

# THE EFFECT OF THIN CAPITALIZATION ON TAX AVOIDANCE IN HEALTHCARE COMPANIES LISTED IN IDX FROM 2016 TO 2021

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## Keywords

Healthcare company, tax avoidance, thin capitalization, firm size, profitability

## ABSTRACT

According to OECD (2023), "Tax avoidance practices cost countries 100-240 billion USD in lost revenue annually, which is the equivalent to 4-10% of the global corporate income tax." And according to Global Financial Integrity Report (2015), "Indonesia is ranked ninth in Asia concerning the issue of tax losses." One of the tax avoidance practices is thin capitalization. Companies tend to choose debt over equity in their financing in this practice. This is because debt incurs interest expense which can be tax deductible. The Government of Indonesia (GOI) implemented thin capitalization rules to limit the debt shifting practice as a tax avoidance scheme in 2015. This study examines the effect of thin capitalization toward tax avoidance on healthcare companies listed in Indonesian State Exchange (IDX). Tax avoidance is proxied by Effective Tax Rate, while thin capitalization is proxied by Maximum Amount of Debt (MAD). There are two variable controls in this study; they are firm size and profitability. Firm size is proxied by the natural log of total assets, while profitability is proxied by return on assets (ROA). Based on six healthcare companies listed in IDX period 2016-2021, regression results indicate that thin capitalization significantly and positively affect tax avoidance. Companies with high thin capitalization have high effective tax rates. Meanwhile, firm size and profitability do not have a significant effect on tax avoidance.

## INTRODUCTION

Various organizational efforts are carried out within limits, not causing regulation violations to minimize the tax burden. This is known as tax avoidance, which is included in the category of active resistance, where company taxpayers often capitalize on the regulations, leading to different perceptions (grey areas) or on the loopholes in tariff policies (Tampilan et al., 2024)—based on the OECD (Organization for Economic Co-Operation and Development), tax avoidance practices globally eroded company income tariff revenues by USD 100-240 billion annually.

Based on the OECD (Organization for Economic Co-Operation and Development), "tax avoidance practices cost countries 100-240 billion USD in lost revenue annually, which is the equivalent to 4-10% of the global corporate income tax revenue." This avoidance was observed in 2016 with the spread of investigative documents, namely the Panama Papers, which were processed by the International Consortium of Investigative Journalists (ICIJ), through 11.5 million investigations from 214,000

multinational companies. Before the Panama papers, ICIJ published a document known as Swiss Leak in 2015, where the information on tax loss of USD 134.1 million was observed in Indonesia (Table 1).

**Table 1.** Losses experienced by various countries according to ICIJ ranking 91-100

Rank	Country	Value
91	Palestine	148.9
92	Madagascar	146.3
93	Peru	141.2
94	Mauritius	141.0
95	Indonesia	134.1
96	Sudan	131.0
97	Hungary	122.5
98	Latvia	121.8
99	Chad	120.7
100	Tanzania	114.0

Source: (Prastiwi & Ratnasari, 2019)

However, the potential losses experienced by the country during 2004-2013 were estimated at USD 18 billion (Table 2) for Indonesia, according to a GFI (Global Financial Integrity) report entitled "Illicit Financial Flows from the Developing World: 2004-2013". From the results, Indonesia is then ranked ninth in Asia concerning the issue of tax losses.

**Table 2.** Country Rankings by Largest Average Illicit Financial Flows 2004-2013

Rank	Country	Average IFF
1	China, P.R.: Mainland	139,228
2	Russian Federation	104,997
3	Mexico	52,844
4	India	51,029
5	Malaysia	41,854
6	Brazil	22,667
7	South Africa	20,922
8	Thailand	19,177
9	Indonesia	18,071
10	Nigeria	17,804
11	Kazakhstan	16,740
12	Turkey	15,450
13	Venezuela, Republica Bolivariana de	12,398
14	Ukraine	11,676
15	Costa Rica	11,346
16	Iraq	10,501
17	Azerbaijan, Republic of	9,500
18	Vietnam	9,293
19	Philippines	9,025
20	Poland	9,002

Source: GFI, 2014

Tax avoidance schemes often carried out by multinational companies are observed, for example, by way of transfer pricing, tariff haven and controlled company, thin Capitalization, and treaty shopping measures (Rahayu, 2010). However, the scheme commonly conducted by many developed countries is the reduction of taxes on high debt levels to protect minimum taxable income. The higher the level of debt, the greater the interest paid by the company. Since interest expense is a component deducted from taxable income, smaller tariff returns commonly reduce the amount of tax that the company should pay. This is not consistent with the capital level elevation influencing dividend payments. In Article 6 of the Income Tax Law, dividends are the non-deductible components of taxable income. This causes the thin

capitalization practice, where various organizations are highly interested in using debt rather than equity in their financing strategy (Anggeraini et al., 2022).

Thin Capitalization is the formation of a company's capital structure through a larger proportion of debt. From this context, subsidiaries commonly obtain capital as debt, with the originating interest expenses used as a deductible expenditure in calculating taxable income. This shows that tax avoidance is obtained when the parent company provides loans to subsidiaries for interest exceeding reasonableness. In this case, the subsidiary company should classify the difference between the interest paid and the prevailing market return rate as a dividend and not an expense.

Based on the popular practice of thin Capitalization in Indonesia, one of the famous cases was carried out by RNI Company, which is a foreign investment organization headquartered in Singapore (RMG Ltd). Since this company is always experiencing losses, its existence depends on affiliate debt. In 2014, RNI Company recorded an IDR 20.4 billion debt with sales of IDR 2.178 billion and retained losses of IDR 26.12 billion (bisniskeuangan.kompas.com). This triggered RMG Ltd to provide debt, leading to the acquisition of non-tax interest, which was also deductible on the part of the RNI Company. In this case, the RNI Company carried out tax avoidance by developing a financial structure with high debt and low equity.

At the level of multinational companies, this treatment often starts with the implementation of domestic debt to transfer profits from high to low-tax-rate countries (Haufler & Runkel, 2012) (Waluyo & Doktoralina, 2018). This shows that many countries commonly enact and comply with the policies related to thin Capitalization to limit the use of domestic debt as a tax evasion method (Mardan, 2013). According to Blouin et al. (2014), "...the regimes of thin capitalization differed across countries, regarding the following: (1) the restrictions provided on tax deductions based on company debt interest, (2) the discretion treatment applied early adopters were Australia, Indonesia; countries imposed

Country	(1) Explicit rule	(2) Year of first introduction	(3) Definition numerator	(4) Definition denominator	(5) Ratio	(6) Substantial shareholding	(7) Direct (Dir) or indirect (Ind) shareholding	(8) Automatic (Auto) or using arm's length (AL) considerations	(9) Remedy: non-deductibility (Nd) or reclassification as dividend (Div)	(10) For all or exceeding debt?	(11) Of interest (I) or net interest (NI)?	(12) Rules apply to: All, Foreign, Non-EU?
Argentina	Yes	1999	D	E	2	No	Dir	Auto	Div	Exc	I	Foreign
Australia	Yes	1987	D	E	3	15%	Ind	AL	Nd	Exc	I	Foreign
Austria	No <sup>3/</sup>											
Belgium	Yes <sup>4/</sup>	1992	IID	E	1	No	Dir	AL <sup>5/</sup>	Div	Exc	I	All
Brazil	No	2010										
Canada	Yes	1972	IID	IIE	2	25%	Ind	Auto	Nd	Exc	I	Foreign
Chile	Yes	2001	D	E	3	No	Dir	Auto	Div <sup>6/</sup>	Exc	I	All
China	No	2008										
Colombia	No											
Costa Rica	No											
Croatia	No											
Czech Republic	Yes	1993	TFD	E	4 <sup>7/</sup>	25%	Ind	Auto	Div <sup>8/</sup>	Exc	I	Foreign
Denmark	Yes	1999	D <sup>9/</sup>	E	4	50%	Ind	AL	Nd	Exc	I	All
Finland	No <sup>10/</sup>											
France	Yes	1979	IID	E	1.5	50%	Dir	Auto	Nd	Exc	I	All
Germany	Yes <sup>11/</sup>	1994	IID	IIE	1.5	25%	Ind	AL	Div	Exc	I	All
Greece	No											
Hong Kong	No <sup>12/</sup>											
Hungary	Yes	1993	D	E	3	No	Dir	Auto	Nd	Exc	I	All
India	No											
Indonesia	Yes	1985	D	E	3	No	Dir	AL	Nd	Exc	I	All
Ireland	No <sup>13/</sup>											
Israel	No											
Italy	Yes <sup>14/</sup>	2004	IID	IIE	5	25%	Ind	AL	Div	Exc	I	All
Japan	Yes	1992	TIFD	TIFE	3	50%	Ind	Auto	Nd	Exc	I	Foreign
Latvia	Yes	2003	TID	E	4	No	Dir	Auto	Nd <sup>16/</sup>	All	I	All
Lithuania	Yes	2004	D	E	4	50%	Ind	AL	Nd	Exc	I	All
Malaysia	No											
Mexico	No	2005										
Netherlands	Yes	2004	D <sup>17/</sup>	E	3	33%	Ind	Auto	Nd	Exc	NI	All
New Zealand	Yes	1996	D	A	0.75	No	Dir	Auto	Nd	Exc	I	Foreign
Norway	No											
Pakistan	Yes	2001	TFD	TFE	3	50%	Ind	Auto	Nd	Exc	I	Foreign
Panama	No											
Peru	Yes	2001	D	E	3	No	Dir	Auto	Nd	Exc	I	Foreign
Philippines	No											
Poland	Yes	1999	D	E	3	25%	Ind	Auto	Nd	Exc	I	All
Portugal	Yes	1996	TIDE <sup>19/</sup>	TIFE	2	10%	Ind	AL	Nd	Exc	I	Foreign
Russia	Yes	2002	TIFD	E	3	20%	Ind	Auto	Div	Exc	I	Foreign
Singapore	No											
Slovenia	Yes	2004	IID	IIE	4	25%	Ind	Auto	Nd	Exc	I	All
Slovakia	No <sup>20/</sup>	1993										
South Korea	Yes	2000	D	E	4	50%	Ind	Auto	Nd	Exc	I	All
Spain	Yes	1992	TIFD	E	3	25%	Ind	Auto	Div	Exc	I	Non-EU
Sri Lanka	No	2006										
Switzerland	Yes	1962	D	E	6	No	Dir	AL	Div	Exc	I	All
Sweden	No											
Taiwan	No	2011										
Thailand	No											
Turkey	No	2006										
Ukraine	No											
United Kingdom	Yes	1988	D	E	1	75%	Ind	AL	Nd	Exc	I	All
Venezuela	No	2007										
Vietnam	No	2012 <sup>21/</sup>										
United States <sup>22/</sup>	Yes <sup>23/</sup>	1989	D	E	1.5	50%	Ind	AL <sup>24/</sup>	Nd	Exc	I	Foreign

) the alternative tax below, the thin-cap were accompanied by is. Meanwhile, other

### Figure 1. Thin Capitalization Rule across the countries

Many governments have implemented thin capitalization rules to limit international debt shifting. These generally specify a threshold for the ratio of internal debt relative to equity—commonly referred to as the “safe-haven ratio”—beyond which interest expenses are no longer deductible from the corporate tax base. By discouraging excessive tax-motivated debt shifting, thin capitalization rules can raise the effective tax burden on MNCs and protect domestic corporate tax revenue (IMF,2021).

In Indonesia, authority was given to the Minister of Finance to decide the size of the comparison between a company's debt and capital. This was because thin Capitalization was discovered by the Government of Indonesia (GOI) in 1983, as stated in Articles 18 of Law no. 7/1983 and 36/2008 concerning Income Tax. Based on this authority, the Decree of the Minister of Finance (KMK) No. 1002/KMK.04/1984 was issued on October 08, 1984. This policy emphasized the Determination of Comparison between Debt and Capital for Imposing Income Tax at a maximum ratio of three to one (3:1). However, the policy was suspended by the Minister of Finance after five months through KMK No. 254/KMK.01/1985. This was because many foreign investors in Indonesia preferred loans over personal capital when financing organizational operations.

On September 09, 2015, the Minister of Finance Regulation (PMK) No. 169/PMK.010/2015 was issued. This prioritized Determining the Amount of Comparison between Company Debt and Capital for Income Tax Calculation. The regulation has also been enforced since the 2016 Fiscal Year. Furthermore, PMK is a tax regulation controlling the values of organizational Debt-Equity Ratio and borrowing costs. This stipulates that the ratio between debt and capital is set at a maximum of four to one (4:1). From this context, the company having a debt-to-equity ratio of more than 4:1 is capable of experiencing positive fiscal correction consequences for loan interest expenses.

The control variables used in this present study are profitability and company size. A longer experimentation period between 2010 and 2021 is also considered, accompanied by the performance of analysis in other fields, namely healthcare. From this context, several previous reports used some objects emphasizing the Healthcare organizations listed on the 2010-2021 Indonesian Stock Exchange (IDX).

This Healthcare object consideration is subsequently used in the present study due to the stable income levels of the medical sector. However, the industry is found to experience a surge in medical equipment and medicine demand since the Covid-19 pandemic. According to Indrawati (2021), several issue shares in the health sector had fairly high turnovers or speed during the pandemic due to the provision of support for primary needs.

### Company Profile

The IDX Healthcare sector consists of 3 major sub-sectors, namely pharmaceutical companies, hospitals, and medical devices. The following is a list of the healthcare shares on the IDX.

**Table 3.** List of Healthcare Companies period 2016-2021

Code	Company name	Listing Date	Shares
DVLA	Darya-Varia Laboratoria Tbk. 1	November 11, 1994	1.120.000.000
INAF	Indofarma Tbk. 2	Apr. 17, 2001	3.099.267.500
KAEF	Kimia Farma Tbk. 3	Jul. 04, 2001	5.554.000.000
KLBF	Kalbe Farma Tbk. 4	Jul. 30, 1991	46.875.122.110

<b>Code</b>	<b>Company name</b>	<b>Listing Date</b>	<b>Shares</b>
SOHO	Soho Global Health Tbk.	September 08, 2020	1.269.168.239
MIKA	Mitra Keluarga Karyasehat Tbk.	March 24, 2015	14.246.349.500
SCPI	Organon Pharma Indonesia Tbk.	June 08, 1990	3.600.000
SIDO	Industri Jamu dan Farmasi Sido	Dec. 18, 2013	30.000.000.000
SIL0	Siloam International Hospitals	September 12, 2013	13.006.125.000
SRAJ	Sejahteraraya Anugrahjaya Tbk.	April 11, 2011	12.000.705.445
TSPC	Tempo Scan Pacific Tbk. 5	June 17, 1994	4.509.864.300
PRDA	Prodia Widyahusada Tbk.	Dec. 07, 2016	937.500.000
HEAL	Medikaloka Hermina Tbk.	May. 16, 2018	14.956.054.669
PEHA	Phapros Tbk.	December 26, 2018	840.000.000
CARE	Metro Healthcare Indonesia Tbk	March 13, 2020	33.250.000.000
IRRA	Itama Ranoraya Tbk.	October 15, 2019	1.600.000.000
MERK	Merck Tbk.	Jul. 23, 1981	448.000.000
PRIM	Royal Prima Tbk.	May.15, 2018	3.393.434.905
PYFA	Pyridam Farma Tbk	Oct. 16, 2001	535.080.000
SAME	Sarana Meditama Metropolitan Tbk	Jan. 11, 2013	17.129.632.545

### **Business Issue**

According to Kusnandar (2022), for the health services and social activities sector in Indonesia, Gross Domestic Product (GDP) reached IDR. 226.97 trillion in 2021 (Figure 2). This value had a 1.34% portion of the total National GDP at IDR 16.97 quadrillion. Compared to the previous year, the health services and social activity sector also developed by 10.46% to IDR 157.51 trillion in 2021 (Figure 3). However, the growth was lower than the observation in 2020 at 11.56%. For the health services sector, the growth exceeded the National GDP rate of 3.69% in 2021, becoming the largest subdivision in the country. Similar to the increase in this sector, the chemical, pharmaceutical, and traditional industries also experienced a development level of approximately 9.6% in 2021 (Figure 4).

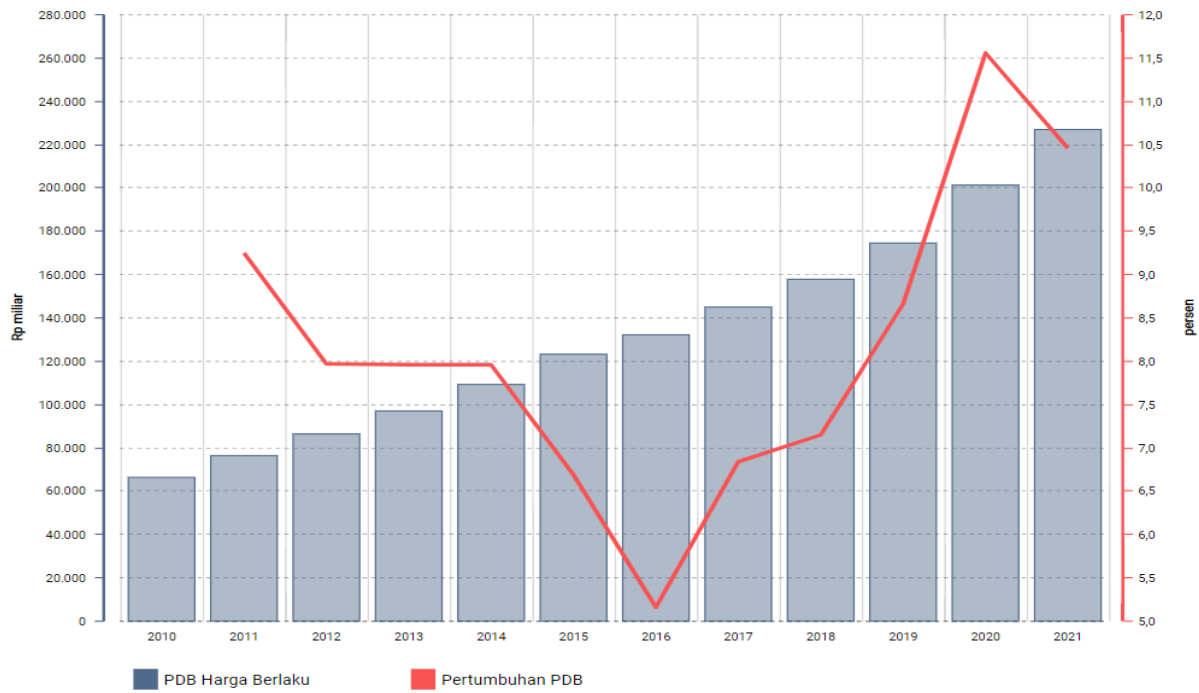


Figure 2. GDP of the Health Services and Social Activities Sector

Source: Kusnandar, 2022 (<https://databoks.katadata.co.id/datapublish/2022/02/24/sektor-jasa-kesehatan-dan-kegiatan-sosial-tumbuh-1046-pada-2021>)

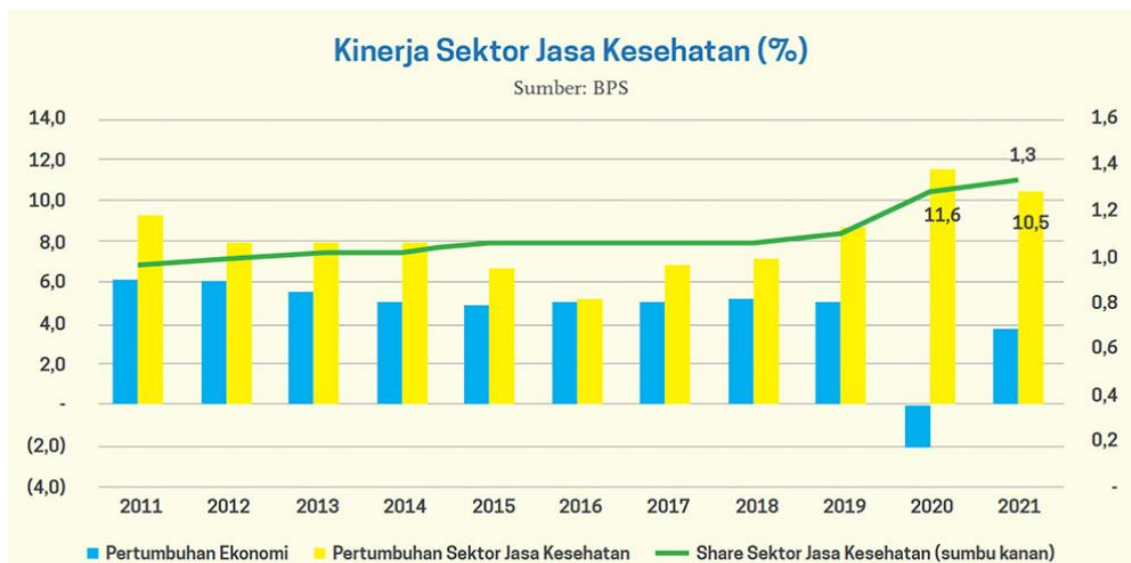


Figure 3. Performance of Health Services 2011-2021

Source: BPS processed by Catania. id



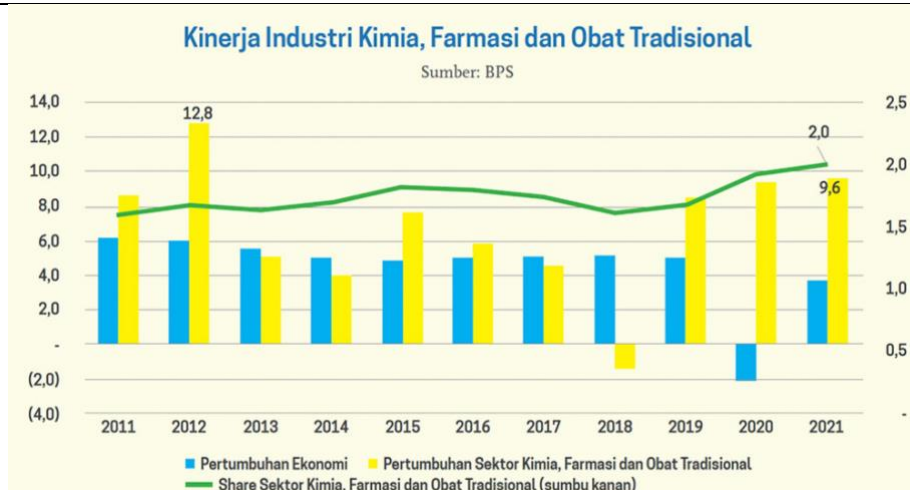


Figure 4. Performance of the Chemical, Pharmaceutical, and Traditional Medicine Industry 2011-2021  
Source: BPS processed by Catania. id

According to the Central Bureau of Statistics, an increase is expected in the Indonesian population from 271-294 million people from 2020 to 2030, respectively. This triggers a surge in health care needs and is predicted to increase profits. Company profits are also expected to provide welfare to shareholders or investors. However, taxes will reduce profit. This leads to minimizing tax burdens within the limits of not violating tariff regulations. From this context, stronger investigations are carried out against the implementation of debt and equity ratios in thin capitalization practices for tax avoidance.

Based on the background above, this study aims to carry out the following objectives as follow:

1. To determine whether Thin Capitalization has a significant effect on relationship toward Tax Avoidance in healthcare companies listed in Indonesia Stock Exchange (IDX) 2016 – 2021.
2. To determine whether Profitability has a significant effect on Tax Avoidance in healthcare companies listed in Indonesia Stock Exchange (IDX) 2016 – 2021.
3. To determine whether Company Size has a significant effect on Tax Avoidance in healthcare companies listed in Indonesia Stock Exchange (IDX) 2016 – 2021.
4. To determine whether Thin Capitalization, Profitability, and Company Size, simultaneously, have a significant effect on Tax Avoidance in healthcare companies listed in Indonesia Stock Exchange (IDX) 2016 – 2021, simultaneously.

## METHODS

The type of data used in this study is called secondary data. Secondary data is data that already exists and does not need to be collected by researchers themselves (Sekaran & Bougie, 2017b). The secondary data in this study is an audited financial statement of healthcare companies listed in the Indonesian Stock Exchange (IDX) for the period 2016-2021. The companies that were taken as samples in this study are as follows:

**Table 4.** List of Healthcare Companies period 2016-2021

Code	Company Name	Listing Date
DVLA	Darya-Varia Laboratoria Tbk.	Nov 11 <sup>th</sup> ,1994
INFO	Indofarma Tbk.	Apr 17 <sup>th</sup> , 2001
KAEF	Kimia Farma Tbk.	Jul 04 <sup>th</sup> , 2001
KLBF	Kalbe Farma Tbk.	Jul 30 <sup>th</sup> , 1991
MERK	Merck Tbk.	Jul 23 <sup>th</sup> , 1981
MIKA	Mitra Keluarga Karyasehat Tbk.	Mar 24 <sup>th</sup> , 2015
PYFA	Pyridam Farma Tbk	Oct 16 <sup>th</sup> , 2001

Code	Company Name	Listing Date
SAME	Sarana Meditama Metropolitan T	Jan 11 <sup>th</sup> , 2013
SCOPE	Organon Pharma Indonesia Tbk.	Jun 08 <sup>th</sup> , 1990
SIDO	Industri Jamu dan Farmasi Sido	Dec 18 <sup>th</sup> , 2013
SIL0	Siloam International Hospitals	Sep 12 <sup>th</sup> , 2013
SRAJ	Sejahteraraya Anugrahjaya Tbk.	Apr 11 <sup>th</sup> , 2011
TSPC	Tempo Scan Pacific Tbk.	May 24 <sup>th</sup> , 1994
PRDA	Prodia Widyahusada Tbk.	Dec 07 <sup>th</sup> , 2016
PRIM	Royal Prima Tbk.	May 15 <sup>th</sup> , 2018
HEAL	Medikaloka Hermina Tbk.	May 16 <sup>th</sup> , 2018
PEHA	Phapros Tbk.	Dec 26 <sup>th</sup> , 2018
IRRA	Itama Ranoraya Tbk.	Oct 15 <sup>th</sup> , 2019
CARE	Metro Healthcare Indonesia Tbk	Mar 13 <sup>th</sup> , 2020
SOHO	Soho Global Health Tbk.	Sep 08 <sup>th</sup> , 2020

Source: <http://www.idx.co.id/>

Population refers to the entire group of people, events, or interesting things that researchers want to investigate (Sekaran & Bougie, 2017a). The population in this study is audited financial statements of healthcare companies listed in IDX period 2016-2021. The sample is part of the population. The sample consists of a number of members selected from the population (Sekaran & Bougie, 2017). The sample in this study is listed as healthcare companies in the IDX period 2016-2021. This is because, in 2015, the Minister of Finance issued the reforms listed in PMK No. 169/PMK.010/2015, which came into effect in the 2016 Fiscal Year. The sample companies are companies that, during the observation period, met the following requirements: Healthcare Companies listed in the Indonesian Stock Exchange (IDX) period 2016-2021. Companies that publish audited financial statements of listed healthcare companies in the IDX period 2016-2021 are expressed in Rupiah. The reason why the researcher chose the Rupiah currency is to avoid inaccurate calculations due to exchange rate fluctuations. This will impact the gap between historical cost value and the value when the financial statements are published. Companies that have positive income before tax in their audited financial statement during 2016-2021.

Data analysis techniques in this study used event study techniques, data normality tests, and paired samples t-tests. Jogiyanto (2015) states that an event study is a study that studies market reactions to an event whose information is published as an announcement. The event study has the following stages: (1) Collecting a sample of companies in the healthcare sector; (2) Determine the observation period (event period), namely, 2016-2021; (3) Determine the variables used, namely tax avoidance, thin Capitalization, profitability, and company size; (4) Conduct descriptive statistical tests; (5) Doing hypothesis testing.

## A. Hypotheses Test

### 1. Overall Hypotheses Testing (F-test)

According to (Ghozali, 2016), the F-test determines the significant effect of independent variables on a dependent variable. The purpose of testing the F value is to measure the feasibility of the model by comparing the considerable level of F with  $\alpha$ . The hypotheses are: 1)  $H_0$ : There is no significant effect of Thin Capitalization ( $X_1$ ), Profitability ( $X_2$ ), and Company Size ( $X_3$ ) simultaneously on Tax Avoidance (Y); and 2)  $H_a$ : There is a significant effect of Thin Capitalization ( $X_1$ ), Profitability ( $X_2$ ), and Company Size ( $X_3$ ) simultaneously on Tax Avoidance (Y).

According to Ghozali (2018), the criteria used to determine whether there is a significant effect is by comparing the probability value with the alpha ( $\alpha$ ) value as follows: (1) If the significance probability value is  $\leq 5\%$ , then  $H_a$  is accepted; (2) If the significance probability value is  $> 5\%$ , then  $H_a$  is rejected.

With  $\alpha = 5\%$ , the formula can be seen as follows:

$$F = \frac{R^2(n-k-1)}{k(1-R^2)}$$



The tabulated  $F = F_{\alpha; (df1, df2)}$  ;  $df1 = k$ ,  $df2 = n-k-1$

Test Criteria: 1) Accept  $H_0$  if the  $F$  is less than the tabulated  $F$ ; or 2) Reject  $H_0$  if the  $F$  is greater than or equal to the tabulated  $F$

**2. Partial Hypotheses Testing (T-Test)**

According to Ghozali (2018), "the t-test determines the significant effect of each independent variable on a dependent variable."

- a)  $H_{01} : \beta_1 = 0$  Thin Capitalization ( $X_1$ ) does not have a significant effect on Tax Avoidance (Y).  
 $H_{a1} : \beta_1 \neq 0$  Thin Capitalization ( $X_1$ ) has a significant effect on Tax Avoidance (Y).
- b)  $H_{02} : \beta_2 = 0$  Profitability ( $X_2$ ) does not have a significant effect on Tax Avoidance (Y).  
 $H_{a2} : \beta_2 \neq 0$  Profitability ( $X_2$ ) has a significant effect on Tax Avoidance (Y)
- c)  $H_{03} : \beta_3 = 0$  Company size ( $X_3$ ) does not have a significant effect on Tax Avoidance (Y).  
 $H_{a3} : \beta_3 \neq 0$  Company size ( $X_3$ ) has a significant effect on Tax Avoidance (Y).

The criteria used to determine whether there is a significant effect is by comparing the probability value with the alpha ( $\alpha$ ) value as follows: (1) If the significance probability value is  $\leq 5\%$ , then  $H_a$  is accepted; (2) If the significance probability value is  $> 5\%$ , then  $H_a$  is rejected.

**3. Coefficient of Determination**

According to Ghozali (2018), "The coefficient of determination (R-squared) measures the model's ability to explain variations in the dependent variable. The coefficient of determination value is between zero and one. A small  $R^2$  value means that the ability of the independent variables to explain the dependent variables is very limited. An R-squared value closer to one means that the independent variables provide almost all the information needed to predict the dependent variable."

**4. Multiple Linear Regression Analysis**

Hypotheses testing in this research use multiple regression. This analysis determines the effect of several independent variables (X) on the dependent variable (Y). The regression model in the research is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Where:

- Y = Tax Avoidance (Effective Tax Rate)
- $X_1$  = Thin Capitalization (Maximum Amount of Debt)
- $X_2$  = Profitability (Return on Assets)
- $X_3$  = Size
- a = Constanta
- $b_1, b_2, b_3$  = Regression Coefficients

**RESULTS**

**A. Business Analysis**

Based on the results of the data in this study, it is shown that not all healthcare companies incorporated in Indonesia use debt as a source of financing. On average, these companies have a DER of 70%. Hereafter, the study's variables are presented, and their descriptions are provided as follows:

**1. Tax Avoidance as proxied by Effective Tax Rate (ETR)**

To calculate the tax avoidance percentage, information about the current tax for the respective year and the net income is required. If the ETR is below 100%, it means that the current tax expense is less than income before tax (for example, DV). On the other hand, if the ETR is above 100%, it means that the current tax is higher than the income before tax (for example, INDO). Based on the table below, the lowest ETR is TEMPO, and the highest ETR is INDO.

**Table 5.** ETR of six companies 2016-2021

Year	DV	INDO	KALBE	KIMIA	TEMPO	PYRIDAM
2016	24%	2835%	24%	25%	25%	36%
2017	27%	210%	24%	8%	8%	31%
2018	26%	1404%	24%	29%	25%	30%

2019	28%	989%	24%	237%	23%	31%
2020	29%	144%	22%	66%	19%	24%
2021	32%	735%	22%	20%	18%	62%

Based on the analysis of the 36 samples in this study, one company (INDO) had a CETR percentage exceeding 100% every year from 2016 to 2021. This means that DV's tax avoidance is greater than that of INDO.

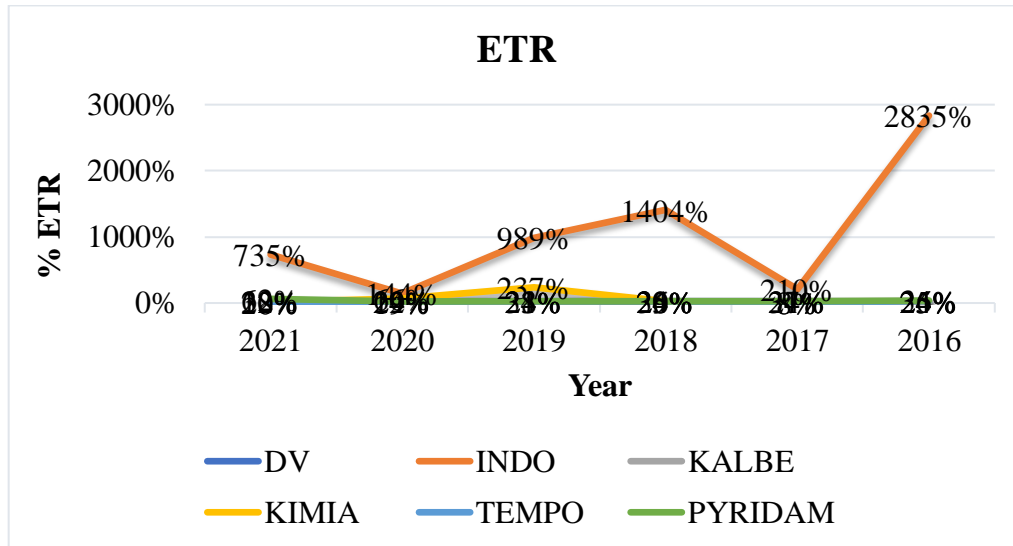


Figure 5. Tax Avoidance of Healthcare Companies

**2. Thin Capitalization is proxied by MAD.**

MAD = average debt / SHDA

SHDA = (average total assets - average non-debt) × 80%

To calculate the thin capitalization percentage, information about average debt, average total assets, and average non-debt are required. The higher the MAD, the more Capitalization there is. From 2016 to 2021, PYRIDAM showed a MAD of 70%, followed by KIMIA (66%). This means that PYRIDAM's Capitalization is more thin compared to KIMIA.

**Table 6.** MAD of six companies 2016-2021

Year	DV	INDO	KALBE	KIMIA	TEMPO	PYRIDAM
2016	0%	39%	4%	31%	4%	48%
2017	0%	57%	3%	102%	6%	75%
2018	0%	57%	3%	64%	9%	155%
2019	0%	64%	4%	67%	11%	19%
2020	0%	82%	7%	66%	12%	20%
2021	1%	70%	6%	65%	13%	106%

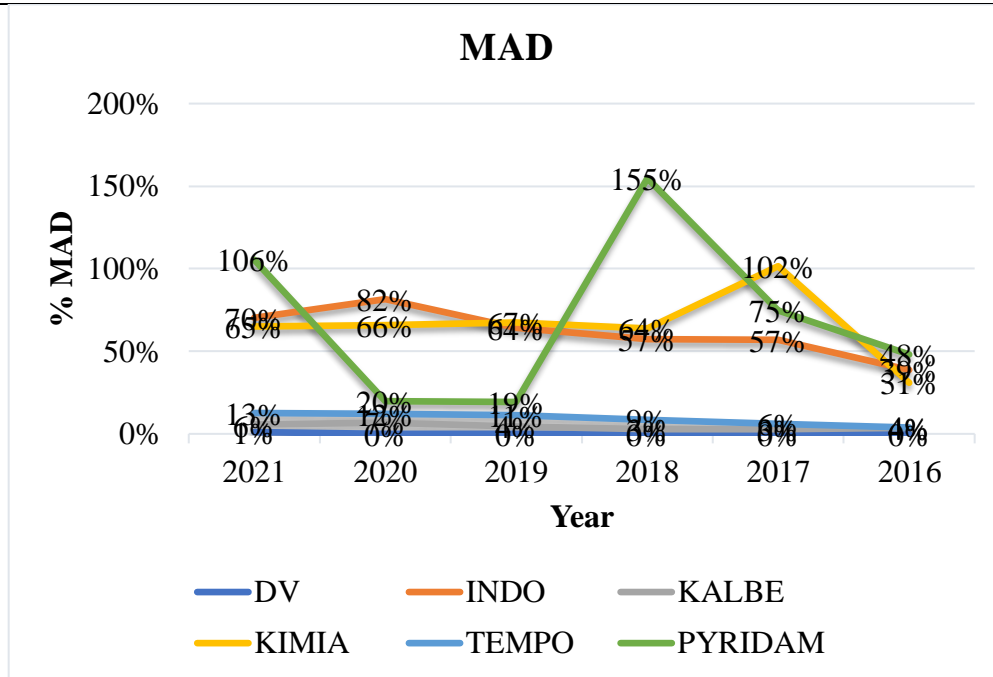


Figure 6. Thin Capitalization of Healthcare Companies

### 3. Profitability

Profitability in this research is represented by ROA (Return on Assets). Net income and total assets are required to calculate the ROA percentage. From 2016 to 2021, KALBE showed a high ROA percentage of 14%, followed by DV (10%) and TEMPO (8%) (see the table below).

**Table 7.** ROA of six companies 2016-2021

Year	DV	INDO	KALBE	KIMIA	TEMPO	PYRIDAM
2016	10%	-1%	16%	7%	8%	3%
2017	10%	-3%	15%	9%	8%	4%
2018	12%	-2%	14%	6%	7%	5%
2019	13%	1%	13%	0%	7%	5%
2020	8%	0%	13%	0%	10%	11%
2021	7%	-2%	13%	2%	9%	1%

The following graph illustrates the ROA of each company from 2016 to 2021.

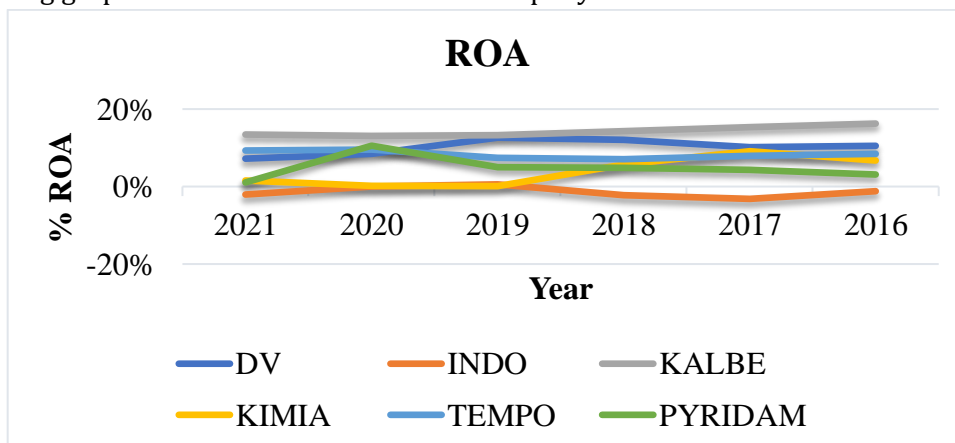


Figure 7. Profitability of Healthcare Companies

#### 4. Company Size

Company size reflects the size of a company, reflected by the total assets it possesses. From 2016 to 2021, KALBE (30.6) was the company with the largest assets, followed by TEMPO (29.72) and INDO (28.08).

**Table 8.** Company Size of six companies 2016-2021

Year	DV	INDO	KALBE	KIMIA	TEMPO	PYRIDAM
2016	21.15	27.95	30.35	22.25	29.52	25.84
2017	21.22	28.06	30.44	22.71	29.64	25.80
2018	21.24	28.00	30.53	23.15	29.69	25.95
2019	21.33	27.96	30.64	23.63	29.76	25.97
2020	21.41	28.17	30.75	23.59	29.84	26.16
2021	21.46	28.33	30.88	23.60	29.90	27.42

The following are the graphs illustrating the respective assets of each company from 2016 to 2021.

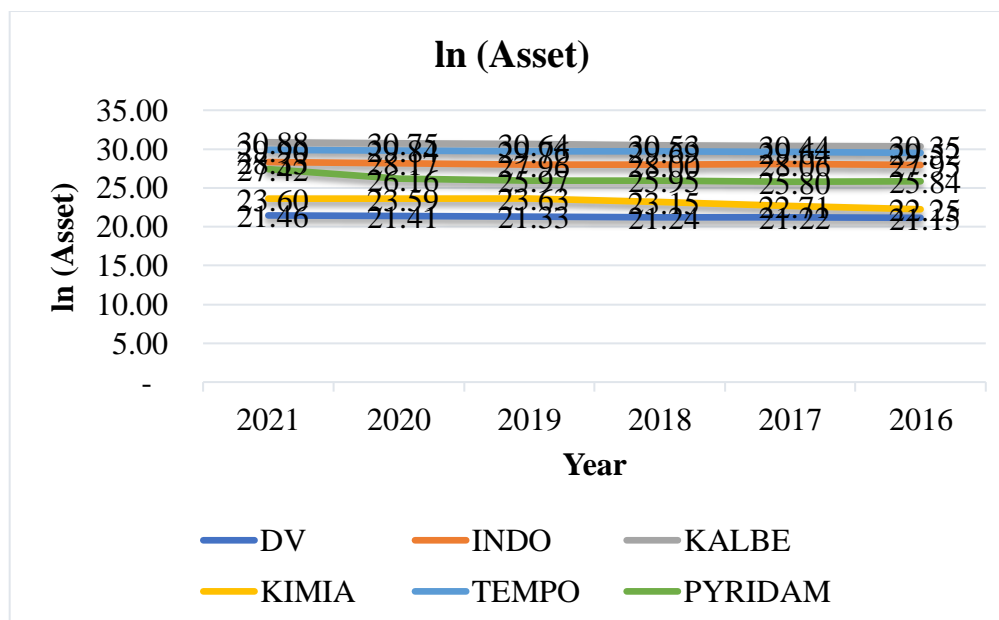


Figure 8. Company Size of Healthcare Companie

The following are the results of previous research related to the variables used in this study.

**Table 9.** Literature Review

No	Dependent Variable	Independent Variable	Result	Literature Review
1	Tax Avoidance	Thin capitalization rules	Thin capitalization rules have an effect in controlling the debt policy conducted by companies to avoid tax.	(Irawan, 2022)
2		Thin Capitalization, Return on Asset, and Corporate Governance	Thin Capitalization, ROA, and corporate governance affect tax avoidance levels.	(Ismi and Linda, 2016)
3		Transfer pricing, thin Capitalization, tax haven utilization	Transfer pricing affects tax avoidance, while thin Capitalization and tax haven utilization do not affect tax avoidance.	(Dharmawan, et.al, 2017)

4	Thin Capitalization, profitability, fixed asset intensity, firm size, and Debt to Equity Ratio	Thin Capitalization affects tax avoidance, while profitability, fixed asset intensity, firm size, and debt-to-equity ratio do not affect tax avoidance.	(Natalia and Widyadhana, 2021)
5	Thin Capitalization and profitability	Thin Capitalization does not affect tax avoidance, while profitability affects tax avoidance.	(Kurniawati, 2023)
6	Transfer pricing, thin Capitalization, Financial distress, earnings management, and capital intensity	Capital intensity does not affect tax avoidance, while thin Capitalization, transfer pricing, financial distress, earnings management, and sales growth affect tax avoidance.	(Nadhifah and Arif, 2020)

## B. Research Finding

### 1. Research Subject Description

In this research, six healthcare companies were used from 2016 to 2021. The following is a description of the research subjects:

**Table 10.** Criteria of research subjects

Criteria	Quantity
1 Healthcare Companies listed in the Indonesian Stock Exchange (IDX) period 2016-2021	6
2 Companies that publish audited financial statements of listed healthcare companies in the IDX period 2016-2021 are expressed in Rupiah.	(0)
3 Companies that have positive income before tax in their audited financial statement during 2016-2021	(0)
Total number of companies that meet the criteria	6
Number of years of research	6
Total number of companies meeting the criteria within the 3-year observation period	36
Outlier data	(0)
The number of samples used in the research.	36

### 2. Descriptive Analysis

Based on Ghozali (2018), descriptive statistics shows the picture or description of the data, which is demonstrated by mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness. Table 11 shows the result of descriptive analysis for variable tax avoidance, thin Capitalization, profitability, and company size. The total sample of this research is 36 samples in 6 listed companies in the Indonesian Stock Exchange (IDX) period 2016-2021.

**Table 11.** Descriptive Analysis

Variable	Mean	Std.Deviation	Max	Min
Tax Avoidance	204%	5.39	2835%	8%
Thin Capitalization	35%	0.39	155%	0%
Profitability	7%	0.05	16%	-3%
Company Size	2651%	3.43	3088%	2115%

### 3. Linear Regression Analysis

#### a. Normality Test

According to Ghozali (2018), there are two ways to determine whether the residual is normally distributed: by graphic analysis or statistical analysis. In this research, the normality test is done using the Kolmogorov-Smirnov Test. With the assistance of SPSS 26 software, the following results are obtained:

**Table 12.** Normality Test Result  
**One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		36
Normal Parameters <sup>b</sup>	Mean	.0000000
	Std. Deviation	1.05294092
Most Extreme Differences	Absolute	.204
	Positive	.204
	Negative	-.120
Test Statistic		.204
Asymp. Sig. (2-tailed)		.001 <sup>c</sup>
Exact Sig. (2-tailed)		.087
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Based on Table 12, the normality test for 36 samples shows Exact. Sig. (2-tailed) 0,087, which is greater than 0,05. This means that the data is normally distributed.

#### b. Multicollinearity Test

In this research, the method to detect multicollinearity in the regression model is based on the number of Tolerance and Variance Inflation Factors (VIF) of each independent variable. If tolerance > 0,1 and VIF < 10, this means there is no multicollinearity. The results obtained using SPSS 26 software are as follows:

**Table 13. Multicollinearity Test Result**

Coefficients			
Model		Collinearity Statistics	
		Tolerance	VIF
1	THIN CAPITALIZATION	.541	1.847
	PROFITABILITY	.785	1.273
	COMPANY SIZE	.644	1.552
a. Dependent Variable: TAX AVOIDANCE			

Table 13 shows that the number of tolerances for each variable is greater than 0.10, and the number of VIFs for each variable is less than 10. This result means that the data lacks multicollinearity.

#### c. Autocorrelation Test

The autocorrelation test is employed to determine the presence of any deviation from the classical assumption of autocorrelation, which refers to the correlation occurring between residuals in one observation and those in other observations within a regression model. The autocorrelation test is conducted using the Durbin-Watson statistical test, where the calculated Durbin-Watson value (DW) is compared with its critical values (dL and dU).

Criteria for concluding:

- 1) If  $DW < dL$  or  $DW > 4 - dL$ , autocorrelation is present.
- 2) If  $dU < DW < 4 - dU$ , there is no autocorrelation.
- 3) If  $dL \leq DW \leq dU$  or  $4 - dU \leq DW \leq 4 - dL$ , the Durbin-Watson test does not yield a definitive conclusion (inconclusive).

With a sample size of  $n = 36$ ,  $\alpha = 0.05$ , and the number of independent variables  $k = 2$ , the critical values are obtained as  $dL = 1.3537$  and  $dU = 1.5872$ .

The results of the autocorrelation test are presented in the following table:

**Table 14. Autocorrelation Test Result**

Model Summary	
Model	Durbin-Watson
1	1.761
b. Dependent Variable: TAX AVOIDANCE	



Based on the table above, the Durbin-Watson value obtained is 1.761. Since the DW value falls between  $dU (1.5872) < DW (1.946) < 4 - dU (2.4128)$ , it can be concluded that there is no autocorrelation.

**d. Heteroscedasticity Test**

The heteroscedasticity test aims to examine whether there is inequality in the variance of residuals across different observations within a regression model. If the variance of residuals remains constant from one observation to another, it is referred to as homoscedasticity. To test for the presence of heteroscedasticity, each independent variable is correlated with the absolute values of its corresponding residuals using Spearman's Rank correlation. If the significant amount is greater than 5%, that means there is no heteroscedasticity. The results obtained using SPSS 26 software are as follows:

**Table 15.** Heteroscedasticity Test Result

		<b>Correlations</b>	
		Unstandardized Residual	
Spearman's rho	THIN CAPITALIZATION	Correlation Coefficient	-.074
		Sig. (2-tailed)	.667
		N	36
	PROFITABILITY	Correlation Coefficient	.053
		Sig. (2-tailed)	.761
		N	36
	COMPANY SIZE	Correlation Coefficient	.255
		Sig. (2-tailed)	.134
		N	36

Table 15 shows that the p-value (Sig) for each variable is thin capitalization 0.667, profitability 0.761, and company size 0.134. The amount of each variable is greater than 5%, which indicates no heteroscedasticity in the regression model.

**4. Multiple Linear Regression Analysis**

To examine the effect of Thin Capitalization, Profitability, and Company Size on Tax Avoidance Intention (Y), multiple linear regression analysis is employed with the following equation:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Where:

Y = Tax Avoidance

X<sub>1</sub> = Thin Capitalization

X<sub>2</sub> = Profitability

X<sub>3</sub> = Company size

a = Constanta

b<sub>1</sub>, b<sub>2</sub>, b<sub>3</sub>, = Regression Coefficients

The results of multiple linear regression analysis using SPSS 26 software are presented in the following table:

**Table 16.** Multiple Linear Regression Analysis

		<b>Coefficients</b>				
Model		Unstandardized		Standardize	t	Sig.
		Coefficients		d		
		B	Std. Error	Beta		
1	(Constant)	-5.792	5.459		-1.061	.297
	THIN CAPITALIZATION	.557	.184	.549	3.021	.005
	PROFITABILITY	-.213	.117	-.276	-1.825	.077
	COMPANY SIZE	1.551	1.737	.149	.893	.379

a. Dependent Variable: TAX AVOIDANCE

Based on the calculations in the table above, the multiple linear regression equation can be obtained as follows:

$$Y = -5,792 + 0,557X_1 - 0,213X_2 + 1,551X_3$$

The regression coefficients of the independent variables depict that if the independent variable is estimated to increase by one unit while holding other independent variables constant or equal to zero, the dependent variable is calculated to either increase or decrease according to the sign of the regression coefficient of the independent variable. From the above equation, a constant value of -5.792 is obtained. This means that if the Tax Avoidance variable (Y) is not affected by its three independent variables, namely Thin Capitalization ( $X_1$ ), Profitability ( $X_2$ ), and Company Size ( $X_3$ ), with a value of zero, the average Tax Avoidance will be -5.792. The sign of the regression coefficient of an independent variable indicates the direction of the relationship between that variable and Tax Avoidance Intensity. The regression coefficient for the independent variable  $X_1$  has a positive value, indicating a positive relationship between Thin Capitalization ( $X_1$ ) and Tax Avoidance (Y). The regression coefficient for  $X_1$ , which is 0.557, implies that for every unit increase in Thin Capitalization ( $X_1$ ), Tax Avoidance (Y) is expected to increase by 0.557.

The regression coefficient for the independent variable  $X_2$  has a negative value, indicating a negative relationship between Profitability ( $X_2$ ) and Tax Avoidance (Y). The regression coefficient for  $X_2$ , which is -0.213, implies that for every unit increase in Profitability ( $X_2$ ), Tax Avoidance (Y) is expected to decrease by 0.213. The regression coefficient for the independent variable  $X_3$  has a positive value, indicating a positive relationship between Company size ( $X_3$ ) and Tax Avoidance (Y). The regression coefficient for  $X_3$ , which is 1.551, implies that for every unit increase in Company size ( $X_3$ ), Tax Avoidance (Y) is expected to increase by 1.551.

## 5. F-test

An F-test is used to determine the significance of the combined effect of independent variables on a dependent variable.

Ho: There is no significant effect of Thin Capitalization ( $X_1$ ), Profitability ( $X_2$ ), and Company size ( $X_3$ ) on Tax Avoidance (Y).

Ha: Thin Capitalization ( $X_1$ ), Profitability ( $X_2$ ), and Company size ( $X_3$ ) significantly effect Tax Avoidance (Y).

With  $\alpha = 5\%$ , the formula can be seen as follows:

The tabulated  $F = F_{\alpha} ; (df_1, df_2) ; df_1 = k, df_2 = n-k-1$

Test Criteria:

- Accept Ho if the F is less than the tabulated F
- Reject Ho if the F is greater than or equal to the tabulated F

The result of the F-test based on SPSS 26 is presented in the following table:

**Table 17.** F Test Result

F	df	F tabulated	Sig	Description	Conclusion
7,959	$\frac{df_1 = 3}{df_2 = 32}$	2,901	0,000	Reject Ho	Significant effect

From the table above, the obtained value of the F is 7.959. Since the F value (7.959) > the tabulated F value (2.901), Ho is rejected. Therefore, it can be concluded that there is a significant simultaneous effect of Thin Capitalization ( $X_1$ ), Profitability ( $X_2$ ), and Company size ( $X_3$ ) on Tax Avoidance (Y).

## 6. Partial Hypotheses Testing (T-Test)

A t-test is used to determine the significance of each independent variable on a dependent variable.

Ho<sub>1</sub>:  $\beta_1 = 0$  Thin Capitalization ( $X_1$ ) does not have a significant effect on Tax Avoidance (Y).

Ha<sub>1</sub>:  $\beta_1 \neq 0$  Thin Capitalization ( $X_1$ ) has a significant effect on Tax Avoidance (Y).

Ho<sub>2</sub>:  $\beta_2 = 0$  Profitability ( $X_2$ ) does not have a significant effect on Tax Avoidance (Y).

Ha<sub>2</sub>:  $\beta_2 \neq 0$  Profitability ( $X_2$ ) has a significant effect on Tax Avoidance (Y)

Ho<sub>3</sub>:  $\beta_3 = 0$  Company size ( $X_3$ ) does not have a significant effect on Tax Avoidance (Y).

Ha<sub>3</sub>:  $\beta_3 \neq 0$  Company size ( $X_3$ ) has a significant effect on Tax Avoidance (Y).

With  $\alpha = 5\%$ , the formula can be seen as follows:

$$t_{hit} = \frac{b}{Se(b)}$$

$$df = n - k - 1$$

Test Criteria:

- a. Accept  $H_0$  if  $-t \text{ table} \leq t \leq t \text{ table}$ .
- b. Reject  $H_0$  if the  $t < -t \text{ table}$  or calculated  $t > t \text{ table}$ .

The result of the t-test based on SPSS 26 is presented in the following table:

**Table 18.** t Test Result

Variable	t	df	t table	Sig	Description	Conclusion
X1	3,021			0,005	Reject $H_0$	Significant effect
X2	-1,825	32	2,037	0,077	Accept $H_0$	No significant effect
X3	0,893			0,379	Accept $H_0$	No significant effect

Based on the table above, it can be observed that:

1. Variable X1 has a t value greater than the t table value. Since the t value (3.021) > the tabulated t value (2.037),  $H_0$  is rejected. Therefore, there is a significant partial effect of Thin Capitalization (X1) on Tax Avoidance (Y).
2. Variable X2 has a t value greater than the -t table value. Since the t (-1.825) > the -t table (-2.037),  $H_0$  is accepted. Therefore, it can be concluded that there is no significant partial effect of Profitability (X2) on Tax Avoidance (Y).
3. Variable X3 has a calculated t value smaller than the tabulated t value. Since the computed t value (0.893) < the tabulated t value (2.037),  $H_0$  is accepted. Therefore, it can be concluded that there is no significant partial effect of Company Size (X3) on Tax Avoidance (Y).

### 7. Coefficient of Determination

The coefficient of determination can be used to see the magnitude of the effect of Thin Capitalization (X1), Profitability (X2), and Company size (X3) on Tax Avoidance (Y) from SPSS software output.

**Table 19.** Multiple Correlation Analysis

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654 <sup>a</sup>	.427	.374	1.10119
a. Predictors: (Constant), COMPANY SIZE, PROFITABILITY, THIN CAPITALIZATION				
b. Dependent Variable: TAX AVOIDANCE				

This means that Thin Capitalization (X1), Profitability (X2), and Company Size (X3) collectively account for 42.7% of the effect on Tax Avoidance (Y). The remaining 57.3% is attributed to other variables apart from Thin Capitalization (X1), Profitability (X2), and Company size (X3).

### B. Business Solution

The Summary of the Findings of this Research is as follows:

**Table 20.** Business Solution

Hypothesis	Result
H1 The Effect of Thin Capitalization on Tax Avoidance	<ol style="list-style-type: none"> <li>1. Thin Capitalization has a significant effect on Tax Avoidance.</li> <li>2. There is a strong and positive relationship, so as Thin Capitalization increases, Tax Avoidance also increases.</li> <li>3. Each unit increase in Thin Capitalization will result in an increase in Tax Avoidance by 0.557.</li> </ol>

H2	The Effect of Profitability on Tax Avoidance	<ol style="list-style-type: none"> <li>1. Profitability does not have a significant effect on Tax Avoidance.</li> <li>2. There is a non-linear relationship between Profitability and Tax Avoidance; whereas Profitability increases, Tax Avoidance decreases.</li> <li>3. Each unit increase in Profitability (X2) will result in a decrease in Tax Avoidance (Y) by 0.213.</li> </ol>
H3	The Impact of Company Size on Tax Avoidance	<ol style="list-style-type: none"> <li>1. Company Size does not have a significant effect on Tax Avoidance.</li> <li>2. There is a positive correlation between Company Size and Tax Avoidance; when Company Size increases, Tax Avoidance increases.</li> <li>3. Each unit increase in Company size will result in an increase in Tax Avoidance by 1.551.</li> </ol>
H4	The Effect of Thin Capitalization, Profitability, and Company Size on Tax Avoidance	<ol style="list-style-type: none"> <li>1. Thin Capitalization, Profitability, and Company size simultaneously have an impact on Tax Avoidance.</li> <li>2. There is a strong relationship between Thin Capitalization, Profitability, and Company size with Tax Avoidance.</li> <li>3. Thin Capitalization, Profitability, and Company size collectively exert a 42.7% effect on Tax Avoidance.</li> </ol>

### C. The implementation of Business

From the obtained results, thin Capitalization has a significant effect on tax avoidance. Instead, the control variables of profitability and company size do not exert any significant effect on tax avoidance practices. This implies that the companies assume that thin Capitalization can reduce taxable income due to reduced earnings caused by high-interest expenses. This is consistent with the strategy articulated by Pohan (2016), which advocates legal tax avoidance practices. Furthermore, (Natasha & Hutagaol, 2009) (Rahmawati et al., 2020) also asserted that tax avoidance practices commonly undertaken by companies are often achieved through thin Capitalization.

### CONCLUSION

This research aims to determine the effect of thin Capitalization, profitability, and company size on tax avoidance. The population in the study is healthcare companies registered on the IDX period 2016-2021, and a sample of 6 companies was obtained using a purposive sampling technique. Based on the collected data and the results using SPSS 26 with the multiple regression analysis method, the conclusions are as follows: Thin Capitalization has a significant effect on tax avoidance which is consistent with the research conducted by Natalia and Widyadhana (2021), Nadhifah and Arif (2020), Andawiyah et al. (2019), Prastiwi, D & Ratnasari, R. (2019), and Ismi and Linda (2016). Profitability does not have a significant effect on tax avoidance. The result is consistent with the research conducted by Natalia and Widyadhana (2021). The result is different from those (Anggraeni & Oktaviani 2021). Company size does not have a significant effect on tax avoidance. The result is consistent with research conducted by Natalia and Widyadhana (2021). The result is different from Anggraeni, T., and Oktaviani, R. M. (2021). The sample in this study is confined to healthcare companies listed on the Indonesian Stock Exchange (BEI), thus limiting the generalizability of the research outcomes to other types of businesses. Subsequent research is expected to explore alternative samples with a broader scope of companies, allowing for the generalization of findings across all industry types.

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International Journal of Social Service and Research (IJSSR)

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