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The Influence of Thin Capitalization, Capital Intensity, and Earnings Management on Tax Avoidance with Tax Havens Country as Moderator

Suryana Amni, Ruhul Fitrios & Alfiati Silfi

Abstract:
Tax avoidance is an act or effort taken by the taxpayer to reduce the amount of tax payable in a legal way, namely by utilizing the gray area contained in the applicable tax laws and regulations. In theory, tax avoidance is allowed only that includes acceptable tax avoidance. But the fact is, a lot of tax avoidance that occurs is unacceptable tax avoidance which can be detrimental to the state. The purpose of this research was to examine the influence of thin capitalization, capital intensity, and earnings management on tax avoidance with tax havens country as moderators. The population of this research is multinational companies that were listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The sampling technique used was the purposive sampling of 29 companies with a total sample of 145 samples selected based on predetermined criteria. The data analysis technique in this study used multiple linear regression analysis with SPSS Statistics V22.0. The results showed that thin capitalization influenced tax avoidance, capital intensity influenced tax avoidance, and earnings management influenced tax avoidance. Other results show that tax havens country moderates the influence of thin capitalization and earnings management on tax avoidance, but tax havens country does not moderate the influence of capital intensity on tax avoidance.

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Introduction

Tax avoidance is a transaction or arrangement made by a taxpayer to reduce the amount of tax payable in a legal way, so that it is not a crime (Arnold & McIntyre, 2002). Then Pohan (2017) explains that tax avoidance is carried out using methods and techniques that tend to take advantage of the weaknesses (gray areas) contained in the tax regulation law itself. Tax avoidance is divided into 2 types, there are acceptable and unacceptable tax avoidance. Acceptable tax avoidance has a good purpose, not being used to avoid taxes and not making fraudulent transactions. While unacceptable tax avoidance has a bad purpose, intending to do tax avoidance and make fake transactions (Kessler, 2004). Indonesian Minister of Finance Sri Mulyani said that due to tax avoidance, global tax revenue has the potential to lose around IDR 3,360 trillion per year through the practice of transferring profits between countries (Makki, 2021). In addition, the Tax Justice Network reports that Indonesia is estimated to suffer losses of up to 4,86 billion USD or equivalent to Rp. 68,7 trillion (exchange rate of IDR 14,149) due to tax avoidance. The State of Tax Justice report states that cases of tax avoidance in Indonesia are ranked 4th in Asia, with the highest ranking is China, followed by India and Japan (Sukmana, 2020). Based on these data it illustrates that the grade of tax avoidance in Indonesia is still very high. Tax avoidance occurs in various places, both in the world and Indonesia itself. The phenomenon of tax avoidance in the world is carried out by APPLE. According to the International Consortium of Investigative Journalists in 2017, Apple took advantage of very low tax regulations in Jersey, a small island in the English Channel. Apple set up subsidiary companies in tax-free jurisdictions to free up an estimated $252 billion in profits (Muthahhari, 2017). The latest world tax avoidance phenomenon was carried out by NIKE. Margrethe Vestager, a commissioner of competition policy at the 2019 European Commission, revealed that Nike allocated ownership of trademarks and other intellectual property to subsidiaries in the country of Bermuda. Nike's Hilversum subsidiary then pays royalties for the use of the trademark to the state of Bermuda. Royalties are counted as business expenses and are therefore not taxed in the Netherlands (Elhaq, 2019). Meanwhile, the tax avoidance phenomenon in Indonesia occurs at Adaro Energy. A climate change campaign manager 2019 at Global Witness, William on taxing times report for Adaro said that PT. Adaro Energy is indicated to be practicing tax avoidance with a transfer pricing scheme by selling coal at low prices to Coaltrade Services International, a subsidiary of Adaro in Singapore, to be resold at high prices (McGibbon, 2019). The most recent case of tax avoidance that happened in Indonesia is Jhonlin Baratama. A public prosecutor Yoga Pratomo said in 2022 that PT. Jhonlin Baratama committed tax evasion by paying bribes through his tax consultant Agus Susetyo to Angin Prayitno, who served as Director of Audit and Collection at the Directorate General of Taxes for the 2016-2019 period, so he was prepared to manipulate the calculation results for the 2016 and 2017 tax years (Maga, 2022). Based on the several cases of tax avoidance mentioned above, it may be presumed that there have been many tax avoidances committed by multinational companies with schemes that are not permitted. Many factors affect tax avoidance including capital intensity, thin capitalization, earnings management, and tax havens country.

This research is a development of prior research conducted by Afifah & Prastiwi (2019) and Salwah & Herianti (2019). The differences of prior research and this research are as follows:

1. Previous research variables only used thin capitalization as the independent variable and tax avoidance as the dependent variable. Meanwhile, in this study, the variables capital intensity and earnings management were added to the independent variables and adding the variable tax havens country as a moderator. The reason for choosing this variable is that there are differences in the results of prior studies.

2. The object of the previous research was the goods sector company consumption listed on IDX in 2015-2017. While this study chose multinational companies that were listed on IDX in 2017-2021 as the object. The Reasons for choosing multinational companies as research objects are that multinational companies are large-scale companies and have affiliated companies abroad, multinational companies are more open about non-information finance, and multinational companies have the scope and incentives to be involved in tax avoidance (Dyreng & Hanlon 2008; Hanlon 2005; Rego 2003).
3. The proxies that are used in calculating tax avoidance are different . Previous research used the effective tax rate (ETR) as a proxy calculation, while this research used the cash effective tax rate (CETR) as a proxy calculation. The reason for selecting the cash effective tax rate (CETR) as a proxy for calculating tax avoidance in this research is to overcome the main limitations of the proxy effective tax rate (ETR) which cannot distinguish tax savings result of default tax preferences with consequent tax savings aggressive tax reporting (Tang, 2020) In addition, the cash CETR can capture a wider range of tax avoidance practices (Dyreng et al, 2017).

Based on the description above, this study aims to find out "The Influence of Thin Capitalization, Capital Intensity, and Earnings Management on Tax Avoidance with Tax Havens Country as Moderator (empirical studies on multinational companies listed on the IDX in 2017-2021)".

Literature review

Theory Of Planned Behavior

The theory of Planned Behavior is a theory that explains individual behavior that is influenced by the concept of control possessed by the individual and is intended to predict individual behavior specifically (Ajzen, 1991). The planned behavior theory is suitable for explaining any behavior that requires aranging and planning, for example tax avoidance through tax planning.

Agency Theory

Theory of agency is a contract or relationship between the agent and principal, where the principal is the party that employs the agent to perform tasks in the principal interests, while the agent is the party carrying out the principal interest (Scott, 2015). Eisenhardt (1989) said that one of the basic assumptions of human nature is that humans are generally selfish (self-interest). Based on the assumption of human nature, the manager as an agent a human will act opportunistically with put self-interests first. Like doing tax avoidance by conducting capital intensity, thin capitalization, and earnings management.

Tax Avoidance

Tax avoidance is an act or effort made by the taxpayer to reduce the amount of tax payable without violating tax laws and regulations what happens by using the weaknesses in tax laws and regulations. (Arnold & McIntyre, 2002; Brown, 2012; Pohan, 2017).

Thin Capitalization

Thin capitalization is a practice conducted by companies in managing capital structure by increasing the level of debt compared to capital which can be used as a tax avoidance scheme (OECD, 2012; Taylor & Richardson, 2012; Kurniawan, 2015). According to Buettner et al (2012) in running a business, there are two capital sources that can be selected by company, namely in the form of debt or equity. The practice of thin capitalization is based on the difference in tax treatment of dividend and interests, namely the difference in treatment between interest as a return on debt and dividends as a return on stock investment in tax regulations. The difference

lies in the interest payments which are classified as deductible expenses, while dividend payments are classified as non-deductible expenses. This illustrates that high debt will increase the interest that must be paid by the company to creditors, so that the company's taxable profit is lower. (Brigham & Houston, 2006). Based on the theory of agency this can become a problem between the agent and the principal. Where managers want the company to pay low tax obligations, but from the principal's point of view it will increase the company's risk of paying debts to be higher or even defaulting. Companies do tax evasion because of differences in interests between agents and principals. One way that managers do this is by increasing the debt (Simamora & Sari, 2021). According to Bandiyono & Murwaningsari (2020) and Andawiyah et al (2019), thin capitalization influenced tax avoidance. As a result, the following hypotheses follow:
H1 : Thin capitalization influenced tax avoidance

Capital Intensity
Capital intensity is one of the factors that influence tax avoidance. Capital intensity is a portrayal of the company's investment in fixed assets. Investment in fixed assets can be used by companies to reduce their tax burden (Sugeng & Zaman, 2020). Besides that, Capital intensity is a picture that can determine how big a company invests in fixed assets. With a high level of investment in fixed assets, it will cause a burden of high depreciation that will later be a deduction from taxable income corporate tax (Rodriguez & Arias, 2012; Francis, et.al, 2004; Defond & Hung, 2003). This happens because there are depreciation costs of fixed assets being deducted from the tax calculation. A high depreciation expense will reduce the tax burden that must be paid by the company. a high level of corporate capital intensity will indicate a low effective tax rate, thus indicating that the company's tax avoidance is high (Monika & Noviari, 2021). Dwiyanti & Jati (2019) and Kalbuana et al (2020) stated that capital intensity influenced tax avoidance. This means that the high capital intensity of corporate will lead to an increase in corporate tax avoidance. As a result, the following hypotheses follow:
H2 : Capital intensity influenced tax avoidance

Earnings Management
Earnings management is a strategy used by managers in conducting information intervention from financial reports by raising or lowering company profit within principle limits generally accepted in accounting (Healy, 1985; Schipper, 1989; Fischer & Rozenzwig, 1995; Scott, 2015). Scott (2015) states that one of the motivations for earnings management is tax motivation. Taxation is one of the main reasons why companies reduce reported profits through the use of accruals. One of the characteristics of earnings management is to minimize profits (income minimization) by reducing profits to produce a minimum reported profit so that companies can minimize the amount of tax that must be paid to the government. According to Amidu (2019), Hong et al (2022) and Aisyah et al (2022) stated that earnings management influenced tax avoidance. As a result, the following hypotheses follow:
H3 : Earnings Management influenced tax avoidance

Tax Havens Country
Tax havens country is defined as a country or region that wears low taxes or none at all imposing taxes and providing guarantees of the assets it holds (Crumbley et al, 1994; Azzara, 2000; Gunadi, 2007). Gravelle (2015) stated that multinational companies have the opportunity to significantly reduce taxes by operating in tax havens countries by transferring profits from jurisdictions with high tax rates to jurisdictions with low tax rates (tax havens countries). Having a subsidiary company domiciled in a tax haven country will provide benefits for multinational companies, because they are thought to have more incentives to take tax

avoidance. According to Apriliyanti (2021), the company utilizes affiliated companies located in tax havens countries for investment activities in fixed assets. And according to Arizoni et al (2020), tax havens countries can moderates the influence of earnings management on tax avoidance. As a result, the following hypotheses follow:

H4 : Tax havens country moderates the influence of thin capitalization on tax avoidance
H5 : Tax havens country moderates the influence of capital intensity on tax avoidance
H6 : Tax havens country moderates the influence of earnings management on tax avoidance

Conceptual Framework

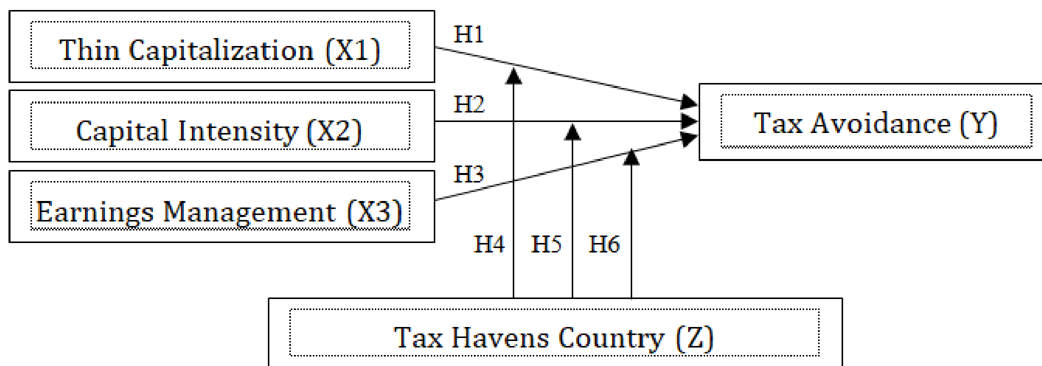

Figure 1 Conceptual Framework
Source: Author's conception based on literature (2022)

Research Method

This research is using quantitative approach with the population taken from all multinational companies except the financial sector, insurance, financing, infrastructure, property and mining listed in IDX 2017-2021. The exclusion of this sector is due to the Indonesian Ministry of Finance regulation number 169/PMK.010/2015 concerning the determination of the amount of comparison between debt and company capital for income tax calculation which excludes some of these sectors. The sampling technique used was the purposive sampling of 29 companies with a total sample of 145 samples selected based on predetermined criteria such as companies that have positive profit before tax in a row within the research time, which has the completeness of the required information related to the calculation indicators that are used as variables in the research and which publishes financial reports using rupiah currency units. The data used in this study is secondary data, namely annual report and financial statements of the company multinational 2017-2021 period listed on IDX obtained from the website of the Stock Exchange Indonesia. The technique of data analysis used analysis of multiple linear regression with SPSS Statistics V22.0.

Variables Measurement

Tax Avoidance

In this research tax avoidance is calculated using the CETR proxy which is a comparison between cash taxes paid with total pretax financial accounting income. The reason for selecting CETR as a proxy for calculating tax avoidance is to overcome the main limitations of proxy effective tax rate (ETR) which cannot differentiate tax savings due to default tax preferences with savings taxes due to aggressive tax reporting (Tang, 2020) and CETR can capture more tax avoidance practices wide (Dyreng et al., 2017). The measure used to measure tax avoidance is as follows:

$$CETR = \frac{\text{Cash taxes paid}}{\text{total pre} - \text{tax accounting income}}$$

Thin Capitalization

Thin capitalization in this research is measured by using MAD Ratio proxy (Maximum Amount Debt Ratio). The reason for using the MAD Ratio proxy is that this ratio is adjusted with the maximum limit of debt allowed according to regulations applicable (maximum limit of DER). In Indonesia, the maximum DER is set at 4:1, so the maximum debt limit that is allowed is equal to 80%. This measurement was also used previously in research conducted by Taylor & Richardson (2012); Afifah & Prastiwi (2019); Salwah & Herianti (2019) with the following formula:

$$\text{MAD Ratio} = \frac{\text{Average Interest Bearing Debt}}{\text{SHDA (Safe Harbor Debt Amount)}}$$

Capital Intensity

Capital intensity in this research is measured by using a fixed asset intensity ratio proxy. This measurement too previously used in a study conducted by Kalbuana et al (2020); Nadhifah & Arif (2020); Henny (2019) with the formula as follows :

$$\text{Capital Intensity} = \frac{\text{Total Fixed Asset}}{\text{Total Assets}}$$

Earnings Management

Earnings management in this research is detected by using a discretionary accruals (DAC) proxy with the model Kasznik (1999). The reason for using the Kasznik model is because according to research results from Suprianto and Setiawan (2020) stated that Kasznik's model was the better model compared to other models in measuring earnings management. This calculation proxy is also used Previously in research conducted by Ramadhan, et al (2021) with the following steps as follows:

Step 1 : Calculate the company's total accruals (TA_{it})

$$TA_{it} = NI_{it} - CFO_{it}$$

Step 2 : Calculate non discretionary accrual (NDA_{it})

$$\frac{TA_{it}}{A_{it-1}} = \alpha_i \left[\frac{1}{A_{it-1}}\right] + \beta_{1i}\left[\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right] + \beta_{2i}\left[\frac{PPE_{it}}{A_{it-1}}\right] + \beta_{3i}\left[\frac{\Delta CFO_{it}}{A_{it-1}}\right] \varepsilon_{it}$$

Step 3 : Calculate discretionary accrual (DA_{it})

$$DA_{it} = TA_{it} - NDA_{it}$$

Information :

TA_{it} = Company's total accrual i for period t
NI_{it} = Net profit after tax (net income)
CFO_{it} = The company's operating cash flow i period t
A_{it-1} = Total assets of the company i at the end of year t-1
ΔREV_{it} = Changes in company income i for year t
ΔREC_{it} = Change in net receivables of the company i for year t
PPE_{it} = Fixed assets of the company i in period t
ΔCFO_{it} = Change in operating cash flow of company i in period t
$\alpha_i - \beta_{3i}$ = Coefficient of regression equation

Tax Havens Country

In this research tax havens country is measured by using a dummy variable which is categorized into two, namely:

1 : If the company has one or more subsidiaries domiciled in a tax haven country recognized by the OECD

0 : If the company has no subsidiaries in tax havens country recognized by the OECD

This measurement is also used previously in research conducted by Wijaya & Rahayu (2021); Widodo et al., (2020); Taylor & Richardson (2012).

Result and Discussion

Analysis of Descriptive Statistics

Table 1 Descriptive Statistic Results

Descriptive Statistics					
	N	**Min**	**Max**	**Mean**	**Std. Deviation**
Thin Capitalization (X1)	145	.0026	.9832	.406859	.2715241
Capital Intensity (X2)	145	.0381	.9054	.382803	.2020116
Earnings Management (X3)	145	-1.1583	.9843	.043920	.4789452
Tax Havens Country (Z)	145	0	1	.79	.411
LG10_Tax Avoidance	145	-1.3207	.2818	-.550981	.2447725
Valid N (listwise)					

Source: Output SPSS, 2022

Classic Assumption Test

This research conducted classic assumption tests, there are normality, multicollinearity heteroscedasticity, and autocorrelation tests. Firstly, The normality test of data is done by using Kolmogorov Smirnov by looking at the 5% significance level. The data is considered normal if sig. (2-tailed) is more than 0.05 ($-$ *value* > 0.05) (Ghozali, 2018). So, the Kolmogorov-Smirnov Test result in this research was 0.438 > 0.05, this shows that the data is normally distributed. The next is the multicollinearity test. The multicollinearity test is done by looking tolerance and VIF value. Multicollinearity does not occur when the tolerance values > 0.1 or VIF < 10. The result of tolerance for thin capitalization is 0.289, the capital intensity is 0.453, for earnings management is 0.206, and tax havens country is 0.445. The result of all the tolerance values obtained is > 0.1, So it can be said that did not happen multicollinearity among the independent variables studied. Thirdly, heteroscedasticity uses the Glejser test because the results are more accurate. Model a good regression is a regression model that does not contain heteroscedasticity, which can be shown with a significant level > 5%. It can be comprehended that the sig value of thin capitalization, capital intensity, earnings management and tax havens country are 0.508, 0.216, 0.374, and 0.105 respectively. This matter indicates that there is no heteroscedasticity in this research. The last the test of autocorrelation. The autocorrelation test was performed using the Durbin-Watson (DW) model. There is no autocorrelation if the DW value is between -2 and +2 or - 2 < DW < + 2. The DW value obtained in this test is 1.137. This indicates that there is no autocorrelation in the data of study.

Analysis of Multiple Linear Regression

Testing the hypothesis in this research using analysis of multiple linear reggression to determine the influence of several variables (X) on the variable (Y). it means that multiple linear regression analysis in this study to answer H1, H2 and H3. The t_{table} value in this study is indicated by df = n-k-1= 145-3-1 = 141 with a significance level of 0.05, so the t_{table} obtained is 1.976.

Table 2 Result of Multiple Linear Regression
Coefficient [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.722	.038		-19.066	.000
	Thin Capitalization (X1)	-.150	.067	-.166	-2.227	.028
	Capital Intensity (X2)	-.263	.094	-.217	-2.784	.006
	Earnings Management (X3)	-.219	.037	-.428	-5.948	.000

a. Dependent Variable: LG10_Tax Avoidance
Source: Output SPSS, 2022

Equation 1
Y = -0,722 - 0,150X1 - 0,263X2 - 0,219X3 + e
Based on table 2 above, it show that thin capitalization has a t-statistic value of -2.227 > 1.976 and p-value of 0.028 < 0.05. It means that thin capitalization influenced tax avoidance. this result accepts the H1 which states that thin capitalization influenced tax avoidance. The thin capitalization variable has a value coefficient of -0.150, which means that thin capitalization has a negative relationship on tax avoidance. That is, the higher thin capitalization will be lower the CETR value. The lower CETR value indicates that the higher company performs tax avoidance. And then the capital intensity has a t-statistic value of -2.784 > 1.976 and p-value of 0.006 <0.05. It means that capital intensity influenced tax avoidance. this result accepts the H2 which states that capital intensity influenced tax avoidance. The capital intensity variable has a value coefficient of -0.150, which means capital intensity has a relationship negative on tax avoidance. That is, the higher capital intensity will be lower the CETR value. The lower CETR value indicates that the higher company performs tax avoidance. The last, the earnings management has a t-statistic value of -5.948 > 1.976 and p-value of 0.000 <0.05. It means that earnings management influenced tax avoidance. this result accepts the H3 which states that earnings management influenced tax avoidance. The earnings management variable has a value coefficient of -0.150, which means that earnings management has a negative relationship with tax avoidance. That is, the higher earnings management will be lower the CETR value. The lower CETR value indicates that the higher company performs tax avoidance.

Determination Coefficient (Adjusted R^2)

Table 3 Determination Coefficient Result
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.651[a]	.424	.412	.1877112

a. Predictors: (Constant), Earnings Management (X3), *Thin Capitalization* (X1), Capital Intensity (X2)
b. Dependent Variable: LG10_Tax Avoidance
Source: Output SPSS, 2022

From the table above, R^2 value is 0.424 and Adjusted R^2 value is 0.412. It means that variables of capital intensity, thin capitalization, and earnings management can explain the tax avoidance variable by 41.2%. While 58.8% is influenced by other variables not included in this research. This research uses Adjusted R^2, because this study uses more than two independent variables.

Analysis of Moderated Reggression

This analysis aims to determine whether the moderating variable will weaken or strengthen the relationship between the variable (X) and the variable (Y). It means that the moderated regresion analysis in this study was used to answer H4, H5 and H6.

Table 4 Result of Moderation Test Hypothesis 4

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.627	.045		-14.043	.000
	Thin Capitalization (X1)	-.413	.068	-.458	-6.064	.000
	Tax Havens Country (Z)	-.117	.045	-.196	-2.596	.010

a. Dependent Variable: LG10_Tax Avoidance

Source: Output SPSS, 2022

Equation 2

Y = -0,627 - 0,413X1 - 0,117Z + e

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.566	.048		-11.675	.000
	Thin Capitalization (X1)	-.151	.112	-.167	-1.343	.181
	Tax Havens Country (Z)	-.217	.056	-.365	-3.880	.000
	TC*THC	-.343	.119	-.417	-2.885	.005

a. Dependent Variable: LG10_Tax Avoidance

Source: Output SPSS, 2022

Equation 3

Y = -0,566 - 0,151X1 - 0,217Z - 0,343X1Z+ e

Based on the second equation, the regression coefficient of tax havens country (Z) is -0.117 with p value of 0.010 < 0.05, it means that the variable of tax havens country (Z) has an effect on tax avoidance. Based on the third equation that examines the moderating role of (X1*Z) obtained the regresion coefficient of -0.343, p value of 0.005 < 0.05 which means that the tax havens country (Z) moderates the influence of thin capitalization (X1) to tax avoidance (Y). Based on these results, H4 which states that tax havens country moderates the influence of thin capitalization on tax avoidance is accepted and tax havens country variable acts as a Quasi Moderation variable because tax havens country is an independent variable and also moderates the influence of thin capitalization on tax avoidance.

Table 5 Result of Moderation Test Hypothesis 5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.736	.053		-13.896	.000
	Capital Intensity (X2)	-.582	.089	-.480	-6.561	.000
	Tax Havens Country (Z)	-.049	.044	-.082	-1.115	.267

a. Dependent Variable: LG10_Tax Avoidance

Source: Output SPSS, 2022

Equation 4

Y = -0,736 - 0,582X2 - 0,049Z + e

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.626	.053		-11.714	.000
	Capital Intensity (X2)	-.206	.110	-.170	-1.868	.064
	Tax Havens Country (Z)	-.221	.053	-.371	-4.195	.000
	CI*THC	-.109	.100	-.233	-1.070	.072

a. Dependent Variable: LG10_Tax Avoidance

Source: Output SPSS, 2022

Equation 5

Y = -0,626 - 0,206X2 - 0,221Z - 0,109X2Z+ e

Based on the fourth equation, the regression coefficient of tax havens country (Z) is -0.049 with p value of 0.267 > 0.05, it means that the variable of tax havens country (Z) has no effect on tax avoidance. Based on the fifth equation that examines the moderating role of (X2*Z) obtained the regresion coefficient of -0.109, p value of 0.072 > 0.05 which means that the tax havens country (Z) do not moderate the effect of capital intensity (X2) on tax avoidance (Y). Based on these results, H5 which states that tax havens country moderates the influence of capital intensity on tax avoidance is rejected and tax havens country variable acts as a Homologizer Moderation variable because tax havens country is not independent variable and also do not moderate the influence of capital intensity on tax avoidance.

Tabel 6 Result of Moderation Test Hypothesis 6

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.542	.036		-14.895	.000
	Earnings Management (X3)	-.294	.035	-.575	-8.362	.000
	Tax Havens Country (Z)	-.028	.041	-.047	-6.677	.000

a. Dependent Variable: LG10_Tax Avoidance

Source: Output SPSS, 2022

Equation 6

Y = -0,542 - 0,294X3 - 0,028Z + e

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.547	.035		-15.444	.000
	Earnings Management (X3)	-.107	.070	-.210	-1.538	.126
	Tax Havens Country (Z)	-.028	.040	-.047	-.700	.485
	EM*THC	-.237	.068	-.418	-3.074	.003

a. Dependent Variable: LG10_Tax Avoidance

Source: Output SPSS, 2022

Equation 7

Y = -0,547 - 0,107X3 - 0,028Z - 0,237X3Z+ e

Based on the sixth equation, the regression coefficient of tax havens country (Z) is -0.028 with p value of 0.000 < 0.05, which means that tax havens country (Z) influenced tax avoidance. Based on the seventh equation that examines the moderating role of (X3*Z) obtained the regresion coefficient of -0.237, p value of 0.003 < 0.05 which means that the tax havens country (Z) moderates the influence of earnings management (X3) on tax avoidance (Y). Based on these results, H6 which states that tax havens country moderates the influence of earnings

management on tax avoidance is accepted and tax havens country variable acts as a Quasi Moderation variable because tax havens country is an independent variable and also moderates the influence of earnings management on tax avoidance.

Hypothesis Test Result

Table 7 Result of Hypothesis Test

	Hypothesis	Sig.	Standard	Result
H1	Thin capitalization influenced tax avoidance	0.028	0.05	Accepted
H2	Capital Intensity influenced tax avoidance	0.006	0.05	Accepted
H3	Earnings management influenced tax avoidance	0.000	0.05	Accepted
H4	Tax havens country moderates the influence of thin capitalization on tax avoidance	0.005	0.05	Accepted
H5	Tax havens country moderates the influence of capital intensity on tax avoidance	0.072	0.05	Rejected
H6	Tax havens country moderates the influence of earnings management on tax avoidance	0.003	0.05	Accepted

Source: Author

Conclusion

This study's model was created to understand the influence of capital intensity, thin capitalization, and earnings management on tax avoidance with tax havens country as moderators. From the study conducted, capital intensity, thin capitalization, and earnings management all have a positive and significant influence on tax avoidance. It means that the higher company performs thin capital intensity, capitalization, and earnings management, the more tax avoidance company will make. This study also shows that tax havens country moderates the influence of thin capitalization and earnings management on tax avoidance. However, tax havens country does not moderate the influence of capital intensity on tax avoidance. It means that if companies combine tax avoidance strategies through thin capitalization and tax havens countries or earnings management and tax havens countries, then companies will become more aggressive in avoiding taxes. however, there is no relation between companies combining tax avoidance strategies through capital intensity and tax havens country. This is because the holding company and its subsidiaries carry out their capital intensity respectively. Therefore, companies are advised to pay attention to the results of this study as material for consideration not to carry out unacceptable tax avoidance which can cause state losses. Because if you look at the average results of descriptive statistics, companies can still make better use of several factors such as capital intensity, thin capitalization, and earnings management. The average company that conducts thin capitalization is still far from the maximum allowed rules. Likewise with capital intensity and earnings management. So, companies do not need to take methods that are not allowed to avoid taxes, such as manipulating financial reports, transfer pricing and others.

Implications, Limitations and Future Research Direction

The results obtained in this study can strengthen the theory of accounting which states that the higher capital intensity, thin capitalization, and earnings management conducted by the company then the tendency of the company to take action tax avoidance lawfully will be more open. Companies realize that to get more optimal profit they need to set a strategy to reduce the capacity tax burden by tax avoidance. Besides that, if we look at the average results of descriptive statistics, companies can still make better use of several factors such as capital intensity, thin capitalization, and earnings management. The average company that conducts thin capitalization is still far from the maximum allowed rules. so, this can be used by managers as an agent in fulfilling their interests. However, shareholders as principals must also monitor that tax avoidance by managers does not exceed the limits or violate applicable regulations.

This needs to be done by the principal so that the tax avoidance that is carried out does not have an impact on the sustainability of the company. There is a Minister of Finance Regulation Number 169/PMK.010/2015 concerning the determination of the magnitude of the ratio between debt and capital of the company to calculate income tax with provisions maximum of 4:1 which excludes companies in the financial, insurance, financing, infrastructure, property and finally mining forced researchers to exclude some of these sectors from the criteria selection of research samples. The results of this study certainly can not be representing all companies with the excluded sectors. This is a limitation for researchers. Future research is suggested to be able to develop the results of this study by adding several independent variables such as political connections, educational background of CEO, gender of CEO and others. This is because the independent variables in this research are only able to explain the dependent variable at 41.2%. Future researchers can also expand the object of research into whole companies listed on the IDX.

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