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Effect Of Thin Capitalization, Capital Intensity On Tax Avoidance With Institutional Ownership Moderating Variable

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ABSTRACT

The Effect of Thin Capitalization, Capital Intensity on Tax Avoidance with Institutional Ownership Variables (Empirical Study on Property, Real Estate, and Infrastructure Companies listed on the Indonesia Stock Exchange in 2018-2020). This study aims to examine the effect of thin capitalization, capital intensity on tax avoidance with institutional ownership variables. The population in this study are all property, real estate, and infrastructure sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The sampling technique used is the Non-Probability Sampling method and obtained as many as 117 data samples. The analytical method used is Multiple Linear Regression. The results show that Thin Capitalization has a positive effect on tax avoidance, Capital Intensity has a positive effect on tax avoidance.

Keywords: Capital Intensity, Firm Size, Institutional Ownership, Tax Avoidance, Thin Capitalization

INTRODUCTION

Taxes are mandatory contributions to the state owed by individuals or entities that are coercive based on the law, by not getting compensation directly and used for the needs of the state for the greatest prosperity of the people. The responsibility for the obligation to pay taxes, as a reflection of the state's obligations in the field of taxation lies with the community members themselves and companies to fulfill these obligations. Based on a report jointly prepared by Ernesto Crivelly, an investigator from the IMF in 2016, using the International Center for Policy and Research (ICTD) database, and the International Center for Taxation and Development (ICTD), data on corporate tax avoidance from 30 countries emerged. Indonesia is in the 11th largest ranking with an estimated value of 6.48 billion US dollars, corporate taxes are not paid by companies in Indonesia to the Indonesian Tax Office. However, companies as taxpayers view it from a different perspective, for companies, taxes are costs or expenses that reduce net income. If a company generates large profits, the income tax paid to the state treasury is also large. Therefore, companies try to pay taxes as little as possible in order to obtain maximum profits. This also makes companies in an effort to obtain maximum profits carry out various methods such as tax planning which aims so that companies can make the tax they will pay not too large. In the company's efforts to minimize the tax that will be paid legally is a form of tax avoidance, while efforts to minimize taxes that will be paid illegally is a form of tax evasion. There are many factors that are assumed to affect tax avoidance, some of which are thin capitalization, capital intensity, and institutional ownership. . According to (Taylor & Richardson, 2013) explains that the main factor driving the practice of tax avoidance is Thin Capitalization. Thin Capitalization is a practice by creating a debt structure much larger than the company's capital. Companies can increase the loan amount where this will cause interest expenses to increase and make taxable income smaller, this will have an impact on the income received by the state, Besides that, capital intensity is also predicted to affect the occurrence of tax avoidance. Capital Intensity or capital intensity is an investment activity carried out by a company associated with investment in the form of fixed assets (capital). Ownership of high fixed assets will also result in high depreciation expenses, so that profits will decrease and the company's tax burden will

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also decrease. Likewise with institutional ownership which is predicted to influence the occurrence of tax avoidance. Institutional Ownership the greater the institutional ownership, the smaller the aggressive tax policy (Zemzem & Ftouhi, 2013). Ownership of high fixed assets will also result in high depreciation expenses, so that profits will decrease and the company's tax burden will also decrease. Likewise with institutional ownership which is predicted to influence the occurrence of tax avoidance. Institutional Ownership the greater the institutional ownership, the smaller the aggressive tax policy (Zemzem & Ftouhi, 2013). Ownership of high fixed assets will also result in high depreciation expenses, so that profits will decrease and the company's tax burden will also decrease. Likewise with institutional ownership which is predicted to influence the occurrence of tax avoidance. Institutional Ownership the greater the institutional ownership, the smaller the aggressive tax policy (Zemzem & Ftouhi, 2013).

LITERATURE STUDY

The Effect of Capital Intensity On Tax Avoidance

The greater the capital intensity owned by the company, the greater the company's tax avoidance, because companies that have fixed assets will have a depreciation expense or depreciation expense which can be a deduction from pre-tax profit. So that way the company will utilize fixed assets to minimize the tax burden by investing fixed assets in the company. And a large depreciation expense will reduce the company's profit, so that it can also reduce its income tax burden. On this basis it is suspected that capital intensity has an influence on tax avoidance, this is in line with research conducted by (Dharma, Nyoman, & Naniek, 2017) & (Irianto, Sudibyo, Wafirli, & Abim, 2017) which shows that capital intensity has a positive effect on tax avoidance. Based on the description above regarding the relationship between capital intensity and tax avoidance, the research hypothesis is proposed as follows:

H1: Capital intensity has a positive effect on tax avoidance

The Effect of Thin Capitalization on Tax Avoidance

Companies can make interest expenses as a way to reduce the tax base, namely taxable income (deductible expense). This will have an impact on increasing interest expenses and reducing taxable income. Thus the income received by the state will decrease (Afifah & Prastiwi, 2019). Companies have two main sources of capital that can be used to carry out their business activities, namely debt and own capital. Previous research has recognized that interest expenses can be a deduction from taxable income and become tax intensive (Olivia & Dwimulyani, 2019). In the world of taxation, the mechanism for forming a capital structure with a debt structure that is larger than equity (thin capitalization) has a different impact compared to own capital. Debt given raises interest expenses where the treatment of interest in taxation is different from the treatment of dividends, interest charges in tax provisions are allowed as a deduction from income (Buettner.et.al, 2012). This creates gaps and opportunities for companies to avoid taxes through the use of interest, but it needs to be underlined. That excessive use of thin capitalization can damage the ownership of an entity (Nicodano & Regis, 2019). On that basis it is suspected that thin capitalization has an influence on tax avoidance. This is in line with research conducted by (Setiawan & Agustina, 2018) stating that thin capitalization has a positive effect on tax evasion, and (Olivia & Dwimulyani, 2019), (Ismi, Linda, & Fadhil, 2016) which shows that thin capitalization is not effect on tax avoidance. Based on the description above regarding the relationship between thin capitalization and tax avoidance, the research hypothesis is proposed as follows:

H2: Thin capitalization has a positive effect on tax avoidance

The Influence of Institutional Ownership as a Moderating Variable of Thin Capitalization on Tax Avoidance

In the positive accounting theory of the bonus program hypothesis, company managers with compensation plans tend to prefer methods that transfer future period profits to current period profits. In this case, for certain reasons, managers have incentives to manipulate or manage reported earnings by using their authority through the selection of accounting methods that can

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affect the size of profits. With institutional ownership as one of the elements of corporate governance, it is expected that the company will balance capital from debt and capital investment from shareholders in its capital structure. According to research conducted (Khurana.IK & Moser.WJ, 2009) states the size of the concentration of institutional ownership will affect the policy of action to minimize the tax burden by companies. The existence of an institutional ownership structure as an element of corporate governance is a means of supervising management of opportunistic actions that managers can take, such as tax evasion activities. Based on this description, the hypothesis formulated is:
H3: Institutional ownership can moderate the strengthening effect of thin capitalization on tax evasion

METHOD

Data Analysis

The method used in this study is quantitative research, using data analysis methods which include descriptive statistical analysis, classical assumption testing, and hypothesis testing. The classic assumption test used in this study includes the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The hypothesis test used in this study includes the partial coefficient test (t statistical test), the coefficient of determination test (R^2). Data is processed with SPSS software.

Variable Operationalization

The independent/independent variables consist of capital intensity (X1) and thin capitalization (X2). The dependent variable is tax avoidance (Y) and the moderating variable is institutional ownership (X3). In this study also has a control variable, namely company size (X4).

Population and Sample

The population in this study are all companies that issue bonds or have outstanding bonds listed on the Indonesia Stock Exchange (IDX) in 2018-2020, namely 136 companies. The Sampling technique used is Non Probability Sampling. According to (Sugiyono) Non Probability Sampling is a sampling technique that does not provide equal opportunities or opportunities for each element or member of the population to be selected as a sample. The sampling technique used is saturated samples. According to (Sugiyono) saturated sampling technique is a sampling technique in which all members of the population are used as samples. So the number of samples used in this study is 117 samples.

RESULTS AND DISCUSSION

Hypothesis Testing

The hypothesis test in this study was used to test the effect of the independent variables, namely Capital Intensity (X1), Thin Capitalization (X2), Institutional Ownership (X3), Firm Size (X4) on the dependent variable, namely tax avoidance (Y). Hypothesis testing was carried out using the T test and F test.

Joint Regression Efficiency Test Results (Test F)

The joint regression coefficient test (F test) was carried out to determine the ability of all the independent variables used in this study to influence the dependent variable together. The F test is also used as an explanation of the independent variable on the dependent variable and to test whether the research model is feasible to use. The basis for decision making from the F statistical test is as follows:

a) Decision making based on the calculated F value
- If it is significant F <0.05 then Ho is rejected, Ha is accepted
- If it is significant F > 0.05 then Ho is accepted, Ha is rejected.

b) Decision making based on the calculated F value

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Table 1. Joint Regression Coefficient Test Results (Test F)

Coefficients							
Model		B	std. Error	Beta	Q	Sig.	Sig. One Tailed
1	(Constant)	0.095	0.163		0.582	0.562	0.281
	Capital _Intensity	0.055	0.114	0.049	0.485	0.629	0.315
	thin _Capitalization	0.015	0.030	0.047	3,087	0.003	0.002
	ThinCapt *KpmlkInst	0.013	0.007	-0.218	-2,027	0.046	0.023
	Size _Company	0.006	0.003	-0.276	-2,476	0.016	0.008
a. Dependent Variable: Tax_Avoidance							

- If F count > F table or Sig value <0.05 then the research model is feasible to use.

- If F count < F table or Sig value > 0.05 then the research model is not feasible to use.

The results of testing the hypothesis using the F test can be seen in the following table:

Based on table 1, it can be seen that the calculated F value is 3.537, which means that the calculated F value > F table because the value obtained from the F table is 3.06 so that it is 3.537 > 3.06. Furthermore, judging from the significance value of 0.000, it indicates 0.000 <0.05, so it can be concluded that the independent variables consisting of Thin Capitalization, Capital Intensity, Institutional Ownership, and Company Size jointly affect the dependent variable, namely tax avoidance, and the variables in this study were declared fit for use or included in the research model

Partial Coefficient Test Results (T Test)

The partial coefficient test is used to show how far the influence of the independent variables individually affects the dependent variable. The T statistical test can be known from the tcount or significance value (sig.) of each independent variable.

a) The basis for decision making is based on the calculated t value, namely

- If t count > t table, then there is a partial influence between the independent variables and the dependent variable.
- If t count <t table, then there is no partial effect between the independent variables and the dependent variable.

b) Basic decision making based on the level of significance, namely

- If the significance value is ≤ 0.05, it is stated that partially the independent variable has an effect on the dependent variable.
- If the significance value is > 0.05, it is stated that partially the independent variable has no effect on the dependent variable.

The results of testing the hypothesis using the partial coefficient test (t test) can be seen in the following table:

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Table 2. Partial Coefficient Test Results (T Test)

ANOVAa						
Model		Sum of Squares	df	Means Square	F	Sig.
1	Regression	0.214	4	0.051	3,537	.011b
	residual	9,360	112	0.014		
	Total	9,574	116			

Based on table 2, the conclusions that can be drawn are as follows:

- The Capital Intensity variable obtained t-count of 0.485 <1.658 (t table) with sig. 0.315 < 0.05 (ɑ) or a significance value greater than 0.05. Then H0 is rejected or Ha is accepted which means that partially Capital Intensity has a positive effect on tax avoidance,
- The Thin Capitalization variable has a t-count of 3,087 > 1,658 (t table) with sig. 0.002 > 0.05 (ɑ) or a significance value less than 0.05. Therefore H0 is rejected or Ha is accepted which means that partially Thin Capitalization has a positive effect on tax evasion.
- The Thin Capitalization variable moderated by Institutional Ownership obtained a t-count of 2.027 > 1.658 (t table) with sig. 0.023 > 0.05 (ɑ) or a significance value less than 0.05. Then H0 is rejected or Ha is accepted which means that Institutional Ownership strengthens the influence of Thin Capitalization on tax avoidance.
- The company size variable obtained t-count of 2,476 > 1,658 (t table) with sig. 0.008 > 0.05 (ɑ) or a significance value less than 0.05. Then H0 is rejected or Ha is accepted, which means that partially company size has a positive effect on tax evasion.

Result Coefficient of Determination (R2)

The coefficient of determination test was carried out to find out how far the model's ability to explain variations in the independent variables. If the research uses simple regression analysis, then what is used as a consideration is the R Square value. However, when using multiple regression analysis, then what is used as a consideration is the Adjusted R Square value. In this study using multiple linear regression analysis, so that what is seen is the Adjusted R Square value. The magnitude of the coefficient of determination is between 0 and 1. If the value is close to 0, it indicates that the independent variables in explaining the dependent variable are very limited. Meanwhile, if the value is close to 1, then the independent variables provide almost all the information needed to predict the dependent variable. The results of the test for the coefficient of determination can be seen in the following table:

Table 3. Test Results for the Coefficient of Determination (R2)

Summary model b				
Model	R	R Square	Adjusted R Square	std. Error of the Estimates
1	.867a	0.751	0.743	0.41583
a. Predictors: (Constant), Firm_Size, Thin_Capitalization, Institutional_Ownership, Capital_Intensity				
b. Dependent Variable: Tax_Avoidance				

Based on table 3, it can be seen that the value of Adjusted R Square is 0.743 or 74.3%. This means that the ability of the independent variables consisting of thin capitalization, capital intensity, institutional ownership, company size can explain the effect on the dependent variable, which is equal to 74.3% tax avoidance. While the remaining 25.7% (100% - 74.3%) is influenced by other independent variables that are not included in this study.

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Interpretation of Results

The Effect of Capital Intensity on Tax Avoidance

Based on the results of statistical testing, the Capital Intensity variable has a positive effect on Tax Avoidance. As shown in table 4.7, the significance level of the capital intensity variable is 0.485 or less than 0.05 with a coefficient value of 0.055. The Capital Intensity Ratio is the ratio used for investment activities carried out by companies related to investments in the form of fixed assets (capital intensity) and inventories (Ambarukmini & Diana, 2017). The ratio of capital intensity can show the efficiency level of the company in using its assets to generate sales. Companies that choose to invest in assets or capital in terms of depreciation can take advantage of tax reductions (Puspita & Febrianti, 2017). Capital intensity has a positive effect on tax avoidance, this is in line with research conducted by the greater the capital intensity owned by a company, the greater the company's tax avoidance. because companies that have fixed assets will have a depreciation expense or depreciation expense which can be a deduction from profit before tax. So that way the company will utilize fixed assets to minimize the tax burden by investing fixed assets in the company. And a large depreciation expense will reduce the company's profit, so that it can also reduce its income tax burden. On this basis it is suspected that capital intensity has an influence on tax avoidance. The results in this study are in line with research conducted by (Dharma, Nyoman, & Naniek, 2017) & (Irianto, Sudibyo, Wafirli, & Abim, 2017) which shows that capital intensity has a positive effect on tax avoidance. So that way the company will utilize fixed assets to minimize the tax burden by investing fixed assets in the company. And a large depreciation expense will reduce the company's profit, so that it can also reduce its income tax burden. On this basis it is suspected that capital intensity has an influence on tax avoidance. The results in this study are in line with research conducted by (Dharma, Nyoman, & Naniek, 2017) & (Irianto, Sudibyo, Wafirli, & Abim, 2017) which shows that capital intensity has a positive effect on tax avoidance. So that way the company will utilize fixed assets to minimize the tax burden by investing fixed assets in the company. And a large depreciation expense will reduce the company's profit, so that it can also reduce its income tax burden. On this basis it is suspected that capital intensity has an influence on tax avoidance. The results in this study are in line with research conducted by (Dharma, Nyoman, & Naniek, 2017) & (Irianto, Sudibyo, Wafirli, & Abim, 2017) which shows that capital intensity has a positive effect on tax avoidance.

The Effect of Thin Capitalization on Tax Avoidance

Based on the results of statistical testing, the Thin Capitalization variable has a positive effect on Tax Avoidance. As shown in table 4.7, the significance level of the Thin Capitalization variable is 3.087 or more than 0.05 with a coefficient value of 0.015. The Thin Capitalization Ratio is the ratio used to establish the structure of a company's capital with the maximum possible contribution of debt and the minimum possible capital. The practice of thin capitalization is based on differences in tax treatment of interest. On that basis it is suspected that thin capitalization has an influence on tax avoidance. This is in line with research conducted by (Setiawan & Agustina, 2018) stating that thin capitalization has a positive effect on tax evasion, and (Olivia & Dwimulyani, 2019), (Ismi, Linda, & Fadhil, 2016) which shows that thin capitalization is not effect on tax avoidance.

The Influence of Institutional Ownership as a Moderating Variable of Thin Capitalization on Tax Avoidance

Based on the results of statistical testing, the institutional ownership variable as a moderating variable for thin capitalization strengthens tax avoidance. As seen in table 4.7, the significance level of the institutional ownership variable is 2.027 or more than 0.023 with a coefficient value of 0.013. Institutional ownership ratio as a moderating variable for thin capitalization In this case, for certain reasons, managers have incentives to manipulate or manage reported earnings using their authority through the choice of accounting methods that can affect the size of profits. With institutional ownership as one of the elements of corporate governance, it is expected that the company will balance capital from debt and capital investment from shareholders in its capital structure. This is in line with research conducted by (Khurana.IK & Moser.WJ, 2009) which states

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that the size of the concentration of institutional ownership will affect the policy of action to minimize the tax burden by companies.

Effect of Company Size on Tax Avoidance
Based on the results of statistical testing, the company size variable has a positive effect on tax avoidance. As seen in table 4.7, the significance level of the firm size variable is 2,476 or more than 0.05 with a coefficient value of 0.006.

CONCLUSION

Based on the discussion above, the authors provide conclusions in this study as follows; The Capital Intensity variable has a positive effect on tax avoidance. Thin Capitalization variable has a positive effect on tax avoidance. Institutional ownership variable as a moderating variable for thin capitalization strengthens tax evasión. Firm size control variable has a positive effect on tax avoidance

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