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The Influence of Thin Capitalization, Company Risk, and Company Size on Tax Avoidance

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Abstract

This research aims to examine the influence of thin capitalization, company risk and company size on tax avoidance. This research uses a quantitative approach and uses associative methods. The type of data used in this research is secondary data. The data analysis method used in this research is Panel Data Regression Analysis using the Eviews version 10 application and Microsoft Excel. The population used in this research is non-cyclical consumer companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2023 period. The data collection technique in this research is a purposive sampling technique and produces 24 final company samples or 120 observation data that are processed in this research. Partially thin capitalization and company risk have no effect on tax avoidance. Meanwhile, company size influences tax avoidance. The research results show that simultaneously thin capitalization, company risk and company size influence tax avoidance.

Keywords: Thin Capitalization; Company Risk; Company Size; Tax avoidance

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INTRODUCTION

Taxation constitutes a fundamental component of Indonesia's fiscal policy and plays a pivotal role in supporting national development. As outlined in Law No. 17 of 2003 concerning State Finance, the Indonesian government's revenue structure is comprised of three primary sources: tax revenues, non-tax revenues, and grants. Among these, tax revenues represent the largest and most stable source of income, thereby serving as a cornerstone of the State Budget (Anggaran Pendapatan dan Belanja Negara/APBN). According to data published by the Ministry of Finance (2022), tax revenue targets and realizations between 2019 and 2023 demonstrate considerable fluctuation, potentially indicating the existence of tax avoidance behavior among taxpayers.

Indonesia adopts a self-assessment system, wherein taxpayers—both individuals and corporate entities—are entrusted with the responsibility to independently calculate, pay, and report their tax obligations. While this system promotes efficiency and voluntary compliance, it may also create opportunities for non-compliant behavior such as tax avoidance. A notable case is that of PT Bentoel Internasional Investama Tbk, a subsidiary of British American Tobacco (BAT), which was reported by the Tax Justice Network to have engaged in tax avoidance through intercompany interest payments and royalty transfers. These transactions were facilitated through entities in the Netherlands and Jersey, enabling the company to exploit provisions in Indonesia's tax treaty with the Netherlands and significantly reduce withholding tax obligations.

The phenomenon of tax avoidance has been widely discussed in the academic literature, with several variables identified as potential determinants. One such determinant is thin capitalization, which refers to a financing structure dominated by debt as opposed to equity. This condition allows firms to deduct interest payments from their taxable income, thus reducing their overall tax liability. However, empirical findings on the relationship between thin capitalization and tax avoidance remain inconclusive. While certain studies (e.g., Azhar & Puspitasari, 2023; Sari et al., 2022) confirm a positive association, others (e.g., Amelia & Nadi, 2024; Anggraeni & Oktaviani, 2021) report no significant effect.

Another relevant factor is company risk, defined as the degree of uncertainty and exposure to financial or operational threats that a firmfaces. Firms with high levels of risk tolerance, particularly those led by risk-seeking executives, are more inclined to pursue aggressive tax planning strategies (Faramitha et al., 2020). Empirical studies by Rizkia & Utami (2023) and Polanunu & Lestanti (2024) support the notion that company risk positively influences tax avoidance. However, this finding is not universally supported, as studies by Fauziah et al. (2023) and Chasbiandani et al. (2020) report contradictory results.

Company size has also been frequently examined in the context of tax avoidance. Larger companies typically possess more assets and greater operational complexity, which may enable them to access sophisticated tax planning mechanisms and reduce effective tax rates. In addition, the annual depreciation of large-scale assets may contribute to lower taxable income. While several researchers (e.g., Haya & Mayangsari, 2022; Febriyanto et al., 2023) find a significant relationship between company size and tax avoidance, other studies (e.g., Syahputra, 2023; Josafat & Febrianti, 2023) argue that company size does not have a substantial impact on such behavior.

In light of the aforementioned discussion, this study aims to investigate the following research questions:

1. Does thin capitalization significantly influence tax avoidance?
2. Does company risk have a significant impact on tax avoidance?
3. Does company size significantly affect tax avoidance?
4. Do thin capitalization, company risk, and company size simultaneously influence tax avoidance?

RESEARCH METHODS

This study employs a quantitative approach with an associative method to examine the influence of several factors that are presumed to affect corporate tax avoidance. The quantitative approach was selected as it enables the testing of hypotheses through statistical analysis and provides objective conclusions based on empirical data. The research utilizes secondary data obtained from Consumer Non-Cyclical sector companies listed on the Indonesia Stock Exchange (IDX). The observation period covers the years 2019 to 2023. The analytical technique applied in this study is panel data regression analysis, conducted using EViews version 10 and Microsoft Excel to process and interpret the dataset. The sampling technique used is purposive sampling, which allows for the selection of samples based on specific criteria relevant to the research objectives. This procedure resulted in a final sample of 24 companies, generating 120 observations over the five-year period.

RESULT AND DISCUSSION

Descriptive statistical analysis was performed to identify any irregularities in data distribution.

The tax avoidance variable (Y) has a minimum value of 0.103510, a mean value of 0.227287, and a standard deviation of 0.038498. These results indicate a favorable outcome, as the standard deviation is smaller than the mean, suggesting that the data distribution is relatively uniform. This implies a normal distribution and the absence of significant bias, indicating that the data are homogeneous.

Table 1. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Tax Avoidance (Y)	120	0.103510	0.363891	0.227287	0.038498
Thin Capitalization (X1)	120	0.070824	3.928398	0.822081	0.858763
Company Risk (X2)	120	0.066140	0.797094	0.363664	0.203520
Company Size (X3)	120	27.22503	32.85992	29.67663	1.609315

Source: Processed data using EViews 10 (2025)

The thin capitalization variable (X1) shows a minimum value of 0.070824 and a maximum value of 3.928398, with a mean of 0.822081 and a standard deviation of 0.858763. Since the mean is smaller than the standard deviation, this suggests a high level of data dispersion, indicating that the data are not evenly distributed and potentially skewed.

The company risk variable (X2) has a minimum value of 0.066140 and a maximum value of 0.797094, with a mean of 0.363664 and a standard deviation of 0.203520. This represents a good distribution, as the standard deviation is smaller than the mean, indicating a relatively normal spread and minimal bias, which enhances data reliability.

The company size variable (X3) ranges from a minimum of 27.22503 to a maximum of 32.85992, with a mean of 29.67663 and a standard deviation of 1.609315. The results show a favorable distribution, as the standard deviation is smaller than the mean, suggesting that the data are well-dispersed, normally distributed, and free from significant bias.

Regression Model Selection Test Results

The panel data regression model selection test was conducted, which involves the evaluation of three model types: Common Effect Model, Fixed Effect Model, and Random Effect Model. To determine the most appropriate model, the following tests were carried out:

1. The Chow Test was employed to compare the Common Effect Model and Fixed Effect Model.
2. The Hausman Test was used to evaluate the suitability between the Fixed Effect Model and Random Effect Model.

3. The Lagrange Multiplier (LM) Test was performed to assess whether the Random Effect Model is more appropriate than the Fixed Effect Model (Widarjono, 2017)

Table 2. Summary of Panel Regression Model Selection

Panel Data Model Test	Value	Comparison Criteria	Selected Model
Chow Test	0.0000	CEM vs FEM	Fixed Effect Model
Hausman Test	0.0001	FEM vs REM	Fixed Effect Model

Source: Processed data using EViews 10 (2025)

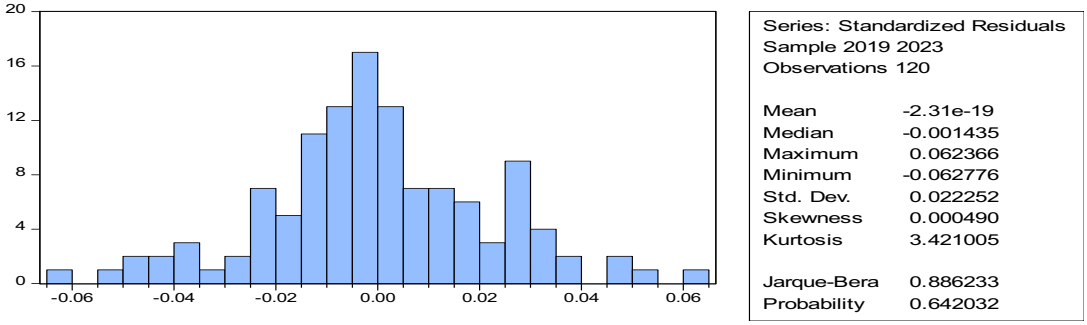
As presented in Table 2, the estimation results using the Chow Test and Hausman Test both consistently indicate the selection of the Fixed Effect Model (FEM). The Chow Test rejects the Common Effect Model (CEM) in favor of FEM, while the Hausman Test further confirms FEM over the Random Effect Model (REM). Therefore, the Fixed Effect Model is considered the most appropriate and robust specification for panel data regression in this study.

Classical assumption tests

Were conducted as prerequisites for the Ordinary Least Squares (OLS) regression method. These tests are necessary to determine whether the regression model meets the classical assumptions, as this affects the reliability of the estimated parameters (Sugiyono, 2021). The classical assumption tests include: Normality test to assess whether the residuals in the regression model are normally distributed. Multicollinearity test to check for correlation between independent variables in the regression model. Heteroskedasticity test this test evaluates whether the variance of the error terms is constant. In this study, the Glejser test was applied to detect the presence of heteroskedasticity. Autocorrelation test conducted to detect correlation between residuals across different observations. Autocorrelation in panel data was examined using the Durbin-Watson Test, with the computed Durbin-Watson value compared against critical values to determine the presence of positive or negative autocorrelation (Ghozali & Ratmono, 2018).

Normality test

The probability value obtained is 0.642032, which is greater than the threshold of 0.05. This indicates that the residuals are normally distributed, and thus the classical assumption of normality in the regression model is satisfied.



Graph. 1 Normality test

Multicollinearity test

Table 3. Multicollinearity Test Results

	Thin Capitalization	Company Risk	Company Size
Thin Capitalization(X1)	1.000000	0.790302	0.299334
Company Risk(X2)	0.790302	1.000000	0.460196
Company Size(X3)	0.299334	0.460196	1.000000

Source: Processed data using EViews 10 (2025)

The correlation coefficients between the independent variables are all less than 0.90, indicating that there is no multicollinearity problem among the variables in this study.

Heteroskedasticity Test

Based on the results in Table 4, the probability values of all independent variables are greater than the 0.05 significance level, indicating that the model does not suffer from heteroskedasticity problems.

Table 4. Heteroskedasticity Test Results

Dependent Variable: RESABS
Method: Panel Least Squares
Date: 02/20/25 Time: 21:35
Sample: 2019–2023
Periods Included: 5
Cross-sections Included: 24
Total Panel (Balanced) Observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.080702	0.222231	0.363142	0.7173
DER	-0.001586	0.008280	-0.191515	0.8485
RISK	0.028254	0.038290	0.737892	0.4624
UP	-0.002459	0.007471	-0.329101	0.7428

Source: Processed data using EViews 10 (2025)

Autocorrelation test

The autocorrelation test results show that the Durbin-Watson (DW) value is 1.910933, with the number of observations (N) = 120 and the number of independent variables (k) = 3. At a 5% significance level, the following critical values are obtained: DW = 1.910933; dU = 1.7536; 4 - dU = 2.2464

Table 5. Autocorrelation Test Results

R-squared	0.665905	Mean dependent var	0.227287
Adjusted R-squared	0.572502	S.D. dependent var	0.038498
S.E. of regression	0.025171	Akaike info criterion	-4.331135
Sum squared resid	0.058923	Schwarz criterion	-3.703949
Log likelihood	286.8681	Hannan-Quinn criter.	-4.076432
F-statistic	7.129385	Durbin-Watson stat	1.910933
Prob(F-statistic)	0.000000		

Source: Processed data using EViews 10 (2025)

The results indicate that the Durbin-Watson value falls between dU and 4 - dU (1.7536 < 1.910933 < 2.2464), which means that no autocorrelation is present in this study. Therefore, all classical assumption tests are satisfied.

The panel data regression analysis

Based on the table above, the panel data regression equation is obtained as follows:

$$Yit = 1.873457 + (0.013858)X_1 + (0.044119)X_2 + (-0.056395)X_3$$

Table 6. Panel Data Regression Analysis

Dependent Variable: ETR
Method: Panel Least Squares
Date: 02/20/25 Time: 21:33
Sample: 2019 2023

Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.873457	0.416371	4.499492	0.0000
DER	0.013858	0.015513	0.893319	0.3740
RISK	0.044119	0.071740	0.614985	0.5401
UP	-0.056395	0.013997	-4.029074	0.0001

Source: Processed data using EViews 10 (2025)

The regression equation in this study can be interpreted as follows:

1. The intercept (α) value is 1.873457, indicating that if the variables thin capitalization, company risk, and company size are held constant (i.e., equal to zero), then the baseline level of tax avoidance is 1.873457.
2. The regression coefficient for thin capitalization (X_1) is 0.013858 and is positive. This suggests that a one-unit increase in thin capitalization, assuming other independent variables remain constant, would increase tax avoidance (Y) by 0.013858.
3. The regression coefficient for company risk (X_2) is 0.044119 and also positive. This implies that a one-unit increase in company risk, while holding other variables constant, would lead to an increase in tax avoidance (Y) by 0.044119.
4. The regression coefficient for company size (X_3) is −0.056395 and negative. This indicates that a one-unit increase in company size, assuming other independent variables remain unchanged, would decrease tax avoidance (Y) by 0.056395

Hypothesis testing

Was carried out using the following statistical tests: 1) t-Test (partial test) to examine the individual effect of each independent variable on tax avoidance; 2) F-Test (simultaneous test) to assess the collective effect of all independent variables on tax avoidance, and; 3) Coefficient of Determination Test (Adjusted R-Squared): To measure the explanatory power of the regression model. It indicates how well the independent variables jointly explain the variance in the dependent variable (Rifkhan, 2022).

t-Test (partial test)

Table 7. t-Test Results (Partial Test)

Dependent Variable: ETR
Method: Panel Least Squares
Date: 02/20/25 Time: 21:33
Sample: 2019 2023
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.873457	0.416371	4.499492	0.0000
DER	0.013858	0.015513	0.893319	0.3740
RISK	0.044119	0.071740	0.614985	0.5401
UP	-0.056395	0.013997	-4.029074	0.0001
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.665905	Mean dependent var		0.227287

Adjusted R-squared	0.572502	S.D. dependent var	0.038498
S.E. of regression	0.025171	Akaike info criterion	-4.331135
Sum squared resid	0.058923	Schwarz criterion	-3.703949
Log likelihood	286.8681	Hannan-Quinn criter.	-4.076432
F-statistic	7.129385	Durbin-Watson stat	1.910933
Prob(F-statistic)	0.000000		

Source: Processed data using EViews 10 (2025)

The Effect of Thin Capitalization based on table 7, the thin capitalization variable (X1) does not have a significant partial effect on tax avoidance. This is evidenced by the t-statistic value of 0.893319, which is less than the critical t-value of 1.65798. The Effect of Company Risk variable (X2) does not have a significant partial effect on tax avoidance. This is indicated by the t-statistic value of 0.614985, which is less than the critical t-value of 1.65798. The Effect of Company Size variable (X3) has a significant partial effect on tax avoidance. This is shown by the t-statistic value of 4.029074, which is greater than the critical t-value of 1.65798.

F-Test (Simultaneous Test)

Based on the model selection results, the Fixed Effect Model (FEM) was chosen as the most appropriate model for this study. The results of the F-test are presented in Table 5. The F-statistic value obtained in this study is 7.129385, while the critical value of F (F-table) at the 5% significance level with df1 = 3 (number of independent variables minus one) and df2 = 117 (total observations minus number of variables) is 2.68. Since F-statistic > F-table (7.129385 > 2.68) and the p-value = 0.000000 is less than 0.05, it can be concluded that thin capitalization, company risk, and company size jointly have a significant effect on tax avoidance. Therefore, hypothesis H4 is accepted.

Coefficient of Determination (R^2 Test)

Referring again to the Fixed Effect Model (FEM) selection, the result of the coefficient of determination test shows that the Adjusted R-squared value is 0.572502. This means that the independent variables—thin capitalization, company risk, and company size—collectively explain approximately 57.25% of the variation in the tax avoidance variable. The remaining 42.75% is influenced by other variables not included in this study.

CONCLUSIONS

This study was conducted with the aim of examining the effect of thin capitalization, company risk, and company size on tax avoidance. The method used in this research is a quantitative method with an associative approach. Based on the results of the analysis, the findings of this study can be summarized as follows:

1. Thin capitalization has no partial effect on tax avoidance, as indicated by the t-statistic value of 0.893319, which is less than the t-table value of 1.65798. This result is consistent with the findings of Amelia & Nadi (2024) and Anggraeni & Oktaviani (2021), who found that thin capitalization has no significant impact on tax avoidance. However, this finding is not in line with the studies of Azhar & Puspitasari (2023) and Sari et al. (2022), who stated that thin capitalization does influence tax avoidance.
2. Company risk also has no partial effect on tax avoidance, with a t-statistic value of 0.614985, which is less than the t-table value of 1.65798. This result aligns with the findings of Fauziah et al. (2023) and Chasbiandani et al. (2020), which indicate that company risk does not influence tax avoidance. However, this contradicts the findings of Rizkia & Utami (2023) and Polanunu & Lestanti (2024), who found that a company's risk level affects its tax avoidance behavior.

3. Company size has a partial effect on tax avoidance, with a t-statistic value of 4.029074, which is greater than the t-table value of 1.65798. This result is in line with the findings of Haya & Mayangsari (2022) and Febriyanto et al. (2023), which show that company size significantly influences tax avoidance.
4. Thin capitalization, company risk, and company size collectively have a simultaneous effect on tax avoidance, with an F-statistic value of 7.129385, which is greater than the F-table value of 2.68. The F-test results confirm that these three variables together significantly influence tax avoidance, thus hypothesis H4 is accepted. Poor management of a company can lead to conflicts or agency problems, which may harm various parties (Wardani & Mursiyati, 2019).

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