

The Influence of Foreign Ownership, Company Size, Profitability, and Thin Capitalization on Tax Avoidance

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ABSTRACT

This study was conducted with the aim of understanding the influence of foreign ownership, company size, profitability, and thin capitalization on tax avoidance in excise companies (cigarettes and liquors) listed on the Indonesia Stock Exchange (IDX) in the period of 2016-2020, with the total of 7 companies consisting of 5 cigarette companies and 2 liquor companies used as samples. This study was a quantitative descriptive study with the type of secondary data used was in the form of company annual reports. The data analysis technique used multiple regression analysis. The results of this study indicate that foreign ownership, company size, and thin capitalization have no effect on tax avoidance. On the other hand, profitability has an effect on tax avoidance.

Keywords: company size; foreign ownership; profitability; tax avoidance; thin capitalization.

INTRODUCTION

The increase of economy in a country is inseparable from the contribution of taxes. Apart from its citizens themselves, taxes are also obtained from companies operating in a particular country. The tax contributions from these companies are quite significant in value. Taxes obtained from these companies are very influential for the country's economic development. Moreover, companies operating in the excise sectors contribute abundant tax in the form of excise for the country. According to the Minister of Finance of Indonesia (2014), excise is the third largest revenue for the country after taxes and oil and gas revenue. Therefore, with the maximum contribution of excise from companies in this sector, the country revenue can also be maximized. However, unfortunately, not a few of the companies in Indonesia do not make their mandatory contributions to the country completely. Many of them perform practices and strategies in such a way as to avoid taxes in order to reduce the mandatory contributions that must be submitted to the country. Certainly, this is very detrimental to the country, and as a result, the country's economic growth is not optimal and maximal.

Excise companies including cigarette and liquor companies pay excise tax which is generally is greater than common tax paid by other companies outside excise companies. According to Fatharani dan Ariyani (2022) the cigarette industry is certainly still a dilemma which has negative aspects because it has a bad effect on public health, but the positive aspect is that it has a fairly large contribution to the development of the economic in Indonesia. Likewise, the liquor industry has a negative impact on public health and a positive impact on the country's economy. The cigarette sub-sector industry is an industry that is very much in demand by investors, both domestic and foreign investors (Sari *et al.*, 2019). Of course, this company must make various efforts to maximize the goals of the company itself by managing and optimizing the resources it has. Various efforts are made to realize the goals of the company. One

way that might be done is tax avoidance in order to reduce the tax burden that must be paid and achieve maximum profit.

The Tax Justice Network (2019) has reported that tobacco companies owned by British American Tobacco (BAT) have conducted tax avoidance in Indonesia through PT Bentoel Internasional Investama. The impact of losses suffered by Indonesia is USD 14 million per year. Unmitigatedly, such fantastic amount of money should have been used for the development of the country. BAT has diverted its income out of Indonesia through 2 (two) roads. The first is through intra-company loans in the period of 2013 and 2015. The second is through repayment to the UK for royalties, fees, and services (Tax Justice Network, 2019).

According to news written by Prima (2019), Bentoel has made several loans from the Rothmans Far East BV company in the Netherlands between 2013 and 2015 to be used as bank debt costs as well as paying for machinery and equipment costs. The amount of loans given amounted to IDR 5.3 trillion in August 2013 and IDR 6.7 trillion in 2015.

This Dutch company account shows that the funds submitted to Bentoel are funds from other companies in the UK that are still in one BAT group, namely Pathway 4 (Jersey) Limited. BAT borrowed funds from Jersey through the Rothmans Far East BV company in the Netherlands to avoid tax deductions for interest payments to non-residents. Basically, Indonesia applies a tariff of 20% on the tax withholding. However, in this case the tax will be 0% because Indonesia has made an agreement with the Netherlands. If you borrow directly from a company in the UK that does not have an agreement between countries such as Indonesia and the Netherlands, you will be charged a tax rate on interest of 10%. Although finally in October 2017, Indonesia and the Netherlands revised their agreement by allowing Indonesia to charge a tax rate of 5%, which means that Bentoel has completed all previous debt interest transactions (Prima, 2019).

The second strategy used is to make a repayment to the UK for royalties, fees, and services. From this second method, according to the Tax Justice Network Institution (2019), the lost revenue from Indonesia reaches USD 2.7 million per year with a royalty tax breakdown of USD 1 million per year, corporate tax of USD 1.3 million per year, and IT fee tax of USD 0.4 million per year (Prima, 2019). Some examples of companies that carry out tax planning are PT Toyota Motor Manufacturing Indonesia which is considered by the DGT to perform transfer pricing as a form of tax avoidance through the sale of goods outside of fair prices and business practices to its affiliated companies in Singapore, which is a Tax Haven country (Rahmat, 2021). In addition, there is also PT Adaro which conducts tax avoidance through a subsidiary in Singapore, Coaltrade Services International so that PT Adaro Energy Tbk. can pay USD 125 million less tax than what should be paid in Indonesia. With this practice, the Indonesian government lost USD 14 million per year from 2009 to 2017 (Rachmadianti *et al.*, 2021).

In fact, there are factors that make these companies perform tax avoidance. Tax planning and company size are considered to affect earnings management. Thus, this earnings management is related to tax planning. Companies will use various types of earnings management to achieve their desired targets, even by embezzling or manipulating corporate taxes. In the results of their research, Putri and Mulyani (2020), concludes that foreign ownership has a positive effect on tax avoidance. Investors inject their funds into a company in the hope of getting rewards from the company in accordance with what investors expect, therefore in companies with large levels of foreign ownership, the role of foreign policy in determining the attitude of tax dependents will also be large (Muhajirin *et al.*, 2021). Likewise with the size of the company, the larger the size of the company, the greater the impact on the public interest of a company compared to smaller companies. Company size is known to have a significant negative

effect on earnings management. Research from Mailia and Apollo (2020) states that company size has a significant effect on tax avoidance.

In addition to the two factors above, there are also profitability and thin capitalization factors that are considered to affect tax avoidance carried out by a company. According to Hidayat (2018), profitability is the company's ability to generate profits. Companies that generate high profits tend to submit their financial statements right away compared to companies that suffer losses. Chan *et al.*, (quoted by Kuswoyo, 2021, p. 3), revealed that in an effort to maintain a large profit, tax planning is needed by a company to minimize the tax burden on the company. Olivia and Dwimulyani (2019) argue that thin capitalization is an effort to avoid taxes by making debt the main source of funding in a company compared to capital. By increasing debt, the tax burden paid by a company will decrease, therefore some companies use such methods to reduce their tax burden (Gouwvara, 2023).

The theory used in this study is agency theory type 1. Jensen and Meckling (1976) define agency theory as a contractual relationship between one or more people who are referred to as principals and others who are referred to as agents. This type 1 agency theory explains the conflict relationship between principal and agent where the principal in this case is the government that carries out its duties as a tax collector and the company itself as an agent that has an obligation to pay taxes to the government in accordance with applicable regulations. The conflict that occurs is an indication from the company to minimize or avoid taxes that should be paid to the government as the tax collector.

According to the background explanation above, the author plans to conduct research on cigarette and liquor industry companies listed on the IDX under the title "The Influence of Foreign Ownership, Company Size, Profitability, and Thin Capitalization on Tax Avoidance (Case Study on Cigarette and Liquor Companies Listed on the IDX)". In this study, the author aims to find out how much the influences of foreign ownership, company size, profitability, and thin capitalization have on tax avoidance effort by researching cigarette and liquor companies listed on the IDX.

The Influence of Foreign Ownership on Tax Avoidance Performed by Companies

Foreign Ownership is the number of company shares owned by foreign investors or financiers (Richardson et.al, 2013). Companies with high foreign ownership indicate a stronger influence of foreign investors in corporate decision-making processes (Richardson et.al, 2013). Salihu et al. (as cited in Hidayat & Mulda, 2019) argue that the higher the level of foreign shareholding, the greater the tendency of firms to engage in tax avoidance, as foreign shareholders may prioritize profit maximization through aggressive tax planning. Similarly, Masahiro and Kanda (as cited in Shi et al., 2020) emphasize that foreign involvement can elevate the complexity of financial structures and increase the potential for tax avoidance behavior. In line with this, Herlanda et al. (2021) suggest that substantial foreign ownership may create opportunities for tax evasion driven by shareholder interests.

To empirically test these theoretical perspectives, prior studies have yielded varied findings. Suranta et al. (2019) reported a positive association between foreign ownership and tax avoidance, indicating that foreign shareholders may exert pressure to minimize tax burdens. Similarly, Ikraam and Ariyanto (2020) found that foreign ownership, in conjunction with capital intensity, significantly influences tax avoidance strategies. In an international context, Richardson et al. (2013) and Lanis & Richardson (2012) found that foreign-owned firms often exhibit higher levels of tax aggressiveness, particularly in jurisdictions with weak regulatory oversight. Informed by this literature, this study formulates the following hypothesis:
H₁: Foreign ownership has a positive and significant influence on tax avoidance.

This hypothesis reflects the assumption that foreign shareholders, due to their profit-oriented nature and familiarity with complex tax planning techniques, are more likely to support or enable strategies that reduce corporate tax liabilities.

The Influence of Company Size on Tax Avoidance Performed by Companies

Company size refers to the scale of a firm's operations, which can be proxied by total assets, total revenue, or market capitalization (Agustia & Suryani, 2018). Larger firms generally possess more complex organizational structures, diversified operations, and more extensive financial resources, enabling them to implement tax planning strategies more effectively (Mudjijah, Khalid, & Astuti, 2019). Moreover, the increased complexity of transactions in large corporations may create greater opportunities for tax avoidance, as these firms are more capable of managing and shifting taxable income across jurisdictions (Aulia & Mahpudin, 2020).

Recent international studies reinforce this perspective. Zhang et al. (2021) found that firm size is positively associated with tax avoidance, particularly in firms operating in jurisdictions with weak enforcement and high regulatory arbitrage opportunities. Similarly, Mulyani, An, and Kim (2023) concluded that larger firms tend to engage more actively in tax planning practices due to access to specialized tax consultants and internal resources. Li, Tang, and Wang (2022) also demonstrated that company size moderates the relationship between corporate governance quality and tax avoidance, where larger firms are more likely to exploit complexity to minimize tax burdens.

In the Indonesian context, Handayani (2018) and Marlinda et al. (2020) provide empirical evidence that firm size significantly influences corporate tax avoidance behavior. Based on the above theoretical and empirical insights, the following hypothesis is proposed:

H₂: Company size has a positive and significant on tax avoidance.

This hypothesis is grounded in the view that larger firms, by virtue of their scale and resources, have greater motivation and ability to engage in aggressive tax planning activities.

The Influence of Profitability on Tax Avoidance Performed by Companies

Profitability refers to a company's ability to generate earnings from its operational activities, and it serves as a key indicator of financial performance (Trivedi, as cited in Gyarteng, 2021). One of the most commonly used proxies to measure profitability is the Return on Assets (ROA), which reflects how efficiently a company utilizes its assets to generate profits (Hidayat, 2018). Profitability has been widely linked to tax behavior, where firms with higher profits may have greater incentives and opportunities to engage in tax avoidance, though the direction of this relationship can vary depending on managerial objectives and reputational considerations.

Rosalia (as cited in Budianti & Curry, 2018) suggests that profitability is a determinant of tax avoidance practices, with the argument that more profitable firms may be more likely to comply with tax obligations due to higher visibility and potential reputational costs. Conversely, firms with lower profits may be more inclined to aggressively minimize their tax burdens to improve short-term financial outcomes. Empirical evidence provides mixed but insightful findings. Hidayat (2018) finds that profitability has a negative and significant effect on tax avoidance, implying that more profitable firms are less likely to engage in tax aggressiveness. Budianti and Curry (2018) also report that profitability, measured through ROA, significantly influences corporate tax avoidance.

These findings are echoed in international research. Lanis and Richardson (2012) argue that profitability may reduce the likelihood of tax avoidance due to reputational and regulatory scrutiny. However, Taylor and Richardson (2014) demonstrate that, in some contexts, highly profitable firms also possess more resources and motivation to exploit tax planning opportunities. More recently, Aliani and Zarai (2021) found that in emerging economies, firms with high profitability are more inclined to avoid taxes to retain earnings for reinvestment or shareholder returns. Based on these theoretical and empirical considerations, the following hypothesis is proposed:

H₃: Profitability has a significant influence on corporate tax avoidance.

This hypothesis reflects the notion that a firm's financial performance can shape its strategic orientation toward taxation, whether for compliance or minimization purposes, depending on contextual factors such as stakeholder pressure, regulatory environment, and firm visibility.

The Influence of Thin Capitalization on Tax Avoidance Performed by Companies

Thin capitalization refers to a tax avoidance strategy whereby companies finance their operations primarily through debt rather than equity, allowing them to deduct interest payments from taxable income (Olivia & Dwimulyani, 2019). This approach is commonly used by multinational enterprises (MNEs) to exploit differences in international tax rates by shifting profits from high-tax jurisdictions to low-tax or tax haven countries, where related-party loans are structured to generate interest deductions in the former and passive income in the latter (Prastiwi & Ratnasari, 2019). The higher the debt-to-equity ratio, the greater the interest expense incurred, leading to a reduction in accounting profits and, consequently, a lower taxable income (Olivia & Dwimulyani, 2019). This practice is particularly prevalent in cross-border intra-group financing arrangements, where parent companies or affiliates extend intercompany loans as a mechanism to erode the tax base in jurisdictions with stricter tax regimes.

Empirical studies support the significance of thin capitalization in explaining tax avoidance. Andawiyah et al. (2019) found that firms with higher levels of debt financing tend to engage more in tax avoidance strategies. Similarly, Darma (2019) reported that thin capitalization has a significant positive effect on corporate tax avoidance, indicating its role as an effective tool for minimizing tax liabilities.

International evidence further supports these findings. Buettner et al. (2012), in a study across European firms, found strong evidence that multinational firms use intra-group debt strategically to shift profits and reduce overall tax burdens. Lai and Li (2020) examined firms in the Asia-Pacific region and revealed that thinly capitalized firms show significantly higher levels of tax aggressiveness. In emerging markets, Fuest et al. (2021) highlighted that thin capitalization practices are particularly prevalent in firms operating under weak tax enforcement environments. Based on these theoretical foundations and empirical results, the following hypothesis is proposed:

H₄: Thin capitalization has a significant influence on corporate tax avoidance.

This hypothesis posits that firms relying heavily on debt financing—especially intercompany loans—are more likely to engage in tax avoidance by exploiting interest deductibility rules, particularly within multinational structures.

METHOD, DATA, AND ANALYSIS

This study applied a quantitative descriptive study with the aim of determining the influence of foreign ownership, company size, profitability, and thin capitalization on tax avoidance in cigarette and

liquor sub-sector companies listed on IDX in the period of 2016-2020 which was intended to provide data that were factual, systematic, and in accordance with the results of the research conducted with the aim of testing the hypotheses that had been made.

The population in this study were all cigarette and liquor sub-sector companies that had been listed on the Indonesia Stock Exchange (IDX) in the period of 2016-2020. The sampling criteria were as follows, cigarette and liquor sub-sector companies listed on the IDX in 2016-2020; had an annual financial report in 2016-2020; experienced no loss in 2016-2020; and had shares owned by foreign parties. The total population and sample of this study were 7 (seven) companies consisting of 5 (five) cigarette industry companies and 2 (two) liquor industry companies.

Table 1. List of Samples

No.	Stock Code	Issuer Name	IPO Date
1	GGRM	Gudang Garam, Tbk	27 August 1990
2	HMSP	Hanjaya Mandala Sampoerna, Tbk	15 August 1990
3	ITIC	Indonesian Tobacco, Tbk	4 July 2019
4	RMBA	Bentoel International Investama, Tbk	5 March 1990
5	WIIM	Wismilak Inti Makmur, Tbk	18 December 2012
6	DLTA	Delta Djakarta, Tbk	27 February 1984
7	MLBI	Multi Bintang Indonesia, Tbk	15 December 1981

This research uses secondary data. The secondary data are in the form of secondary data with external data types which are compiled by other parties concerned other than the researcher. This secondary data used was in the form of annual financial statements of cigarette and liquor companies listed on the Indonesia Stock Exchange (IDX), namely www.idx.co.id, as well as information from the official websites of related companies. Data collection was carried out via the internet.

The variables in this study were divided into two, namely the independent variable and the dependent variable. The independent variables in this study were foreign ownership, company size, profitability, and thin capitalization. Meanwhile, the dependent variable was tax avoidance performed by cigarette and liquor sub-sector companies listed on the IDX in the period of 2016-2020.

Tax avoidance is a process for controlling actions intended to avoid undesirable taxation (Handayani, 2018). Tax avoidance uses tax provisions optimally so that this method can be said to be a non-illegal deduction business. The measurement of tax avoidance is carried out using the Cash Effective Tax Rate (CETR) where the amount of cash spent to pay taxes is compared to pre-tax income (Budianti & Curry, 2018).

$$\text{CETR} = \frac{\text{Tax Payment}}{\text{Income Before Tax}}$$

Foreign ownership is the number of shares of the company owned by foreign investors or financiers (Putri & Mulyani, 2020).

$$\text{Foreign Ownership} = \frac{\text{Number of Shares Owned by Foreign Investors}}{\text{Number of Outstanding Shares}}$$

Company size indicates the size of a company. The size of the company can be shown through total assets, number of sales, and market capitalization (Agustia & Suryani, 2018).

Company Size = Natural Logarithm of Total Asset

The profitability of a company can be seen from the Return on Assets (ROA) ratio (Hidayat W. W., 2018).

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}}$$

Thin capitalization is a way of tax avoidance performed by making debt the dominant source of funding compared to existing capital and equity funding (Olivia & Dwimulyani, 2019).

$$\text{Thin Capitalization} = \frac{\text{Debt}}{\text{Capital}}$$

RESULTS AND DISCUSSION

RESULTS

DESCRIPTIVE ANALYSIS TEST

Table 2 Descriptive Analysis Test

	N	Minimum	Maximum	Mean	Std. Deviation
Foreign Ownership	23	0.013	0.998	0.427	0.384
Company Size	23	26.948	31.996	29.777	1.816
ROA	23	0.003	0.527	0.211	0.141
Thin Capitalization	23	0.171	1.772	0.641	0.490
CETR	23	0.191	0.622	0.293	0.102

Based on a sample of 23 firm-year observations. The variables include Foreign Ownership, Company Size, Return on Assets (ROA), Thin Capitalization, and Cash Effective Tax Rate (CETR). Foreign Ownership has a minimum value of 0.013 and a maximum of 0.998, with a mean of 0.427 and a standard deviation of 0.384. This indicates considerable variation in the proportion of foreign shareholders across the sampled firms, ranging from almost entirely domestic ownership to near full foreign control. Company Size, measured using the natural logarithm of total assets, ranges from 26.948 to 31.996, with an average value of 29.777 and a standard deviation of 1.816. This reflects a relatively moderate variation in firm size among the sampled companies, suggesting the inclusion of both medium- and large-scale enterprises. Profitability, as proxied by ROA (Return on Assets), has a mean of 0.211 with a standard deviation of 0.141. The ROA ranges from a low of 0.003 to a high of 0.527, indicating that some firms have marginal profits while others achieve relatively strong returns relative to their assets. Thin Capitalization, measured as the ratio of total debt to total equity, ranges from 0.171 to 1.772. The mean value is 0.641 with a standard deviation of 0.490, suggesting substantial variation in capital structure, with some firms exhibiting conservative leverage levels and others adopting highly leveraged positions. Cash Effective Tax Rate (CETR), which serves as the proxy for tax avoidance, ranges from 0.191 to 0.622. The mean CETR is 0.293, with a standard deviation of 0.102. This indicates that, on average, firms in the sample pay effective tax rates significantly below the statutory rate, suggesting the presence of tax planning or avoidance strategies.

CLASSICAL ASSUMPTION TEST

Normality test is carried out to determine whether the regression model is normally distributed or not. In this study, the Kolmogorov-Smirnov test is carried out using IBM SPSS 25 software. It can be seen that the Asymp value. Sig. (2-Tailed) is 0.200 which is greater than the significance level of 5% or 0.05 which means that this regression model is normally distributed (Adityamurti & Ghozali, 2017).

Multicollinearity test is a test conducted to see if there is a correlation between independent variables in a regression model. Multicollinearity test can be seen from the amount of Variance Inflation Factor or commonly abbreviated as VIF and Tolerance. If the VIF value is less than 10 or the Tolerance value is greater than 0.10, it can be concluded that there is no multicollinearity. Likewise, if the VIF value is greater than 10 or the Tolerance value is less than 0.10, then it can be seen if there is multicollinearity shown (Adityamurti & Ghozali, 2017). It can be seen that Foreign Ownership, Company Size, Profitability, and Thin Capitalization have a tolerance value greater than 0.10 and also the VIF value of all the variables above is less than 10, so it can be concluded that there is no multicollinearity among the independent variables.

The heteroscedasticity test is carried out to see whether there was an inequality of variance of the residuals in the observations in the regression model. To perform this heteroscedasticity test, a glesjer test is also used in which if the sig value is greater than 0.05 then it indicates the occurrence of homoscedasticity. If the sig value is less than 0.05, then it indicates heteroscedasticity. From the results of the glesjer test contained in the table above, it can be concluded that the sig value of all variables is more than 0.05 which means that heteroscedasticity does not occur.

The autocorrelation test is carried out to determine the correlation between the residual of an observation and the residual of other observations. The autocorrelation test is carried out using the Durbin-Watson test with the provision $dU < d < (4-dU)$, in which dU itself represents the value obtained from the Durbin-Watson table and d represents the Durbin-Watson value obtained from the test. From the table above, it can be seen that the result of Durbin-Watson (d) value is 1.806. If the dU value obtained from the Durbin-Watson table is 1.7855, then the dU value $< d < (4-dU)$ becomes $1.7855 < 1.806 < 2.2145$ which means that there is no autocorrelation occurs.

HYPOTHESIS TEST

F-TEST

Table 3. F-Test

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.137	4	.034	6.874	.002 ^b
	Residual	.090	18	.005		
	Total	.227	22			

a. Dependent Variable: CETR

b. Predictors: (Constant), Thin Capitalization, Firm Size, ROA, Foreign Ownership

The F-Test is conducted to see if there is a concurrent effect of the independent variables (Foreign Ownership, Company Size, Profitability, and Thin Capitalization) on the dependent variable in this study, namely Tax Avoidance. From the F-Test test results above, it is known that the F value is 6.874 and the Sig. value is 0.002. To determine whether the independent variables have an influence on the dependent

variable, it can be seen if the F value is greater than the F value of the table or the Sig. value is smaller than 0.05 (Adityamurti & Ghozali, 2017). The F table value is 2.927 (known based on $\alpha = 0.05$, $df = 4$, and residual $df = 18$). From these values, it can be concluded that $6.874 > 2.927$ ($F > F$ Table). In addition, when viewed from the value of Sig. which is 0.002, it can also be concluded that $0.002 < 0.05$. From the criteria described earlier, it means that the independent variables (Foreign Ownership, Company Size, Profitability, and Thin Capitalization) have a concurrent influence on the dependent variable, namely Tax Avoidance.

T-test

Table 4. T-Test

Model		Coefficients ^a				t	Sig.
		Unstandardized Coefficients		Standardized Coefficients			
		B	Std. Error	Beta			
1	(Constant)	.409	.350		1.168	.258	
	Foreign Ownership	.097	.064	.366	1.520	.146	
	Firm Size	-.003	.011	-.053	-.261	.797	
	ROA	-.571	.122	-.791	-4.676	.000	
	Thin Capitalization	.080	.041	.385	1.952	.067	

a. Dependent Variable: CETR

The T-Test is conducted to determine whether each independent variable (Foreign Ownership, Company Size, Profitability, and Thin Capitalization) has an individual influence on the dependent variable, namely Tax Avoidance. The criterion is, if the significance value is less than 0.05, it means that the hypothesis is accepted and it also means that there is an individual influence of the independent variable on the dependent variable, which is Tax Avoidance (Adityamurti & Ghozali, 2017).

Foreign Ownership has a significance value of 0.146 which means that the significance value of the Foreign Ownership variable is greater than the significance value criterion of 0.05 ($0.146 > 0.05$). Therefore, it can be concluded that H1 or "Foreign Ownership Influences Tax Avoidance" is not accepted. This can also be interpreted that Foreign Ownership has no influence or impact on Tax Avoidance. Company Size has a significance value of 0.797 which means that the significance value of the Company Size variable is greater than the significance value criterion, which is 0.05 ($0.797 > 0.05$). Therefore, it can be concluded that H2 or "Company Size Influences Tax Avoidance" is not accepted. This can also be interpreted that Company Size has no influence or impact on Tax Avoidance.

Profitability has a significance value of 0.000 which means that the significance value of the Profitability variable is smaller than the significance value criterion of 0.05 ($0.000 < 0.05$). Therefore, it can be concluded that H3 or "Profitability Influences Tax Avoidance" is accepted. This can also be interpreted that Profitability has an influence or impact on Tax Avoidance.

Thin Capitalization has a significance value of 0.067 which means that the significance value of the Thin Capitalization variable is greater than the significance value criterion of 0.05 ($0.067 > 0.05$). Therefore, it can be concluded that H4 or "Thin Capitalization Influences Tax Avoidance" is not accepted. This can also be interpreted that Thin Capitalization has no influence or impact on Tax Avoidance.

DETERMINATION COEFFICIENT TEST

Table 5. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.777 ^a	.604	.516	.070608

The Coefficient of Determination Test (R^2) is used to see how much influence or impact the overall independent variables (Foreign Ownership, Company Size, Profitability, and Thin Capitalization) have on the dependent variable (Tax Avoidance). It can be seen in the table above that the *Adjusted R Square* value (Coefficient of Determination) is 0.516 or 51.6%. This can explain that 51.6% of tax avoidance can be described by the dependent variables of Foreign Ownership, Company Size, Profitability, and Thin Capitalization while the remaining 48.4% is influenced by other variables that are not discussed in this study.

DISCUSSION

The Influence of Foreign Ownership on Tax Avoidance

The findings of this study indicate that foreign ownership does not exert a statistically significant influence on tax avoidance, thereby contradicting the initial hypothesis proposed. This outcome suggests that the presence of foreign investors in the ownership structure does not necessarily translate into greater pressure on management to engage in aggressive tax planning practices. One possible explanation for this result is that foreign shareholders often prioritize long-term financial returns and corporate sustainability over short-term tax minimization. To protect their investments, foreign investors may advocate for transparent and compliant financial practices that align with international governance standards. Consequently, tax avoidance activities – which carry reputational and regulatory risks – may be discouraged under their oversight.

Furthermore, foreign shareholders may exercise monitoring roles that constrain managerial discretion, especially in areas prone to agency conflicts such as tax reporting. This is consistent with the view of Rozan et al. (2023), who argue that tax avoidance behavior can compromise a firm's future credibility and reputational capital, potentially deterring investors who are sensitive to ethical and governance-related issues. This result is also supported by the findings of OpraVita (2023), who reported that foreign ownership does not significantly impact tax avoidance because foreign investors tend to be passive regarding operational decisions related to taxation, as long as their expected returns are maintained. Thus, the role of foreign shareholders appears more aligned with value preservation rather than tax aggressiveness. Overall, these findings suggest that foreign ownership alone may not be a determining factor in shaping corporate tax strategies, especially in contexts where institutional governance or investor oversight mechanisms mitigate opportunistic managerial behavior.

The Influence of Company Size on Tax Avoidance

The results of the analysis suggest that company size does not significantly influence tax avoidance, thereby refuting the second hypothesis of this study. This finding implies that the scale of a company, as reflected in its total assets, sales volume, or market capitalization, is not necessarily a determinant of its tax behavior. One plausible explanation is that larger companies tend to be under closer scrutiny from tax authorities and regulatory bodies, which increases the reputational and compliance risks associated with aggressive tax practices.

The visibility and public accountability of large firms may compel them to maintain higher levels of tax compliance to safeguard their corporate image and stakeholder trust. This is particularly important in jurisdictions where tax audits, public exposure, and sanctions for non-compliance pose substantial reputational threats. Additionally, large corporations often have formalized internal control systems and governance mechanisms that inhibit opportunistic behavior by management, including tax avoidance strategies. The cost of engaging in tax avoidance may outweigh its potential benefits when considering the possibility of sanctions, audits, and damage to long-term investor confidence.

These results are consistent with prior empirical findings by Rusydi (2013), Khairunnisa et al. (2017), and Sembiring and Sa'adah (2021), who similarly conclude that company size does not significantly impact tax avoidance behavior. Together, these findings suggest that firm size alone is not a sufficient predictor of a company's tax planning strategies, and that other organizational and contextual factors may play a more influential role.

The Influence of Profitability on Tax Avoidance

The findings indicate that profitability has a significant effect on tax avoidance, thereby supporting the third hypothesis of this study. This result suggests that firms with higher levels of profitability, as measured by Return on Assets (ROA), are more likely to engage in tax avoidance practices. Higher profitability typically implies higher tax liabilities under a progressive tax regime. As such, companies with substantial earnings may have stronger incentives to minimize their tax burdens through strategic tax planning or avoidance mechanisms. This behavior aligns with the economic rationale that firms seek to maximize after-tax income, especially when they possess sufficient financial resources and managerial discretion to implement sophisticated tax strategies.

Furthermore, profitable firms may be more capable of affording the costs associated with tax planning activities, including the use of external tax consultants, complex financial arrangements, or jurisdictional arbitrage. The availability of internal surplus also allows for greater flexibility in navigating regulatory loopholes without compromising operational liquidity. These findings are consistent with prior research, including the study by Prasetya and Muid (2022), which demonstrates that firms with stronger financial performance tend to exhibit higher levels of tax avoidance. Taken together, these results reinforce the view that profitability is a key determinant in explaining the tax behavior of firms, especially in contexts where regulatory enforcement is perceived to be weak or inconsistent.

The Influence of Thin Capitalization on Tax Avoidance

The fourth hypothesis of this study posits that thin capitalization influences tax avoidance. However, the results of the t-test reveal that thin capitalization does not have a statistically significant effect on tax avoidance. This indicates that firms' use of debt as a source of funding is not necessarily driven by motives to reduce tax obligations. Instead, companies may utilize debt primarily for operational and strategic purposes, such as ensuring liquidity, financing business expansion, or maintaining capital structure efficiency. In this context, interest expenses arising from debt are not being exploited explicitly as tax shields but rather emerge as a consequence of normal business financing decisions.

Moreover, in some jurisdictions – including Indonesia – thin capitalization rules or debt-to-equity limitations imposed by tax authorities may limit the effectiveness of such strategies in reducing taxable income. As such, companies may refrain from aggressive use of debt for tax planning to avoid regulatory scrutiny or potential penalties.

CONCLUSION AND SUGGESTION

This study empirically examines the influence of foreign ownership, company size, profitability, and thin capitalization on tax avoidance among firms listed on the Indonesian Stock Exchange. The results of the T-test indicate that foreign ownership and company size do not significantly affect tax avoidance, suggesting that ownership structure and firm scale are not decisive factors in shaping corporate tax behavior in this context. Thin capitalization also shows no significant effect, although the result is close to the threshold of significance, indicating potential relevance under alternative specifications or in different settings.

In contrast, profitability is found to have a strong and significant positive relationship with tax avoidance, implying that more profitable firms are more likely to engage in tax minimization strategies. This finding aligns with agency theory, which posits that firms with higher earnings may have stronger incentives to reduce tax liabilities through aggressive planning mechanisms.

The F-test confirms that the variables examined – when considered collectively – have a statistically significant joint effect on tax avoidance. This underscores the importance of analyzing tax avoidance behavior through a multidimensional governance and financial lens, rather than focusing solely on individual factors.

These findings contribute to the literature on corporate tax behavior in emerging economies, particularly in the context of ownership structures, financial characteristics, and capital structure. From a policy perspective, tax authorities may need to strengthen enforcement mechanisms and consider profitability-based indicators when identifying firms with a high likelihood of engaging in tax avoidance.

This study is subject to several limitations. The reliance on archival financial data constrains the ability to capture managerial intent or informal governance practices. Additionally, the measure of tax avoidance used may not fully reflect the breadth of tax planning strategies employed. Future research could incorporate qualitative methods, broader governance indicators, or cross-country comparisons to enrich understanding of the mechanisms that drive tax avoidance in different institutional environments.

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