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The Effect of Thin Capitalization on Tax Avoidance with Firm Size as A Moderation Variable (Case Study of Mining Companies Listed on the IDX 2018-2022)

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***Abstract*—** This research aims to determine the effect of Firm Size in moderating the relationship between Thin Capitalization and Tax Avoidance. This research was conducted on Mining Companies Listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 period. The method used in this research is an explanatory method with a quantitative approach using secondary data in the form of financial reports and annual reports of Mining Companies Listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 period. The population used in this research was 74 Mining Companies Listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 period. The sample in this research was selected using a purposive sampling method, so that 135 samples were obtained from 27 companies over 5 years. Data analysis in this study used simple linear regression analysis methods and moderate regression with statistical program tools, namely Eviews 13 For Windows. The research results obtained are that Thin Capitalization has a significant effect on Tax Avoidance in Mining Companies Listed on the BEI in 2018-2022 and Firm Size has a significant effect on the moderating relationship between Thin Capitalization and Tax Avoidance in Mining Companies Listed on the BEI in 2018-2022.

***Keywords*—** *Thin Capitalization, Firm Size, Tax Avoidance*

I. INTRODUCTION

Taxes can be seen from two different sides; From the government's side, taxes are an important source of revenue that will be used to finance state expenditure, both routine expenditure and development expenditure, while from the company's side, tax is a burden that will reduce the company's net profit (Suandy, 2016). This statement explains that there are two contradictory things, where the government maximizes the amount of tax revenue received from taxpayers, while companies try to reduce the amount of tax paid by engaging in Tax Avoidance.

Even though Tax Avoidance is an action that does not violate tax law, it can directly have an impact on reducing potential tax revenues (Rahayu, 2020). This is proven by mining sector tax revenue data which is smaller than the national level and the value fluctuates, as can be seen in the following graph:

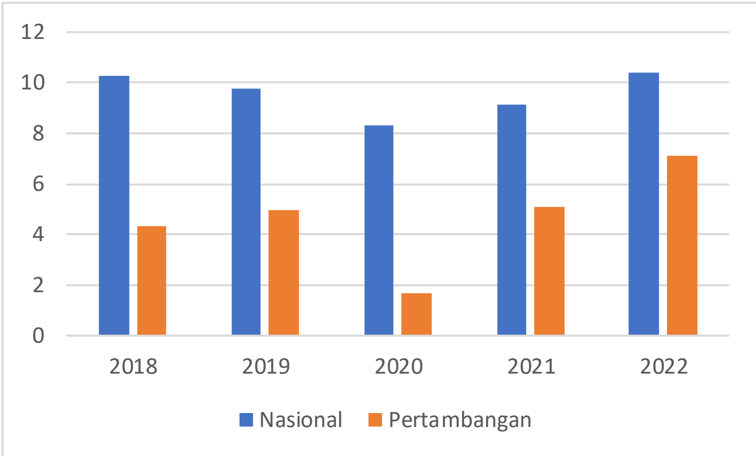

Figure 1. National and Mining Tax Ratio 2018-2022

(Kartadjumena & Nuryaman, 2024) believes that although the economic value generated by the mining industry is large, tax payments in the mining sector are relatively low. This is proven by the BPS data above which is accompanied by a decrease in the mining industry tax ratio during 2018-2022.

One thing that can be used as a Tax Avoidance mechanism is Thin Capitalization (Rahayu, 2010). This Thin Capitalization case occurred at PT. Garuda Metalindo Tbk uses capital obtained from loans or debt to avoid paying taxes that must be borne by the company. (G. Taylor, 2013) also state that Thin Capitalization can be a problem in taxation because of the difference in treatment between capital investment and debt investment.

Another factor that can be used as a Tax Avoidance mechanism is Firm Size. The larger the size or scale of the company, the easier it is for the company to obtain funding sources, both internal and external (Novari & Lestari, 2016). This statement is supported by the opinion (Brigham & Houston, 2010) that large companies have greater flexibility and ability to obtain short-term funds than small companies.

Research related to the influence of Thin Capitalization on Tax Avoidance with Firm Size as a Moderating Variable has been studied by previous researchers such as (Lutfitriyah et al., 2021) and (Suntari & Mulyani, 2020) who in their research found a positive relationship between Thin Capitalization and Tax Avoidance moderated by Firm Size, so that Firm Size can strengthen the effect of Thin Capitalization on Tax Avoidance. Meanwhile (Apriansyah & Surachman, 2022) and (Yandra et al., 2023) states that the relationship between Thin Capitalization and Tax Avoidance is weakened by the presence of Firm Size as a moderating variable.

The problem in this research is how Firm Size influences the moderation of the relationship between Thin Capitalization and Tax Avoidance. This research aims to test and obtain empirical evidence regarding the influence of Thin Capitalization on Tax Avoidance and the influence of Firm Size in moderating the relationship between Thin Capitalization and Tax Avoidance in Mining Companies Listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 period.

II. LITERATURE REVIEW

Agency Theory

Allingham and Sandmo (1972) developed a theory that illustrates that individual taxpayers who try to maximize utility through Tax Avoidance may not be able to do so because of the differences between ownership and management (Lee et al., 2015). In companies, this conflict is associated with agency theory which describes Tax Avoidance activities carried out by companies (Komariah, 2017). This theory explains that the government (principal) wants large and sustainable tax revenues from the company (agent), while company management wants the minimum tax payments possible in order to obtain large profits. Based on this, there is a contradictory relationship between the government as principal and company management as agent, thus allowing companies to find ways to reduce the amount of tax payments in accordance with tax laws and regulations or not.

Thin Capitalization

Thin Capitalization is a practice that refers to a situation where a company is financed through relatively high levels of debt compared to equity (OECD, 2017). The higher the debt a company has for company financing, the higher the interest burden the company will bear and this will result in a higher level of Tax Avoidance by the company. Provisions regarding the debt to capital ratio are regulated in Article 18 paragraph (1) of the Law. Then, the Government stipulates Regulation of the Minister of Finance of the Republic of Indonesia Number 169/PMK.010/2015 concerning the regulation of debt to capital. the ratio between debt and capital for corporate taxpayers established or with the highest status in Indonesia is four to one (4:1). (Menteri Keuangan Republik Indonesia, 2015).

Tax Avoidance

Tax avoidance is an effort carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to take advantage of weaknesses (grey areas) contained in the tax laws and regulations themselves, to reduce the amount of tax owed (Diana Sari, 2017). So that companies can make optimal use of existing gaps in the tax sector, in an effort to obtain greater profits. Even though Tax Avoidance is considered legal because it still complies with tax laws and regulations, the government objects because Tax Avoidance can be detrimental to the state. (Suandy, 2016)

Firm Size

Firm size can be seen from the total assets owned by a company that can be used in the company's operational activities. A company that has large total assets indicates that the company has very good prospects over a relatively long period of time, and also reflects the condition of the company which is relatively more stable and able to generate profits (Barli, 2018). He is also stated that Firm size is an internal factor that reflects how much resources the company has, is considered able to influence the way the company fulfills its tax obligations and is a factor that can cause Tax Avoidance.

Frame of Thinking

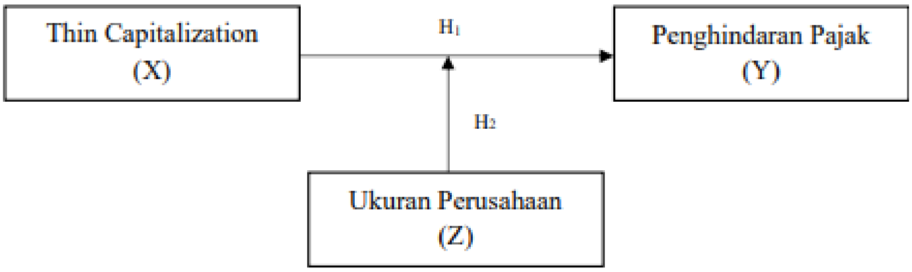

Figure 2. Frame of Thinking

Research Hypotesis

Effect of Thin Capitalization on Tax Avoidance

Thin capitalization according to (OECD, 2017) stated in the ThinCapitalization Legislation, is a practice that refers to a situation where a company is financed through a relatively high level of debt compared to equity which creates an unreasonable ratio between the company's debt and capital. Debt financing will incur interest expenses that can be deducted as a tax deduction. The higher the value of the debt a company has, the higher the debt costs that must be paid so that the company pays less tax.

Research (Andawiyah et al., 2019), (Ayu Ningtyas, 2021), and (Heidy, 2021) conclude that Thin Capitalization has a significant effect on Tax Avoidance, because the higher the Thin Capitalization practice carried out by the Company, the higher the Thin Capitalization practice carried out. Company. the higher the Tax Avoidance carried out by the Company. the higher it is. Meanwhile, research conducted by (Komariah, 2017), (Apriansyah & Surachman, 2022), and (Yandra et al., 2023) concluded that Thin

Capitalization has no significant effect so it has not been able to prove the effect of Thin Capitalization practices on Tax Avoidance.

From the research above, the following hypothesis can be formulated:

H_0 : Thin Capitalization has no effect on Tax Avoidance.

H_a1 : Thin Capitalization influences Tax Avoidance.

Effect of Firm Size in moderating the relationship between Thin Capitalization and Tax Avoidance

Large companies tend to use foreign capital, because companies require large amounts of funds to support their operations (Aryanto et al., 2021). This statement is supported by the opinion (Brigham & Houston, 2010), where large companies have greater flexibility and the ability to obtain short-term funds is also greater than small companies. The higher a company uses foreign capital to finance its company, the higher the interest burden borne by the company and this will result in a higher level of Tax Avoidance by the company. Therefore, Firm Size can influence the relationship between Thin Capitalization and Tax Avoidance.

Research conducted by (Suntari & Mulyani, 2020) and (Lutfitriyah et al., 2021) concluded that Firm size is able to moderate Thin Capitalization on Tax Avoidance, because large companies have large total assets so that the company feels better able to cover its liabilities. and obligations. can use the interest on the debt to reduce the tax burden owed. Meanwhile, research conducted by (Apriansyah & Surachman, 2022), and (Yandra et al., 2023) states that Firm Size does not have a significant influence on the relationship between Thin Capitalization and Tax Avoidance, or in other words Firm Size weakens the effect. Thin Capitalization on Tax Avoidance. From the research above, the following hypothesis can be formulated:
$H_0 2$: Firm size influences has no effect on the relationship between Thin Capitalization and Tax Avoidance
$H_a 2$: Firm size influences the relationship between Thin Capitalization and Tax Avoidance

III. RESEARCH METHODS

This research was conducted using an explanatory method with a quantitative approach by utilizing secondary data in the form of financial reports of Mining Companies Listed on the Indonesia Stock Exchange (BEI) for 2018-2022. The population of this research is 74 Mining Companies Listed on the Indonesia Stock Exchange (BEI) in 2018-2022. Sampling in the research used nonprobability sampling with a purposive sampling technique, resulting in data of 135 from 27 companies over a 5 years period.

In this research uses 2 data collection techniques, there are library research and internet research. A library researchs was carried out to study and review literature in books, journals, articles and previous research which can be used as a theoretical basis for this research. While internet research were carried out to obtain secondary data through the Indonesian Stock Exchange website and other related sites with the aim of obtaining additional relevant literature and data needed in the research. The research instrument used in this study is the company's annual financial report, with the research variables in this study are Thin Capitalization as an Independent Variable, Tax Avoidance as a Dependent Variable, and Firm Size as a Moderating Variable.

There are 2 data analysis techniques used in this research, namely a simple linear regression analysis technique which was carried out to test the effect of Thin Capitalization on Tax Avoidance, and a moderated regression analysis technique which was carried out to test the magnitude of the influence of the Thin Capitalization variable on Tax Avoidance with Firm Size as a Moderating Variable. Data processing in this research uses computerized media, namely Eviews 13 for Windows.

IV. RESULT AND DISCUSSION

Simple Linear Regression Analysis

Table 1. Simple Linear Regression Analysis Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.548295	0.237072	-2.312782	0.0223
X	0.284351	0.041255	6.892556	0.0000

R-squared	0.263188	Mean dependent var	-0.194156
Adjusted R-squared	0.257648	S.D. dependent var	3.121007
S.E. of regression	2.689056	Akaike info criterion	4.830961
Sum squared resid	961.7256	Schwarz criterion	4.874002
Log likelihood	-324.0899	Hannan-Quinn criter.	4.848452
F-statistic	47.50732	Durbin-Watson stat	1.338829
Prob(F-statistic)	0.000000		

Based on the table of simple linear regression analysis results, it can be formulated in the following equation:

$$\mathbf{Y = -0.548295 + 0.284351\ X}$$

The above equation can be defined that the constant value has a value of -0.548295, so that when the independent variable Thin Capitalization (X) is constant or zero (0), the amount of the dependent variable Tax Avoidance (Y) is -0.548295. Also listed on the equation above, that the regression coefficient value of Thin Capitalization (X) is 0.284351, so that when Thin Capitalization (X) increases by one unit, Tax Avoidance (Y) increases by 0.284351. This also illustrates that the direction of the relationship between Thin Capitalization (X) and Tax Avoidance (Y) is unidirectional.

Moderated Regression Analysis

Table 2. Moderated Regression Analysis Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.595633	3.582898	1.282658	0.2024
X	0.190952	0.043549	4.384757	0.0000
Z	-0.175965	0.127878	-1.376037	0.1717
XZ	0.218405	0.050580	4.317996	0.0000

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.515097	Mean dependent var	-1.105676
Adjusted R-squared	0.381171	S.D. dependent var	2.365933
S.E. of regression	1.768538	Sum squared resid	328.4114
F-statistic	3.846144	Durbin-Watson stat	2.037973
Prob(F-statistic)	0.000000		

Based on the table of moderated regression analysis results, it can be formulated in the following equation:

$$\mathbf{Y = 4.595633 + 0.190952\ X - 0{,}175965\ Z + 0{,}218405\ X*Z}$$

The above equation can be defined that the constant value has a value of 4.595633, so that if the independent variable Thin Capitalization (X), the moderating variable Firm Size (Z), and the interaction variable Thin Capitalization*Firm Size (X*Z) are constant or zero (0), then the magnitude of the dependent variable Tax Avoidance (Y) is 4.595633.

It is also stated in the equation above, that the regression coefficient value of Thin Capitalization (X) is 0.190952, so that if Thin Capitalization (X) increases by one unit, then Tax Avoidance (Y) increases by 0.190952. However, it is different from the regression coefficient value of Firm Size (Z) of -0.175965, so that if Firm Size (Z) increases by one unit, Tax Avoidance (Y) decreases by 0.175965. While the regression coefficient value of Thin Capitalization * Firm Size (X*Z) is 0.218405, so that if Thin Capitalization*Firm Size (X*Z) increases by one unit, then Tax Avoidance (Y) increases by 0.218405.

The explanation also illustrates that the direction of the relationship between Thin Capitalization (X) and Tax Avoidance (Y) and the direction of the interaction variable between Thin Capitalization*Firm Size (X*Z) and Tax Avoidance (Y) is unidirectional. While the direction of the relationship between Firm Size (Z) and Tax Avoidance (Y) is opposite.

Hypothesis Test

The test was carried out partially, with the t statistical test which is basically to find out how much influence individual independent variables have in explaining variations in the dependent variable, and to identify whether the moderating variable interacts with the independent variable (Ghozali, 2018). In this research, a test was carried out to partially test the Thin Capitalization variable (X) against the Tax Avoidance variable (Y):

Table 3. Hypothesis Test (Model 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.548295	0.237072	-2.312782	0.0223
X	0.284351	0.041255	6.892556	0.0000

Based on the t test results table above, the probability value for the Thin Capitalization (X) variable is 0.0000, which means it is smaller than the significance value of 0.05 (0.0000 < 0.05), with a t_{value} of 6.892556, which means the value this is greater than the t_{table} value of 1.978 (6.892556 > 1.978). The calculated t_{value} is obtained with α = 5% and df = n−k−1 = 135 −1−1 = 133, and the t_{table} value obtained from the two tiled t distribution table is 1.978 or - 1.978. Therefore, it can be concluded that H_a1 is accepted and H_01 is rejected, so that the Thin Capitalization variable (X) has a significant influence on the Tax Avoidance variable (Y).

Table 4. Hypothesis Test (Model 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.595633	3.582898	1.282658	0.2024
X	0.190952	0.043549	4.384757	0.0000
Z	-0.175965	0.127878	-1.376037	0.1717
XZ	0.218405	0.050580	4.317996	0.0000

Based on the t test results table above, the probability value for the Thin Capitalization (X) variable is 0.0000, which means it is smaller than the significance value of 0.05 (0.0000 < 0.05), with a t_{value} of 4.384757, which means the value this is greater than the t_{table} value of 1.978 (4.384757 > 1.978). The calculated t_{value} is obtained with α = 5% and df = n−k−1 = 135 −1−1 = 133 and the t_{table} value obtained from the two tiled t distribution table is 1.978 or - 1.978. Therefore, it can be concluded that H_a1 is accepted and H_01 is rejected, so that the Thin Capitalization variable (X) has a significant influence on the Tax Avoidance variable (Y)

Based on the t test results table above, the probability value for the Firm Size (Z) variable is 0.1717, which means it is greater than the significance value of 0.05 (0.1717 > 0.05), with a calculated t_{value} of -1.376037 which is meaning that this value is smaller than the t_{table} value of 1.978 (-1.376037 < 1.978). The calculated t_{value} is obtained with α = 5% and df = n−k−1 = 135 −1−1 = 133 and the t_{table} value obtained from the two tiled t distribution table is 1.978 or - 1.978. Therefore, it can be concluded that H_01 is accepted and H_a1 is rejected, so that the Firm Size variable (Z) has no effect on the Tax Avoidance variable (Y). Firm size as a moderator variable in this research is included in the quasi moderator type (pseudo moderator).

Based on the t test results table above, the probability value of the interaction variable Thin Capitalization with Firm Size (X*Z) is 0.0000, which means it is smaller than the significance value of 0.05 (0.0000 < 0.05), with a t_{value} of 0.05. 4.317996, which means this value is greater than the t_{table} value of 1.978 (4.317996 > 1.978). The calculated t_{value} is obtained with α = 5% and df = n−k−1 = 135 −1−1 = 133 and the t_{table} value obtained from the two tiled t distribution table is 1.978 or - 1.978. Therefore, it can be concluded that H_a1 is accepted and H_01 is rejected, where Firm Size (Z) significantly influences the relationship between Thin Capitalization (X) and Tax Avoidance (Y).

Effect of Thin Capitalization on Tax Avoidance

Based on the results of the hypothesis test, the probability value for the Thin Capitalization (X) variable is 0.0000, which means it is smaller than the significance value of 0.05 (0.0000 < 0.05), with a t_{value} of 6.892556, which means the value is greater than t_{table} value is 1.978 (6.892556 > 1.978). So it can be concluded that H_a1 is accepted and H_01 is rejected in this research, so that Thin Capitalization has a significant effect on Tax Avoidance in Mining Companies Registered on the BEI in 2018-2022.

The results of this research are in accordance with the Thin Capitalization theory, where the higher the debt a company has for company financing, the higher the interest burden will be and result in higher levels of Tax Avoidance by the company (OECD, 2017). Therefore, the implementation of Thin Capitalization has a macro effect on the country, because the more companies reduce their tax burden, the greater the reduction in state income through taxes.

Effect of Firm Size in moderating the relationship between Thin Capitalization and Tax Avoidance

Based on the results of the hypothesis test, the probability value of the interaction variable Thin Capitalization with Firm Size (X*Z) is 0.0000, which means it is smaller than the significance value of 0.05 (0.0000 < 0.05), with a t_{value} of 4.317996, which means this value is greater than the t_{table} value of 1.978 (4.317996 > 0.05). Therefore, it can be concluded that H_a1 is accepted and H_01 is rejected, so that Firm Size significantly influences the relationship between Thin Capitalization and Tax Avoidance in mining companies listed on the IDX in 2018-2022.

The results of this research are in accordance with the theory that Firm Size influences the relationship between Thin Capitalization and Tax Avoidance, where the larger the size or scale of the company, the easier it will be for the company to obtain funding sources because it has higher flexibility and the ability to obtain larger funds than small companies (Brigham & Houston, 2010). Companies that finance through relatively high levels of debt rather than equity will have an impact on higher interest costs and will result in higher levels of Tax Avoidance by companies.

V. CONCLUSIONS AND SUGGESTION

Conclusion

Based on the results of the analysis and discussion that has been done previously, the authors can draw the conclusion that Thin Capitalization has a significant effect on Tax Avoidance in Mining Companies Listed on the IDX in 2018-2022. Therefore it can be concluded that the higher the practice of Thin Capitalization, the higher the level of Tax Avoidance. The analysis results also show that Firm Size has a significant effect on moderating the relationship between Thin Capitalization and Tax Avoidance in Mining Companies Listed on the IDX in 2018-2022. Therefore, it can be concluded that the greater the size of the company that funds its business operations by prioritizing debt funding rather than using equity, the higher the level of Thin Capitalization and thus the higher the level of tax avoidance. It is also known that the Firm Size variable in this study is included in the type of quasi moderator (pseudo moderator).

Suggestion

Based on the research results obtained, the researchers provide several suggestions. For the Company, as a Corporate Taxpayer is expected to carry out its tax obligations in accordance with applicable tax regulations, so that Corporate Taxpayers avoid tax problems related to administrative sanctions in the form of interest, fines or increases, even criminal sanctions. The rules referred to are contained in Article 2 paragraph (1) of the Regulation of the Minister of Finance of the Republic of Indonesia Number 169 / PMK.010 / 2015 concerning the rules for the comparison between the amount of debt and capital for corporate taxpayers established or domiciled in Indonesia at a maximum of four to one (4: 1).

Meanwhile, for the government, it can better understand what is done by corporate taxpayers that has the potential to cause companies to avoid taxes, so that the government can review tax regulations to reduce loopholes for corporate taxpayers in their efforts to avoid taxes. Then, because there are several limitations in conducting this research, therefore the authors can suggest several things that can be recommendations for future researchers, including adding / using other independent variables that are relevant to the dependent variable, so that they can see other factors that can affect the level of Tax Avoidance. In addition, it is also advisable to use other company sectors in order to reduce the level of Tax Avoidance.

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