taxable income through depreciation. However, regardless of size, all companies must comply with tax regulations. Large companies, in particular, face stricter oversight to prevent tax avoidance, as failing to comply could lead to sanctions and reputational damage.

### Research Implications

Further research is suggested to develop the research topic by considering a wider spectrum of independent variables outside the variables of this study, such as sales growth, transfer pricing, earnings management, or other independent variables, and reaching a sample of companies from unlimited sectors as a basis for generalization.

### BIBLIOGRAPHY

- Afifah, S. N., & Prastiwi, D. (2019). Pengaruh Thin Capitalization Terhadap Penghindaran Pajak. *AKUNESA: Jurnal Akuntansi Unesa*, 7(3), 1–7.
- Andawiyah, A., Subeki, A., & Hakiki, A. (2019). Pengaruh Thin Capitalization Terhadap Penghindaran Pajak Perusahaan Index Saham Syariah Indonesia. *Akuntabilitas*, 13(1), 49–68. <https://doi.org/10.29259/ja.v13i1.9342>
- Anggraeni, T., & Oktaviani, R. M. (2021). Dampak Thin Capitalization, Profitabilitas, Dan Ukuran Perusahaan Terhadap Tindakan Penghindaran Pajak. *Jurnal Akuntansi Dan Pajak*, 21(02), 390–397. <https://doi.org/10.29040/jap.v21i02.1530>
- Dang, V. C., & Tran, X. H. (2021). The Impact of Financial Distress On Tax Avoidance: An Empirical Analysis of The Vietnamese Listed Companies. *Cogent Business and Management*, 8(1). <https://doi.org/10.1080/23311975.2021.1953678>
- DDTC News. (2021). *Meski Tumbuh, Setoran Pajak Sektor Manufaktur Masih Tertekan Insentif*. News.Ddtc.Co.Id. <https://news.ddtc.co.id/meski-tumbuh-setoran-pajak-sektor-manufaktur-masih-tertekan-insentif-34013>
- Faradilla, I. C., & Bhilawa, L. (2022). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan dan Sales Growth Terhadap Tax Avoidance. *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, 5(1), 34–44. <https://doi.org/10.32670/fairvalue.v5i1.2233>
- Firmansyah, A., Fasita, E., & Irawan, F. (2022). Transfer Pricing Aggressiveness, Thin Capitalization, Political Connection, Tax Avoidance: Does Corporate Governance Have A Role in Indonesia? *Riset Akuntansi Dan Keuangan Indonesia*, 7(1), 63–93. <https://doi.org/10.23917/reaksi.v7i1.17313>
- Ghozali, I. (2021). *Aplikasi Analisis Multivariate Edisi 10* (10th ed.).
- Gindara, M. R., Umiyati, I., & Mulyati, S. (2023). The Effect of Thin Capitalization, Executive Character and Firm Size on Tax Avoidance (Empirical Study on Property, Real Estate and Construction Companies Listed on the Indonesia Stock Exchange 2016-2020). *Journal of Taxation Analysis and Review (JTAR) Volume 4 Nomor 1, 4, 48–62*. <https://doi.org/https://doi.org/10.35310/jtar.v4i1.1222>
- Hermi, & Petrawati. (2023). The Effect of Management Compensation, Thin Capitalization and Sales Growth on Tax Avoidance With Institutional Ownership As Moderation. *Media Riset Akuntansi, Auditing & Informasi*, 23(1), 1–14. <https://doi.org/10.25105/mraai.v23i1.16790>
- Ibrahim, R., Sutrisno, & Rusydi, M. K. (2021). The Influence Factors of Tax Avoidance In Indonesia. *International Journal of Research in Business and Social Science*, 10(5), 01–10. <https://doi.org/https://doi.org/10.20525/ijrbs.v10i5.1295>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs, and. *Journal of Financial Economics*, 3, 305–360. <https://doi.org/10.1177/0018726718812602>

- Kementerian Keuangan. (2018). APBN KiTa Desember 2018. Kemenkeu.Go.Id. <https://www.kemenkeu.go.id/publikasi/apbn-kita/>
- Kementerian Keuangan. (2019). APBN KiTa Desember 2019. Kemenkeu.Go.Id. <https://www.kemenkeu.go.id/media/14005/apbn-kita-edisi-desember-2019.pdf>
- Kementerian Perindustrian. (2018). *Lampau 31 Persen, Industri Manufaktur Penyumbang Pajak Terbesar*. Kemenperin.Go.Id. <https://kemenperin.go.id/artikel/18630/Lampau-31-Persen,-Industri-Manufaktur-Penyumbang-Pajak-Terbesar>
- Mahardika, R., & Irawan, F. (2022). The Impact of Thin Capitalization Rules on Tax Avoidance In Indonesia. *Jurnal Pajak Indonesia*, 11(2), 8–14. <https://doi.org/10.22495/jgrv11i2art1>
- Mahdiana, M. Q., & Amin, M. N. (2020). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Dan Sales Growth Terhadap Tax Avoidance. *Jurnal Akuntansi Trisakti*, 7(1), 127–138. <https://doi.org/10.25105/jat.v7i1.6289>
- Moeljono. (2020). Faktor-Faktor yang Mempengaruhi Penghindaran Pajak. *Jurnal Penelitian Ekonomi Dan Bisnis*, 5(1), 103–121. <https://doi.org/10.33633/jpeb.v5i1.2645>
- Mutia, F. Y., Dewi, R. R., & Siddi, P. (2021). Dimensi Agresivitas Pajak Dilihat dari Ukuran Perusahaan dan Capital Intensity (Studi Kasus Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang Terdaftar di BEI). *JAE: Jurnal Akuntansi Dan Ekonomi*. <https://doi.org/10.29407/jae.v6i1.14066>
- Nadhifah, M., & Arif, A. (2020). Transfer Pricing, Thin Capitalization, Financial Distress, Earning Management, dan Capital Intensity Terhadap Tax Avoidance Dimoderasi oleh Sales Growth. *Jurnal Magister Akuntansi Trisakti*, 7(2), 145–170. <https://doi.org/10.25105/jmat.v7i2.7731>
- Novriyanti, I., & Dalam, W. W. W. (2020). Faktor-Faktor yang Mempengaruhi Penghindaran Pajak. *Journal of Applied Accounting and Taxation*, 5(1), 24–35. <https://doi.org/10.30871/jaat.v5i1.1862>
- Nurhidayah, L. I., & Rahmawati, I. P. (2022). Menguak Praktik Penghindaran Pajak Pada Perusahaan Nonkeuangan. *Jurnal Akuntansi Multiparadigma*, 13(2), 393–403. <https://doi.org/10.21776/ub.jamal.2022.13.2.29>
- Pamungkas, F. J., & Fachrurrozie. (2021). Accounting Analysis Journal The Effect of the Board of Commissioners, Audit Committee, Company Size on Tax Avoidance with Leverage as an Intervening Variable. *Accounting Analysis Journal*, 10(3), 173–182. <https://doi.org/10.15294/aa.v10i3.51438>
- Prastiwi, D., & Ratnasari, R. (2019). The Influence of Thin Capitalization and The Executives' Characteristics Toward Tax Avoidance by Manufacturers Registered on ISE in 2011-2015. *AKRUAL: Jurnal Akuntansi*, 10(2), 119. <https://doi.org/10.26740/jaj.v10n2.p119-134>
- Rahmadani, Muda, I., & Abubakar, E. (2020). Pengaruh Ukuran Perusahaan, Profitabilitas, Leverage, dan Manajemen Laba terhadap Penghindaran Pajak Dimoderasi oleh Political Connection. *Jurnal Riset Akuntansi Dan Keuangan*, 8(2), 375–392. <https://doi.org/https://doi.org/10.17509/jrak.v8i2.22807>
- Rizky, M., & Puspitasari, W. (2020). Pengaruh Risiko Perusahaan, Intensitas Aset Tetap Dan Ukuran Perusahaan Terhadap Aggressive Tax Avoidance. *Jurnal Akuntansi Trisakti*, 7(1), 111–126. <https://doi.org/10.25105/jat.v7i1.6325>
- Sitompul, R. (2022). Peran Pemoderasi transfer Pricing Atas Pengaruh Koneksi Politik, Mekanisme Bonus, dan Kepemilikan Publik Terhadap Tax Avoidance. *KIAg*.
- Sofiamanan, N. Z., Machmuddah, Z., & Natalisty. (2023). Profitability, Capital Intensity, and Company Size against Tax Avoidance with Leverage as an Intervening Variable. *Journal of Applied Accounting and Taxation*, 8(1), 21–29. <https://doi.org/10.30871/jaat.v8i1.4821>
- Sulaeman, R. (2021). Pengaruh Profitabilitas, Leverage, dan Ukuran Perusahaan terhadap Penghindaran Pajak (Tax Avoidance). *Universitas Sangga Buana (USB) YPKP Bandung Jawa Barat, Indonesia*, 3(2), 354–367. <https://doi.org/https://doi.org/10.46799/syntax->

idea.v3i2.1050

- Suryantari, N. P. L., & Mimba, N. P. S. H. (2022). Sales Growth Memoderasi Transfer Pricing, Thin Capitalization, Profitabilitas, dan Bonus Plan Terhadap Tax Avoidance Practice. *E-Jurnal Akuntansi*, 32(4), 831. <https://doi.org/10.24843/eja.2022.v32.i04.p01>
- Suryatna, I. K. D., Werastuti, D. N. S., & Yuniarta, G. A. (2023). The Effect of Institutional Ownership, Sales Growth, Firm Size on Tax Avoidance with Corporate Social Responsibility as a Moderating Variable. *International Journal of Social Science and Business*, 7(3), 618–629. <https://doi.org/10.23887/ijssb.v7i3.55757>
- Susanti, D., & Satyawan, M. D. (2020). Pengaruh Advertising Intensity, Inventory Intensity, Dan Sales Growth Terhadap Agresivitas Pajak. *AKUNESA: Jurnal Akuntansi Unesa*, 9(1), 1–8.
- Tanjaya, C., & Nazir, N. (2021). Pengaruh Profitabilitas, Leverage, Pertumbuhan Penjualan, dan Ukuran Perusahaan Terhadap Penghindaran Pajak. *Jurnal Akuntansi Trisakti*, 8, 189–208. <https://doi.org/http://dx.doi.org/10.25105/jat.v8i2.9260>
- Tebiono, J. N., & Sukadana, I. B. N. (2019). Faktor-Faktor yang Mempengaruhi Tax Avoidance Pada Perusahaan Manufaktur yang Terdaftar Di BEI. *Jurnal Bisnis Dan Akuntansi*, 21, 121–130. <https://doi.org/https://dx.doi.org/10.34208/jba.v21i1a-2.749>
- Trisanti, I. A., & Aisyaturrahmi. (2023). Studi Pengaruh Kinerja Keuangan Terhadap Tax Avoidance. *Accounting and Management Journal*, 7(1), 65–83. <https://doi.org/10.33086/amj.v7i1.4406>
- Undang-Undang (UU) Nomor 28 Tahun 2007 Tentang Perubahan Ketiga Atas Undang-Undang Nomor 6 Tahun 1983 Tentang Ketentuan Umum Dan Tata Cara Perpajakan (2007).
- Utami, M. F., & Irawan, F. (2022). Pengaruh Thin Capitalization dan Transfer Pricing Aggressiveness terhadap Penghindaran Pajak dengan Financial Constraints sebagai Variabel Moderasi. *Owner*, 6(1), 386–399. <https://doi.org/10.33395/owner.v6i1.607>
- Warsito, & Samputra, P. L. (2021). Potensi Penurunan Pajak dan Strategi Kebijakan Pajak untuk Mengantisipasi Dampak Pandemi Covid-19: Perspektif Ketahanan Nasional. *Jurnal Ekonomi Dan Kebijakan Publik*, 11(2), 93–108. <https://doi.org/10.22212/jekp.v11i2.1933>
- Widadi, F. A., Subroto, B., & Rahman, A. F. (2022). Tax Avoidance Mediated by Constitutional Ownership as Moderating Variables. *Etikonomi*, 21(2), 411–430. <https://doi.org/10.15408/etk.v21i2.25799>
- Widyari, N. Y. A., & Rasmini, N. K. (2019). Pengaruh Kualitas Audit, Size, Leverage, dan Kepemilikan Keluarga pada Agresivitas Pajak. *E-Jurnal Akuntansi*, 27, 388. <https://doi.org/10.24843/eja.2019.v27.i01.p15>
- Winarto, & Daito, A. (2021). Can Thin Capitalization and Transfer Pricing Activities Reduce The Tax Burden? *Dinasti International Journal of Economics, Finance & Accounting*, 2(1), 112–121. <https://doi.org/10.38035/dijefa.v2i1.795>
- Wulansari, D. P. A., & Nugroho, A. H. D. (2023). Pengaruh Komisariss Independen, Sales Growth, Profitabilitas, Firm Size dan Kepemilikan Institusional terhadap Tax Avoidance. *Owner*, 7(3), 2160–2172. <https://doi.org/10.33395/owner.v7i3.1490>
- Zhang, X., Husnain, M., Yang, H., Ullah, S., Abbas, J., & Zhang, R. (2022). Corporate Business Strategy and Tax Avoidance Culture: Moderating Role of Gender Diversity in an Emerging Economy. *Frontiers in Psychology*, 13(May), 1–11. <https://doi.org/10.3389/fpsyg.2022.827553>