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Tax Avoidance Analysis With Thin Capitalisation

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Abstract

This study aims to analyze thin capitalization which is used as a way of tax avoidance. This study uses independent variables, namely multinational, managerial ownership, audit committee, while the control variables are effective tax rates, profit growth, return on assets, firm size, current ratio, capital intensity, and inventory intensity. The population of this study consisted of all non-financial companies listed on the Indonesia Stock Exchange from 2015-2019. The sample of this research is multinational non-financial companies which means having subsidiaries outside Indonesia. The statistical method used in this research is multiple linear regression analysis. The results of this study indicate that multinationality, managerial ownership, and audit committee have no significant effect on thin capitalization. As for the control variables, return on assets and firm size have a significant effect on thin capitalization.

Keywords
thin capitalization; multinational; managerial ownership

I. Introduction

One of the tax evasions carried out by companies that have operations across national borders is thin capitalization (Benshalom, 2007). Thin capitalization is tax avoidance that schemes debts to subsidiaries or affiliates located abroad. Thin capitalization is a funding structure that increases the proportion of debt rather than equity to avoid too high a tax burden. The tax treatment for returns from funding through debt is different from returns from funding through capital (equity). If the source of funding includes interest costs, interest is deducted from taxable income, while funding from dividends is not deducted. This difference encourages companies to scheme sources of funding from debt greater than from capital (thin capitalization). This statement is supported by research by Mardan (2013) that investment funding between interest (debt) and dividends (share capital) has different tax treatment, thus triggering the practice of thin capitalization.

Thin capitalization rules in Indonesia are contained in KMK Number 1002/KMK.04/1984 which was revised again to PMK No.169/PMK.010/2015. The regulation regulates the calculation of thin capitalization using a debt to equity ratio, as well as a maximum thin capitalization limit of 4:1. This means that interest costs above 80% are still subject to tax. The rule regarding thin capitalization has been implemented since 1984, but the regulation is not effective because according to the government, the regulation prevents foreign investors from investing in Indonesia. According to Mardan (2013) the practice of thin capitalization can be detected by measuring the Debt to Equity Ratio.

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Companies that do tax avoidance using the thin capitalization method are proven to have a high debt to equity ratio (Beuselinck et al., 2005; Dyreng et al., 2008; Graham & Tucker, 2006). Therefore, developed countries that are members of the European Union develop rules to prevent thin capitalization by using the measurement of the ratio between debt and equity (Debt to Equity Ratio).Tax avoidance can be seen from Global Financial Integrity's records which show that the flow of illicit or illegal funds resulting from tax evasion and business activities in Indonesia that was sent abroad reached US$6.6 trillion for 10 consecutive years (http://finansial. business.com, 2015). Only in the period 2003 to 2012, the flow of illegal funds from Indonesia more than tripled from US$297.41 billion to US$991.3 billion, or an average increase of 9.4% per year (http:// financial.business.com, 2015). In addition, the Directorate General of Taxes of the Ministry of Finance (DGT of the Ministry of Finance) stated that as many as 2,000 PMA (Foreign Investment) companies operating in Indonesia did not pay Corporate Income Tax (PPh) Article 25 and Article 29 for reasons of loss during the last ten years from 2007-2007. 2016 with a total state loss of Rp. 500 trillion (https://www.liputan6.com, 2016). Quoted from one of the media which stated that the Director General of Taxes detected from 2000 foreign investment companies that declared losses to avoid taxes, 50% of them stated that the loss was not due to business and production activities, but rather the company's very high debt (https://www. .liputan6.com,2016). If the results of the identification of the director general of taxes show that foreign investment companies are manipulating losses by increasing debt to avoid taxes, then the tax avoidance is referred to as a thin capitalization scheme.

This study adds foreign operations as a determinant that affects the practice of thin capitalization. The reason this study uses foreign operations is because companies whose activities cross national borders have broad opportunities to avoid tax because they can take gaps from different cultural, political, economic environments and different tax laws and regulations (Ariffin, 2013). Several studies on foreign operations show that the larger the foreign operation of the company, the more aggressive the company tends to be in carrying out tax avoidance practices (Desai et al., 2004; Graham & Harvey, 2001; Huizinga et al., 2008; Rego, 2003; Stickney & McGee). , 1982). However, the results of this study differ from the research conducted by Stickney and McGee (1982) that companies with high foreign operations have no effect on tax avoidance practices. The measurement of foreign operations in this study refers to the research conducted by Stickney and McGee (1982) and Rego (2003), where foreign operation is the division between total foreign sales and total sales in a certain period.

This study adopts research conducted by Taylor and Richardson (2013), in which there are factors that influence the practice of thin capitalization in public companies in Australia, including multinationality, tax heaven, withholding tax, and tax uncertainty. The difference between Taylor & Richardson's (2013) research with this research is that this study does not use tax heaven because the measurement of tax heaven in financial statements cannot be disclosed in detail and accurately, besides that tax heaven cannot be detected using only manual financial statements because the company does not will disclose the existence of the entity in a tax haven country. Then the withholding tax is not used because the withholding tax disclosure is applied to all companies so that in every financial report a withholding tax report will appear that cannot be measured using a dummy measurement.

Foreign capital companies as the sample in this study for the period 2007-2016 are listed on the Indonesia Stock Exchange. The selection of the period because it was recorded by the Directorate General of Taxation that in the last ten years in a row there were 2000 foreign investment companies reporting losses to avoid taxes

(https://www.liputan6.com, 2016). In addition, 50% of the 2000 foreign capital companies stated that the loss was not due to business and production activities, but the company's very high debt (https://www.liputan6.com, 2016). The sample of this study uses foreign investment companies not in the fields of banking, insurance, and mining because the three companies have different debt and capital financing structure rules from the rules mentioned in PMK No.169/PMK.010/2015. Based on the description above, this study will analyze thin capitalization which is influenced by multinationality, tax uncertainty, foreign operation, firm size, and firm growth .

II. Research Method

The model used in this study was adapted and modified from the research model developed by Taylor and Richardson (2013) to measure the relationship between thin capitalization and its determinants. There are several modifications to the model made. First, the dependent variable measurement proxy used in this study was replaced. In this study, the THINCAP variable was measured using the ratio of debt to capital owned by the company. The second modification is the researcher adds foreign operation variables. Profit growth and size company as a control variable. The models are:

$$THINCAP_{i,t} = \alpha o + \beta_1 MULTI_{i,t} + \beta_2 FOREKS_{i,t} + \beta_3 UNCERT + \beta_4 SIZE_{i,t} + \beta_5 GROWTH_{i,t} + e_{i,t}$$

Where:

$THINCAP_{i,t}$ = Debt to equity value for company i in year t, where the balance is long-term debt and short-term debt, while equity is the total equity in the financial statements, including non-interest bearing debt to related parties.

$MULTI_{IT}$ = Dummy variables; "1" for companies that have subsidiaries/affiliated companies domiciled in at least 2 countries, and "0" for companies that do not have business entities domiciled in more than 2 countries.

$UNCERT_{it}$ = *Dummy variable*; "1" for companies that disclose statements regarding "Tax Uncertainty" in the notes to their financial statements, and "0" for companies that do not disclose such statements.

FOREX it = The company's export sales to total sales.

$GROWTH_{it}$ = The value of profit growth in the company by calculating Ln EBIT

$SIZE_{it}$ = Natural logarithm of the issuer's total assets in a certain period.

e = Residual

III. Results and Discussion

4.1 Overview of Research Objects

The objects studied in this study are companies that own foreign capital listed on the Indonesia Stock Exchange except for banking, insurance, and mining companies for the 2015-2019 period. Based on the sample selection criteria referring to the limitations described in chapter 3, a sample of 74 companies was obtained with a total of 460 observations. 4.2 Descriptive Analysis Results

Descriptive statistical analysis in this study aims to describe the description of the variables used, both independent variables, namely multinationality (MNC), Tax Uncertainty (UNCERT), and Foreign Operations (FOREKS), firm size (SIZE) and company growth (GROWTH) control variables.), as well as the independent variable, namely thin capitalization (THINCAP/DER). Based on the results of the study, it can be

seen that the minimum, maximum and average values of each variable from the companies sampled during 2007-2016 are presented in Table 1.

Table 1. Descriptive Test Results

	N	Min	Max	Mean	Std. Dev
Thin Cap	460	.007	3.5960	1.024984	.8028130
MNC	460	0	1	.75	.433
UNCERT	460	0	1	.75	.433
FOREKS	460	.000	.9998	.207915	.288
SIZE	460	20.040	33.5950	25.03259	2.578
GROWTH	460	14.535	32.6040	24.08708	1.961
Valid N (listwise)	460				

Source: Data processed (2020)

a Thin Capitalization

The value of thin capitalization as proxied by the debt to equity ratio in table 4.1 shows that thin capitalization in this study has an average of 1.024984 with a standard deviation indicating the variability of the thin capitalization variable is 0.8028130. In this study, the highest thin capitalization was 3,5960 which was owned by Kokoh Inti Arebama Tbk, while the lowest thin capitalization was 0.0070 which was owned by Davomas Abadi Tbk.

b. Multinationality

Multinationality was measured using a dummy, which showed that multinationality in this study had an average value of 0.75 with a standard deviation indicating the variability of the multinationality variable of 0.433. In this study, multinationality with a value of 0 is 7.8% and a value of 1 is 92.17%. This means that companies that do not have subsidiaries or affiliates in different jurisdictions are 19 foreign investment companies, while companies that have subsidiaries or affiliates in different jurisdictions or overseas as many as 56 companies.

c. Tax Uncertainty

Uncertainty Tax in this study was measured using a dummy, which showed an average value of 0.75 with a standard deviation indicating the variability of the variable was 0.433. In this study, the value of 0 is 25% and the value of 1 is 75%. This means that the companies that do not disclose the uncertainty of their tax position are 18 companies and companies that disclose the uncertainty of their tax position.
certainty of tax position in the financial statements of 60 companies.

d. Foreign Operations

Foreign operations in this study were measured using the calculation of total foreign income divided by total income, which showed an average value of 0.207915 with a standard deviation indicating the variability of the variable 0.2886948. In this study, the maximum value of foreign operations was .9998 which was owned by Hexindo Adiperkasa Tbk and the lowest value was 0.00 which was owned by several companies. The meaning of the value 0 is the company has no revenue or sales abroad.

e. Company Size (SIZE)

Size is a variable from the calculation of the natural logarithm of total assets, which has an average value of 25.032539 with a standard deviation which indicates the variability of the variable is 2.5783858. In this study, the highest size was 33,5950 and the lowest was 20,0400 owned by the company Ades Water Indonesia tbk.

f. Profit Growth (GROWTH)

Profit growth is a calculation of the natural logarithm of LnEBIT operating profit which has an average value of 24.087048 with a standard deviation which shows the variability of the variable 1.9619315. In this study, the highest profit growth was 32.6040 and the lowest was 14.350.

4.2 Analysis of Research Results

Model analysis in this study was conducted using multiple linear regression test. This test was chosen because it aims to test the effect of more than one independent variable on the dependent variable.

a. Classical Assumption Test

This test is carried out in order to obtain the results of a regression model that can be estimated accurately and unbiased or called BLUE (Best Linear Unbiased Estimation). This classical assumption test consists of 4 tests including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

b. Normality Test

The normality test aims to test whether in the regression model, the dependent variable and the independent variable have a normal distribution (Ghozali, 2012). If this test does not meet the assumptions then the statistical test becomes invalid. The way to test the normality of the data is by analyzing the Normal P-Plot graph. The basis for making decisions from the P-Plot graph are:

1. If the points spread around the diagonal line and follow the direction of the diagonal line, then the regression model fulfills the assumption of normality.
2. If the points spread away from the diagonal line and or do not follow the direction of the diagonal line, then the regression model does not meet the assumption of normality.

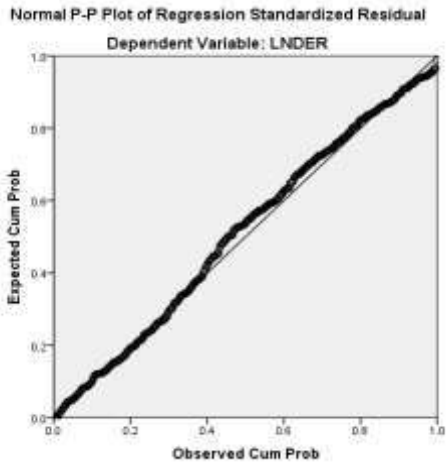
Statistical analysis that can be used to test for normality is the non-parametric Kolmogrov-Smirnov test. The data is said to be normally distributed if the significance (2-tailed) shows more than 0.05. In this research , the normal distribution can be fulfilled after transforming the dependent variable in the form of a natural logarithm. The following are the results of the Kolmogrov-Smirnov test after the transformation.

Table 2. Kolmogorov-Smirnov Test Results

Kolmogorov-Smirnov Z	.914
Asymp. Sig. (2-tailed)	.374

Source: Data processed, 2020

The data is said to be normally distributed if the significance shows more than 0.05. Based on Table 2, the Kolmogrov-Smirnov value is .914 with a significance level of .374. This significance value is more than 0.05. This shows that the data is normally distributed.



Source: Data processed, 2020

Figure 1.

The data is said to be normally distributed if the significance shows more than 0.05. Based on Table 2, the Kolmogrov-Smirnov value is .914 with a significance level of .374. This significance value is more than 0.05. This shows that the data is normally distributed

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Table 3. Multicollinearity Test Results

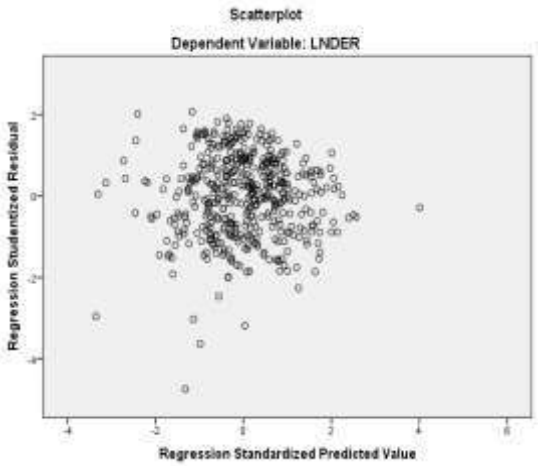
Variable	***Colliniearity Statistic***		**Keterangan**
	Tolerance	**VIF**	
MNC	,963	1,038	Multicollinearity Free
UNCERT	,984	1,016	Multicollinearity Free
FOREKS	,973	1,028	Multicollinearity Free
SIZE	,956	1,046	Multicollinearity Free
GROWTH	,954	1,049	Multicollinearity Free

Source: Data processed, 2020

Table 3 shows the results of the multicollinearity test. Based on Table 4.4, it is known that all independent variables, namely multinationality (MNC), Uncertainty Tax (UNCERT), Foreign Operation (FOREKS), control variables, namely company size (SIZE) and company growth (GROWTH), have tolerance values > 0.1 and VIF < 10. It can be concluded that all independent variables in the regression model tested in this study did not occur multicollinearity.

c. Heteroscedasticity Test

Heteroscedasticity symptom testing was conducted to determine whether there was a relationship between the confounding variable and the independent variable. If there is a symptom of homoscedasticity, it means that there is no relationship between the confounding variable and the independent variable, so that the dependent variable is really only explained by the independent variable. The heteroscedasticity symptom test can be identified using a scatter plot. If the points are spread out and do not form a typical pattern, the regression test is not affected by the assumption of heteroscedasticity. The results of the heteroscedasticity test in this study can be seen as follows.



Source: Data processed, 2020
Figure 2. *Scatterplot*

Figure 3 shows that the scattered points do not clump together and do not form a typical pattern. Thus it can be concluded that there is a symptom of homoscedasticity or there is no relationship between the dependent variable and the independent variable, so that the dependent variable is really only explained by the independent variable. The results of this test state that the regression model is free from heteroscedasticity symptoms.

d. Autocorrelation Test

The autocorrelation test aims to test the correlation between the error between the intruder in period t and the error in period t-1 (previous). To determine whether there is autocorrelation, the Durbin Watson test is used. The test is said to be independent of autocorrelation if it is between -2 to +2.

Table 4. Durbin Test – Watson

Model	Durbin – Watson
1	0.847

Source: processed data, 2020

Based on the Durbin-Watson test presented in Table 4, the regression for equation 1 shows a value of 0.847, which means that the Durbin-Watson value is still in the auto correlation-free region because it is between -2 to +2.

4.3 Model Analysis and Hypothesis Testing

The following are the results of multiple linear regression tests for the first model where this regression examines the effect of independent variables consisting of multinationality, tax uncertainty, foreign operations and control variables consisting of company size and growth (growth), so that the results of multiple linear regression are obtained as follows:

Table 5. Results of multiple linear regression

Independent Variables	REGRESSION MODEL			
	Coefficient	**t**	**Sig**	**Conclusion**
(constant)	3,474		.000	
MNC	-,189	-1,951	,052	Not significant
UNCERT	,289	3,006	,003	significant
FOREKS	,354	2,439	,015	Significant
SIZE	-,036	-2,192	,029	significant
GROWTH	-,127	-5,897	,000	significant
R square	.131			
F statistic	13,668			
F Sig	.000[b]			

Source: Data processed, 2020

Information:
* = statistically significant at the 5% significance level

THINCAPit = 3.474a -.189 MNC + .289 UNCERT+ .354 FOREKS -.036 SIZE -127 GROWTH + .88450

Based on the summary results of multiple linear regression analysis, the research regression coefficients show the same results, which are positive. The positive coefficient indicates a unidirectional change between the independent variable and the dependent variable. The following is the interpretation of the regression coefficient value:

1. The constant value is 3.474, which means that if there are no other variables, the thin capitalization value is 3.474
2. Multinationality variable has a regression coefficient of -.189. This means that if multinationality increases by one unit, the thin capitalization variable will increase by -.189 and vice versa with the assumption that other variables are constant.
3. The variable of tax uncertainty has a coefficient of .289. This means that if tax uncertainty increases, thin capitalization will increase by .289 and vice versa with the assumption that other variables are constant.
4. The foreign operation variable has a regression coefficient of .354. This means that if the foreign operation variable increases by one unit, then thin capitalization will increase by .354 and vice versa with the assumption that other variables are constant.
5. Firm size variable has a regression coefficient of -0.036. This means that if the foreign operation variable increases by one unit, then thin capitalization will increase by -0.036 and vice versa with the assumption that other variables are constant.
6. Firm size variable has a regression coefficient of -.127. This means that if the foreign operation variable increases by one unit, then thin capitalization will increase by -.127 and vice versa assuming other variables are constant.

4.4 Discussion

The following is a discussion of the results of data analysis tests to develop research hypotheses.

a. Effect of Multinationality on Thin Capitalization

Based on the results of research that have been tested, it shows that multinationality has no significant effect on thin capitalization as an act of tax avoidance, the results of this study are supported by research conducted by (Desai et al., 2004). However, the results of

this study are not in accordance with the research of Taylor and Richardson (2013) and Mills and Newberry (2004), where multinationality has a significant effect on thin capitalization. The results of this study are closely related to the Theory of Reasoned Action, namely the existence of positive beliefs about taxes, so that attitudes are obedient to taxes. This attitude is based on the will (intention) of multinational companies to maintain the company's performance by not doing (behavioral) tax avoidance. The more companies that have branches in more than two countries, the more the debt to equity ratio will be minimized. In addition, the results of this study can also be related to the Posture Motivational Theory developed by (Braithwaite 2003), where multinational companies have compliance with tax payments. As a positive orientation (compliant) that results in commitment and capitulation. The commitment of multinational companies reflected in this study is that companies realize that the tax facilities provided by the Indonesian government have benefited multinational companies, so that multinational companies are committed to being involved in the role of the tax authorities in combating tax avoidance practices. Then, the capitulation of multinational companies which is reflected in this study is the cooperative attitude of the company by utilizing the tax facilities provided by the government without tax evasion.

The results of the study which show that multinationality has a significant effect on thin capitalization have several theoretical reasons, including stating that multinational companies have the flexibility to carry out financing consisting of debt and capital to affiliates or companies that have special relationships based on tax rates in the country or region where the branch is established. the firm (source country) (Klassen et al., 1993; Mills & Newberry, 2004; Mintz & Weichenrieder, 2005). If an affiliate or branch company is established in a source country that has a low tax rate, the parent company will transfer capital with a higher proportion of debt than equity. On the other hand, if an affiliate or branch company is established in a source country that has a high tax rate, the parent company will transfer capital with a higher proportion of debt than equity. Klassen et al. (1993) in his research adds that multinational companies have many strategies in tax avoidance because the business activities of multinational companies are able to cross national borders which basically have an incompatibility between domestic tax rules and international taxes, so they are able to exploit loopholes in tax regulations.

One of Indonesia's strategies is to attract investment by multinational companies by providing tax facilities (tax incentives). In addition, tax incentives are policies to encourage companies not to evade taxes. The government provides several tax facilities for foreign companies that invest their capital in Indonesia, including tax holidays, tax sparing credits, investment allowances and tax credits, accelerated depreciation, and tax rate reductions (Parjiono & Fitrah F. H, 2018). The number of multinational companies included in this research is relatively small as many as 56 companies, so it can be said that when the government attracts investment from multinational companies by providing tax incentives it will not significantly reduce state revenues from the tax sector (Hartono & Setyowati, 2011). The results of the research by Dewi and Jati (2014) show that multinational companies are companies that have a big influence in global economic and political activities, so that multinational companies are getting more attention by the government by providing various tax facilities. Thus, multinational companies without having to evade taxes have received concessions in paying corporate taxes.

b. Effect of Tax Uncertainty on Thin Capitalization

The results of this study indicate that tax uncertainty has a significant effect on thin capitalization. The results of this study are in accordance with the research of Koester

(2011), Taylor and Richardson (2013), Putra and Fitriasari (2014), and Agasi and Septiani (2015) that reporting uncertainty about taxes has a positive effect on tax avoidance, especially thin capitalization, in other words disclosure The uncertainty of the company's tax position can be an indication of the company's tendency to take tax avoidance actions. The company's decision to disclose or not to disclose the uncertainty of the tax position is part of tax management. Disclosure of tax uncertainty does not mean that the company has complied with taxation, because disclosure of tax uncertainty is only a form of subjective norm to require (intention) a good assessment according to investors and the public. Then, the subjective norm that is used by the company as a form of tax compliance (complaint) turns out to be a form of resistance (defiance) by the company to the tax rules that have been set. The way the company fights against the tax rules is by playing a game, where the company plays the different tax rules between jurisdictions.

The complexity of the existing tax regulations in a country will increase the company's uncertainty in calculating the estimated tax that must be paid. In Indonesia, regulations regarding taxes are quite complex because taxes are the main sector in state revenue, so that tax regulations undergo dynamic changes to adapt to conditions of global economic activity. This is what drives the uncertainty of the position of tax reporting that is used as a tax avoidance strategy (Taylor & Richardson, 2013). Then according to the research results of Agasi and Septiani (2015) the disclosure of the uncertainty of the company's tax position in the financial statements can be used as an incentive or encouragement for companies to avoid tax. The uncertainty of the company's tax position is due to differences in tax calculations between the company and the tax authorities which give rise to estimates (Koester, 2011; Taylor & Richardson, 2013). This can be used by managers to avoid corporate tax based on their subjectivity when making estimates in tax calculations. In other words, uncertainty over tax estimates can be used as an indicator to determine the potential for corporate tax avoidance.

Regulations regarding the disclosure of tax position uncertainty in the financial statements do not have a standard applied. However, some companies have disclosed it in consideration of the uncertain treatment separately or together with one or more other uncertain tax treatments based on a better approach to predicting uncertainty resolution (Koester, 2011). The regulation is not required to be reported as long as it is not material, but the report can detect the company's non-compliance in disclosing tax reporting (Putra & Fitriasari, 2014).

c. The Effect of Foreign Operations on Thin Capitalization

Foreign operations in this study have a significant effect on thin capitalization. The results of this study are in accordance with research conducted by Rego (2003), Mills and Newberry (2004), Beuselinck et al. (2005), and Taylor and Richardson (2013) that the higher the level of sales abroad, the higher the practice of thin capitalization. The results of this study illustrate the relationship with the Theory of Reason Action where companies with high export levels tend to have beliefs that the company will earn high profits, causing a high tax burden. Based on these beliefs, it creates an attitude to avoid taxes with various events through tax management. Then, if this theory is associated with the Posture Motivational Theory developed by Braithwaite (2003), there is a defiance category as a form of company resistance to high tax rates. Foreign operations in this study are measured by foreign sales to total sales, so in other words, companies that have high export values tend to avoid tax. The results of this study are supported by the theory of Modigliani and Miller (1963) that companies that do not only operate in the domestic market have wider space to increase debt ratios in order to increase firm value. The value of the company

referred to in this case is that the company is able to save on tax expenditure costs (tax shield) and maximize company profits (Pohan, 2013). In addition, Ariffin (2013) argues that the more extensive the operations carried out by companies abroad, the greater the possibility of tax evasion.

d. Effect Of Firm Size (Control Variable) on Thin Capitalization

The size of the company in the study has a significant effect on thin capitalization. The results of this study indicate a negative direction, which means that the larger the company, the less likely it is to practice thin capitalization. Companies that are grouped into large sizes (having large assets) will tend to be more capable and more stable to generate profits when compared to companies with small total assets (Desai & Dharmapala, 2008). Large companies measured by total assets will disclose more information to attract public interest so that the public's view of the company seems good (Buettner et al., 2012). This allows companies to comply with tax regulations and are less likely to evade taxes. Companies with large sizes are better able to carry out tax management, therefore, even if large companies do tax avoidance, of course they use other tax avoidance strategies that are difficult for tax authorities to detect. Companies with large sizes as reflected in the size of assets indicate that the company is able to conduct cross-border business activities and must maintain the company's performance in the eyes of investors. The practice of thin capitalization is characterized by a higher debt ratio than the equity ratio which makes the company's financial statements look unattractive to investors.

The results of this study illustrate that large companies tend to have positive beliefs so that they can influence positive attitudes and behavior. Positive beliefs referred to in this study are companies have beliefs that low debt levels will be able to attract investors and companies have confidence that by paying taxes fairly they will avoid tax sanctions. The size of the company in this study reflects that at the stage of the larger company size, the company tends to be compliant (compliant) to maintain the company's commitment as a company that has a large contribution to the country (the area where the company was founded), so that they feel they have played a role in the vision and mission of the government and regulators.

e. Effect of Firm Growth (control variable) on Thin Capitalization

Profit growth in this study has a significant effect on thin capitalization. The negative direction in this study shows that the faster the company's growth, the smaller the practice of tax avoidance. The results of this study are in accordance with the research of Taylor and Richardson (2013) that profit growth has a significant effect on thin capitalization. If the results of this study are developed according to the Theory of Reasoned Action and Theory of Posture Motivation, it reflects that companies with the ability to earn stable profits have the belief (beliefs) to report taxes fairly in order to avoid tax sanctions. Companies will think that tax sanctions have a significant negative impact compared to having to avoid the tax burden. Therefore, companies with large profit growth tend to be compliant with the established tax rules. Based on the compliance (compliant) that the company has, it produces commitment and capitulation. The form of commitment and capitulation carried out by companies that have high profit growth, namely, companies do not do profit engineering by increasing debt which can reduce the tax burden.

The growth of the company in this study is calculated from the logarithm of operating profit or profit before interest and taxes (Taylor & Richardson, 2013). Profit growth has a negative direction towards the practice of thin capitalization indicating that healthy companies with high profits are more tax compliant. It is possible that the

company's management is more concerned with maintaining the company's performance to attract investors, by not avoiding tax, it reflects that the company can build credibility and trust.

V. Conclusion

Based on the analysis and testing of the data in this study, the following conclusions were obtained:

1. Companies that have subsidiaries or affiliates in different jurisdictions from the parent company or can be referred to as multinationality companies do not have a significant influence on the practice of thin capitalization.
2. Companies that disclose the uncertainty of their tax reporting position (tax uncertainty) have a significant influence on the practice of thin capitalization.
3. Companies that have higher income from other countries (foreign operations) tend to practice thin capitalization.
4. Companies with a large logarithmic size of total assets have a significant negative effect on the practice of thin capitalization. The larger the size of the company, the greater the avoidance of the practice of thin capitalization.
5. Firms with firm growth have a significant negative effect on thin capitalization. The faster the company's growth, the more it avoids the practice of thin capitalization.

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