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THE EFFECTS OF THIN CAPITALIZATION, COMPANY SIZE, AND PROFITABILITY ON TAX AVOIDANCE

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Pengaruh Thin Capitalization, Ukuran Perusahaan, dan profitability terhadap Tax Avoidance

Abstrak

Penghindaran pajak di Indonesia masih sangat masif, tercermin dari rendahnya *tax ratio* sehingga menjadi tantangan serius dalam upaya optimalisasi penerimaan negara. Penelitian ini bertujuan untuk menganalisis pengaruh *thin capitalization*, ukuran perusahaan, dan profitabilitas terhadap penghindaran pajak di sektor *consumer non-cyclicals* tahun 2020-2024. Sektor *consumer non-cyclicals* memiliki peran strategis dan kontribusi yang besar terhadap perekonomian nasional tetapi tidak terlepas dari indikasi adanya praktik penghindaran pajak. Penelitian ini menggunakan pendekatan kuantitatif dengan metode analisis regresi data panel melalui model *Fixed Effect Model* (FEM). Sampel terdiri dari 40 perusahaan dengan total 200 observasi selama lima tahun. Hasil penelitian menunjukkan bahwa secara simultan, *thin capitalization*, ukuran perusahaan, dan profitabilitas berpengaruh signifikan terhadap penghindaran pajak. Secara parsial, *thin capitalization* dan profitabilitas berpengaruh positif signifikan terhadap penghindaran pajak, sementara ukuran perusahaan berpengaruh negatif signifikan. Implikasi dari hasil penelitian ini diharapkan dapat menjadi dasar pertimbangan bagi otoritas pajak dalam merumuskan kebijakan pengawasan pajak yang lebih proaktif dan berbasis risiko.

***Keywords**: Thin Capitalization, Company Size, Profitability, Tax Avoidance, Consumer non-cyclicals*

Abstract

Tax avoidance in Indonesia remains widespread, as reflected in the low tax ratio, posing a serious challenge to efforts to optimize state revenue. This study aims to analyze the influence of thin capitalization, company size, and profitability on tax avoidance in the consumer non-cyclicals sector in 2020-2024. The consumer non-cyclical sector plays a strategic role and makes a large contribution to the national economy, but it cannot be separated from indications of tax avoidance practices. This study uses a quantitative approach, employing panel data regression with the Fixed Effects Model (FEM). The sample comprises 40 companies with 200 observations over five years. The results showed that simultaneously, thin capitalization, company size, and profitability have a significant effect on tax avoidance. Partially, thin capitalization and profitability have a significant positive effect on tax avoidance, while company size has a significant negative effect. The results of this study are expected to provide a basis for tax authorities to formulate more proactive, risk-based tax supervision policies.

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INTRODUCTION

Based on data released by the Central Statistics Agency in 2024, tax revenue accounted for more than 80% of Indonesia's total government revenue. This amount reached Rp2,802.29 trillion (BPS, 2024). The actual government revenue for the 2022–2024 period is shown in Figure 1 below.

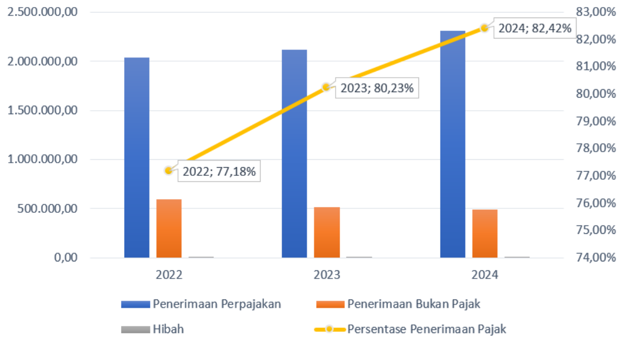

Figure 1: Actual Government Revenue for 2020–2024

Taxes have a crucial role in shaping the structure of the State Budget (APBN). Therefore, the government continues to strive to increase and maximize state revenue from taxation. In this context, the business sector plays a vital role, as companies are the primary contributors to tax revenue (Rahmah & Sovita, 2023). This is evidenced by data from the Directorate General of Taxes' performance report, which shows that corporate income tax revenue contributes the most to non-oil and gas income tax revenue in Indonesia.

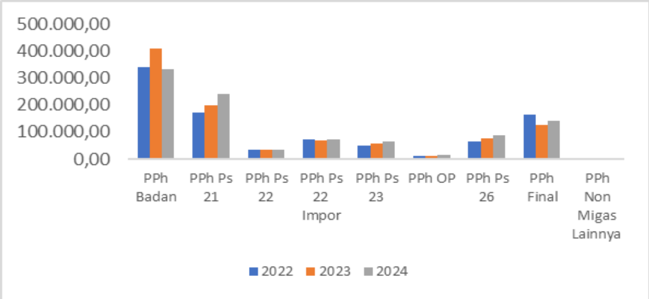

Figure 2: Actual Non-Oil and Gas Income Tax Revenue for 2022–2024

In tax practice, conflicts of interest often arise between the government, as the tax authority, and business entities, as taxpayers. The government expects every taxpayer to fulfill their tax obligations to the fullest extent possible. On the other hand, most companies view taxes as a financial burden because they directly reduce net income derived from operational activities (Wijayanti et al., 2017). This situation can lead to tax noncompliance, including tax avoidance aimed at maximizing corporate profits (Yansyah et al., 2023). Consequently, the government's efforts to increase tax revenue continue to face challenges posed by tax avoidance practices (Anggraeni & Oktaviani, 2021; Yansyah et al., 2023).

The quality of a country's tax system can be assessed through the tax ratio. This measure compares total tax revenue to Gross Domestic Product (GDP) as a reflection of the country's ability to raise revenue through the tax system. In 2022, Indonesia recorded a tax ratio of 10.39%, ranking seventh among the ten ASEAN member countries (Kontan, 2025). In 2024, Indonesia's tax ratio fell to 10.08% (BPS, 2024). This figure remains below the International Monetary Fund (IMF) standard of 15%.

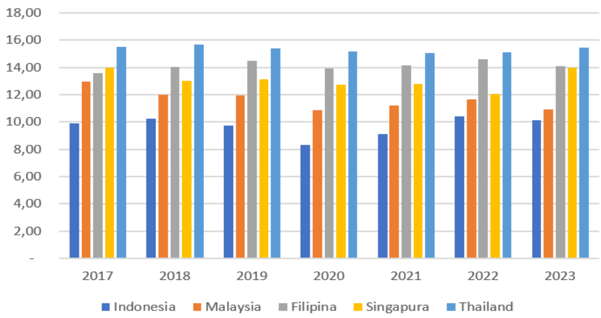

Figure 3: Tax Ratios of Several ASEAN Member Countries (in Percent)

Based on data on tax ratios for several ASEAN member countries from World Bank reports, as shown in Figure I.3, Indonesia's tax ratio remains lower than those of several neighboring countries, such as Malaysia, the Philippines, Singapore, and Thailand. This low tax ratio indicates that Indonesia has not yet optimized its tax revenue collection compared to several other ASEAN countries. The low tax ratio may be attributed to tax avoidance practices by some taxpayers, thereby hindering the government's ability to maximize tax revenue (Falbo & Firmansyah, 2018). The State of Tax Justice 2020 report, published by the Tax Justice Network, estimates that Indonesia loses USD 4.86 billion in potential tax revenue annually due to tax avoidance practices. Of this amount, USD 4.78 billion stems from tax avoidance by corporate entities, equivalent to Rp67.6 trillion. In the Asian region, Indonesia ranks fourth among countries with the largest losses from tax avoidance practices, behind China, India, and Japan (Kontan, 2020).

Data from the Central Statistics Agency (BPS) shows that in 2023, household consumption was the dominant component of Indonesia's GDP, accounting for 53.18% of the nominal value, or Rp6,486.3 trillion (BPS, 2024). This fact reinforces the strategic position of the non-cyclical consumer goods sector in supporting national economic growth. This is because household consumption is closely linked to demand for non-cyclical consumer goods, such as food, beverages, and other daily necessities (IDX Channel, 2023). Given household consumption's significant contribution to GDP, the higher the public's purchasing power, the greater the demand for non-cyclical consumer products. Thus, the sector's growth not only reflects companies' internal performance but also mirrors the dynamics of household consumption, which is the primary driver of Indonesia's economy.

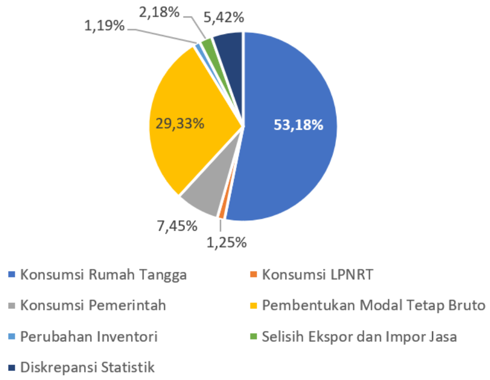

Figure 4: Indonesia’s GDP in 2023 by Expenditure

Although classified as a sector with high economic stability and relatively constant demand, the non-cyclical consumer goods sector still presents potential for tax avoidance. Therefore, this sector warrants further examination in the context of tax avoidance strategies. Several cases involving tax avoidance practices have been documented in the non-cyclical consumer goods sector. For example, the cases of PT Japfa Comfeed Indonesia Tbk and PT Bentoel Internasional Investama (Kontan, 2020).

Research on tax avoidance has been extensive, but most previous studies have focused on the manufacturing (Amelia & Nurdayati, 2022; Simanjuntak, 2019) and banking (Dewi & Estrini, 2024; Nurhasan, 2023) sectors. However, the non-cyclical consumer goods sector is no less important, as evidenced by cases of tax avoidance in this sector and by household consumption, which accounts for 53.18% of Indonesia's GDP. Therefore, it is important to conduct further research on this sector to enrich the literature and provide new insights into the dynamics of tax avoidance, which has received relatively little attention. The novelty of this study lies in three main aspects. First, the use of the Cash Effective Tax Rate (CETR) proxy, which is considered to more accurately reflect actual tax payment conditions because it uses the amount of tax actually paid (Dyreng et al., 2008), compared to the Effective Tax Rate proxy commonly used in previous studies (Anggraeni & Oktaviani, 2021; Azizah & Muniroh, 2023). Second, this study offers a broader theoretical contribution through a multi-theory approach, namely the integrated application of agency, trade-off, and legitimacy theories. By drawing on these theories, this study aims to establish a more comprehensive theoretical foundation for explaining the factors influencing tax avoidance. Third, this study confirms the findings from the IDX data analysis through interviews conducted from the perspective of the Directorate General of Taxes to capture the actual dynamics on the ground.

Yansyah et al. (2023) assert that, although it does not explicitly violate legal provisions, tax avoidance is inconsistent with the government's fiscal objectives. This practice is influenced by several factors, including debt-based financing strategies (thin capitalization), company size, and profitability levels (Ardiansyah & Murtanto, 2024; Fionasari et al., 2020; Utami & Irawan, 2022). The thin capitalization strategy is a financing structure that relies more on debt than on equity. This strategy allows companies to reduce their tax burden by deducting interest on debt (Salwah & Herianti, 2019; Utami & Irawan, 2022). However, the findings of previous studies indicate inconsistencies. A study by Anggraeni & Oktaviani (2021) found that thin capitalization does not affect tax avoidance. Conversely, findings from Azhar & Puspitasari (2023) revealed that thin capitalization has a significant positive effect on tax avoidance. Meanwhile, a study by Salwah & Herianti (2019) found a significant negative relationship between thin capitalization and tax avoidance.

Company size is also one of the variables believed to influence a company's tendency to engage in tax avoidance. Research by Sarpingah (2020) indicates that firm size negatively affects tax avoidance. Conversely, studies by Amelia & Nurdayati (2022) and Rahmah & Sovita (2023) suggest that firm size has a positive and significant effect on tax avoidance. Furthermore, studies by Simanjuntak (2019) and Ega Apridinata & Dewi Zulvia (2023) found differing results, concluding that firm size does not affect tax avoidance.

Firm profitability is also considered a factor that may influence tax avoidance. Ardiansyah & Murtanto (2024) found that profitability positively affects tax avoidance. However, Amandha Cahyamustika & Meita Oktaviani (2024) reported a contradictory result, finding that profitability negatively affects tax avoidance. Therefore, the explicit objective of this study is to test and provide strong empirical validation of the simultaneous and partial effects of thin capitalization, firm size, and profitability on tax avoidance in the non-cyclical consumer sector in Indonesia.

This study adopts an integrated multi-theoretical approach, thereby providing a solid theoretical foundation for analyzing the determinants of tax avoidance. First, Agency Theory, first introduced by Jensen and Meckling (1976) in their academic article titled "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," serves as the foundational framework for understanding the relationship between managers and firm owners. Within this theoretical framework, a firm is viewed as the result of a contractual relationship between owners (principals) and managers (agents). Agency theory explains that tax avoidance arises from a conflict of interest between the government and the firm. In this context, the government acts as the principal seeking to maximize tax revenue, while the firm acts as the agent, viewing taxes as a burden that can reduce profits.

Second, the Trade-Off Theory, introduced by Modigliani and Miller in 1963 through an article published in the American Economic Review 53 titled "Income Taxes on the Cost of Capital: A Correction." Modigliani and Miller (1963) initially argued that capital structure does not affect a firm's value in a perfect market. However, when accounting for tax factors and the risk of bankruptcy, the trade-off theory holds that a firm must balance the tax benefits of debt with the costs of bankruptcy. This theory was later developed by Kraus & Litzenberger (1973), who explained that firms, in determining their capital structure, weigh the tax benefits of using debt (the tax shield) against the potential risk of bankruptcy. In other words, debt provides tax benefits because interest is tax-deductible (tax shield). However, too much debt increases the risk of bankruptcy, so companies must find an optimal level of debt. Under the trade-off theory, companies tend to increase debt to take advantage of tax deductions on interest payments. However, they must also balance the financial risks associated with high debt levels.

Third, the Legitimacy Theory proposed by Suchman (1995) states that legitimacy is the general perception that an organization's actions are considered appropriate, fitting, and acceptable to society because they align with prevailing social values and norms. This legitimacy theory holds that, to survive and operate sustainably, a company must gain public support through socially appropriate actions. In this regard, large companies tend to attract more public attention and are therefore more vulnerable to social pressure and reputational risks. Consequently, large companies are more sensitive to public opinion and strive to avoid controversial practices, including aggressive tax avoidance, that could damage their corporate image.

METHOD

This study is a quantitative research aimed at testing the causal relationship between thin capitalization, firm size, and profitability on tax avoidance. This study uses secondary data from companies' annual financial reports for the 2020–2024 period, obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). In addition to secondary data, this study also uses results from semi-structured interviews with two Account Representatives at the Tax Office for Listed Companies. The purpose of these interviews was to confirm the study's findings and strengthen the interpretation of the results from the perspective of tax authorities who directly handle corporate taxpayers at the Tax Office for Listed Companies.

In this study, the population consists of all companies operating in the non-cyclical consumer sector and listed on the Indonesia Stock Exchange (IDX) during the period from 2020 to 2024, totaling 113 companies. The sample was selected using purposive sampling. The sample selection criteria used are as follows:

Table 1 Sample Selection Criteria

No.	Description	Number
1.	Companies operating in the non-cyclical consumer sector that have been consistently listed on the IDX for 5 consecutive years, from 2020 to 2024.	**113**
2.	Companies in the non-cyclical consumer sector that did not present audited financial statements for each consecutive year from 2020 to 2024.	**(22)**
3.	Companies in the non-cyclical consumer sector that reported a net loss in their financial statements for the 2020–2024 period.	**(36)**
4.	Companies in the non-cyclical consumer sector that did not present financial statements denominated in Indonesian Rupiah during the 2020-2024 period.	**(2)**
5.	Companies operating in the non-cyclical consumer sector lack complete data regarding the variables used in the study.	**(10)**
Sample Size		**43**
Outliers		**(3)**
Total samples meeting the criteria		**40**
Total observation data for 2020-2024		**200**

Research variables are specific attributes, characteristics, or values possessed by individuals, objects, or activities that vary and serve as the primary focus of the analysis to conclude (Sugiyono, 2023). The operational definitions of the research variables used are as follows:

Table 2: Operationalization of Variables

No	Variabel	Indikator
1	Tax Avoidance (Y)	$CETR = \frac{Cash\ Tax\ Paid\ i,t}{Pretax\ Income\ i,t}$
2	Thin Capitalization (X1)	$DER = \frac{Debt}{Equity}\ x\ 100\%$
3	Company Size (X2)	$Size = Ln\ (Total\ Assets)$
4	Profitability (X3)	$ROA = \frac{Income\ after\ tax}{Total\ Assets}$

In this study, the analytical technique used is panel data regression analysis, which was calculated using the Econometric Views 12 Student Version (EViews version 12) software. The selection of the regression model aims to determine the best estimation approach for panel data regression analysis. According to Brooks (2008, cited in Sihombing, 2021), there are three main approaches to panel data analysis: the common (pooled) effects approach, the fixed effects approach, and the random effects approach. The selection of the most appropriate panel data regression model is conducted using three tests: the Chow test, the Hausman test, and the Breusch-

Pagan Lagrange Multiplier test. These three tests are used to ensure that the selected model can optimally represent the data (Mouchart, 2004, cited in Sihombing, 2021).

RESULT AND DISCUSSION

Result

Descriptive Statistical Analysis

In this study, descriptive analysis was conducted to explore and summarize data from a sample consisting of 200 observations, comprising 40 companies operating in the non-cyclical consumer sector and listed on the Indonesia Stock Exchange (IDX) during the period from 2020 to 2024. The following table presents the results of the descriptive statistical tests for this study, processed using Eviews12SV:

Table 3 Descriptive Statistics of Research Variables

	Y_CETR	X1_DER	X2_TA	X3_ROA
Mean	0,241907	0,754320	29,31801	0,098153
Median	0,225166	0,546653	29,43465	0,086856
Maximum	0,952717	7,940695	32,93787	0,343097
Minimum	0,000748	0,062859	24,75828	0,007790
Std. Dev	0,127050	0,773054	1,694077	0,057296
Observations	200	200	200	200

The CETR variable has a mean of 0.241907 and a standard deviation of 0.127050. The maximum CETR value of 0.952717 corresponds to Uni-Charm Indonesia Tbk’s CETR for 2024. The minimum CETR value of 0.000748 corresponds to Indo Oil Perkasa Tbk’s CETR for 2020. The DER variable has a mean of 0.754320 and a standard deviation of 0.773054. The maximum DER value of 7.940695 corresponds to Central Proteina Prima Tbk’s DER for 2020. The minimum DER value of 0.062859 corresponds to Formosa Ingredient Factory Tbk’s 2021 DER. TA has a mean of 29.31801 and a standard deviation of 1.694077. The maximum TA value of 32.93787 corresponds to Indofood Sukses Makmur Tbk’s 2024 TA. The minimum TA value of 24.75828 is Formosa Ingredient Factory Tbk’s TA for 2020. ROA has a mean of 0.098153 and a standard deviation of 0.057296. The maximum ROA of 0.343097 is Central Proteina Prima Tbk's 2021 ROA. The minimum ROA is 0.007790, which is Palma Serasih Tbk's 2020 ROA.

Panel Data Regression Results

Table 4 Results of the FEM Regression Model

Variabel	*Coefficient*	Prob.
C	-2,444665	0,0294
X1_DER	-0,033804	0,0298
X2_TA	0,096236	0,0118
X3_ROA	-1,114368	0,0000
R-*squared*	0,466622	
Adjusted R-Squared	0,323935	
Durbin-Watson Stat	2,281677	

Source: From Eviews12SV software

Based on the results of the regression model estimates in the table above, the regression equation can be written as follows:

CETR= -2.444665 - 0.033804DER + 0.096236TA - 1.114368ROA

Test of the Coefficient of Determination

The R^2 value based on the model's regression results is 0.466622, or 46.66%. This value indicates that 46.66% of the variation in tax avoidance levels can be explained by thin capitalization, firm size, and profitability. In comparison, other variables beyond the scope of this study explain the remaining 53.34%.

F-Test

In the EViews 12SV application, the F-probability value of the research model is calculated simultaneously with the regression model estimates. The results of these calculations are presented in the table below.

Table 5 Simultaneous Significance Test Results

Cross-section fixed (dummy variables)	
F-*statistic*	3,270251
Prob (F-*statistic*)	0,000000

Source: From Eviews12SV software

Based on the table above, the calculated F-value is 0.000000, and the calculated F-value (3.270251) is greater than the critical F-value (2.65). This value is less than the 0.05 significance level, indicating that thin capitalization, firm size, and profitability simultaneously influence tax avoidance.

t-test

Table 6 Results of the Partial Significance Test

Variabel	t-Statistic	Nilai Prob. t	Signifikansi pada a= 5%
C	-2,198862	0,0294	Signifikan
X1_DER	-2,192954	0,0298	Signifikan
X2_TA	2,548345	0,0118	Signifikan
X3_ROA	-5,032720	0,0000	Signifikan

Source: From Eviews12SV software

Discussion

The Effect of Thin Capitalization on Tax Avoidance

Panel data regression analysis shows that thin capitalization has a significant negative effect on CETR, indicating a significant positive effect on tax avoidance. This indicates that excessive debt use by companies can be a strategy to take advantage of the tax shield, thereby reducing taxable income through interest expense.

The findings of this study support the trade-off theory, which holds that firms determine their capital structure by balancing the benefits and costs of debt financing. In a tax context, interest expense is a tax deduction; thus, the higher the proportion of debt, the greater the potential to reduce a firm's tax burden (Kraus & Litzenberger, 1973). Furthermore, Brealey et al. (2008, p. 479) also emphasize that the use of debt in a capital structure can create a tax shield, as interest expenses can be deducted from taxable income. Companies have an incentive to increase their debt to reduce their tax burden. However, these tax benefits must be weighed against the risk of bankruptcy and the increased cost of financial distress if the debt ratio is too high.

The results of this study are consistent with those of Taylor & Richardson (2012), who found that 203 publicly traded companies in Australia with high thin capitalization levels tend to engage in tax avoidance. This indicates that debt is not merely a means of financing but can also be used as a strategic tool to reduce tax liabilities. In practice, debt is often used as a strategic instrument to reduce a company’s tax liability. These results are confirmed by the opinion of the first informant at the Tax Office for Listed Companies regarding the impact of thin capitalization, who stated that:

> *Companies with high debt ratios can reap significant tax benefits, as interest payments on debt can be deducted from taxes; thus, the higher the interest expense, the lower the tax liability – Informant AR 1*

This statement highlights how companies use their capital structure to reduce tax liabilities by deducting interest on debt. By leveraging debt, companies can gain significant tax benefits, as interest on debt is tax-deductible. This creates an incentive for companies to increase their debt-to-equity ratio, thereby reducing their tax burden. This is reinforced by the opinion of the second informant, who stated: *“If we look at financial reports, publicly listed companies generally have debt. Generally speaking, the higher the debt, the higher the interest expense.” —Informant AR 2.*

This phenomenon aligns with capital structure trends in Indonesia's non-cyclical consumer sector. Although tax authorities have set a debt-to-equity ratio (DER) limit of 4:1 via PMK 169/PMK.010/2015, the average DER of 0.754320 in this study's sample indicates that companies in this sector tend to play it safe while still strategically utilizing debt. Field data show that high real interest rates on loans erode taxable income; thus, although tax payments continue to be made in nominal terms, their ratio to net income (CETR) has decreased.

The Effect of Firm Size on Tax Avoidance

The test results show that firm size has a significant positive effect on CETR, indicating that this variable has a significant negative effect on tax avoidance. This negative relationship indicates that larger firms exhibit lower levels of tax avoidance. This finding supports the assumption that large firms have a greater motivation to maintain social legitimacy and a good fiscal reputation.

The results of this study support the legitimacy perspective in legitimacy theory, which holds that companies, as part of a social system, are not only required to achieve economic performance but also expected to conduct their activities in accordance with prevailing norms, values, and expectations. In this context, large firms are more exposed to social, regulatory, and media pressures. This creates a stronger incentive to maintain tax compliance to gain or retain public support. Firms with substantial assets also tend to attract the attention of stakeholders, including regulators, investors, and consumers. Their fiscal decisions are closely scrutinized from ethical and social acceptability perspectives. The commitment to maintaining legitimacy includes avoiding overly aggressive tax avoidance strategies, as such actions can damage a company's reputation and provoke a negative public response (Suchman, 1995).

These findings are consistent with those of a study by Hanlon & Slemrod (2009) in the Journal of Public Economics, which examined market reactions to news of companies' involvement in tax shelter strategies (aggressive tax avoidance). The study found that the market reacts negatively to a company's involvement in tax shelters, particularly for publicly exposed firms such as retailers and large corporations. This negative reaction indicates that investors associate tax aggressiveness with reputational risk and the potential for a decline in corporate value. These findings are supported by research by Lanis & Richardson (2012); Rego (2003); Sarpingah (2020); and Yuliawati & Sutrisno (2021), which shows that large companies tend to be more publicly exposed and thus face greater political and social pressure, leading them to be more compliant in order to maintain their reputation and avoid negative exposure. This leads large companies to be more cautious in engaging in tax avoidance.

Large companies are subject to stricter oversight from various parties, including regulators, investors, and the public. This is due to the higher visibility and greater responsibility that large companies bear. This finding is confirmed by informants' views on the impact of company size, who stated that:

> *The larger the company, the more it will be monitored and scrutinized by many parties, including the Financial Services Authority (OJK), the Indonesia Stock Exchange, and, most importantly, its shareholders. — Informant AR 1*

This statement highlights that large companies must not only comply with strict regulations but also maintain their reputation and the trust of their stakeholders. This stricter oversight creates an incentive for companies to comply with tax regulations and avoid aggressive tax avoidance. Furthermore, the research data indicates that large companies in this sector, such as Indofood Sukses Makmur Tbk, which has the highest asset value at 32,93787, are under the supervision of the Large Taxpayer Office (KPP Wajib Pajak Besar).

The Effect of Profitability on Tax Avoidance

The test results show that the profitability variable has a significant negative effect on CETR, thereby validating a significant positive effect on tax avoidance. This positive relationship indicates that higher profitability is associated with greater tax avoidance. These findings are consistent with the agency theory proposed by Jensen and Meckling (1976), which posits that there is a conflict of interest between principals and agents. Highly profitable companies are typically subject to higher taxes, leading them to reduce their tax liability. In this process, companies are driven to optimize tax efficiency through various tax planning mechanisms, such as cost allocation, transfer pricing, or the use of affiliated entities in low-tax jurisdictions. Increased profitability enables companies to allocate more resources to complex tax planning.

These findings are consistent with Rego's (2003) study in Contemporary Accounting Research, which found that companies with high profits pay significantly lower taxes due to more aggressive tax avoidance. This study highlights that economies of scale in tax planning enable more profitable companies to reduce their tax burden effectively. Taylor & Richardson (2012) demonstrated in their research that highly profitable companies in Australia tend to use capital structures, arrangements involving affiliated transactions, and tax havens as means to minimize their tax liabilities. Highly profitable companies tend to have complex, globally integrated operations, including ownership of intangible assets (such as brands, patents, or technology) that are difficult to value. Companies can sell or license these intangible assets to subsidiaries in tax havens at very low prices, so that the profits generated from these assets are concentrated in the tax haven and subject to minimal taxation.

Furthermore, this complexity provides numerous opportunities to manipulate revenue and expense allocations. Companies can take advantage of differences in tax rates between countries to shift profits or expenses to jurisdictions with low tax rates. These findings support the view that high profits not only provide additional incentives but also provide the structural capabilities and resources needed to engage in strategic tax avoidance.

In Indonesian practice, highly profitable companies use methods such as reducing asset depreciation expenses. The results of interviews with AR at the Tax Office for Listed Companies confirm this. These findings are supported by an informant's statement regarding the impact on corporate profitability, as follows: *"Companies with high profitability, in this case, high ROA, tend to use... depreciation expenses to reduce taxes"—Informant AR 1*. Furthermore, by avoiding taxes, companies can demonstrate high profitability levels to support expansion or increase their corporate value. In practice in Indonesia, this practice is facilitated by the Ministry of Finance Regulation No. 130/PMK.010/2020, which concerns the Provision of Corporate Income Tax Reduction Facilities. This finding is confirmed by the opinion of an account representative informant at the Tax Office for Listed Companies, who stated that:

> *Listed companies usually want to keep expanding, you know. Especially now that we have a Minister of Finance Regulation on facilities for obtaining tax holidays and tax allowances... In addition, they can also get deductions through accelerated depreciation—Informant AR 2*

This statement is supported by research by Bella & Yudianto (2021), which shows that tax holiday incentives have a significant positive effect on foreign direct investment (FDI). These incentives not only attract more foreign investors but also strengthen corporate profitability. Overall, tax avoidance by companies through the use of existing tax incentives serves not only to reduce tax liabilities but also as a strategy to support more ambitious expansion plans.

The Simultaneous Effects of Thin Capitalization, Firm Size, and Profitability on Tax Avoidance

The results of the F-test indicate that all independent variables simultaneously have a significant effect on tax avoidance. These findings support the agency theory proposed by Jensen & Meckling (1976), which posits that conflicts of interest often arise between owners (principals) and managers (agents). As operational managers, agents have an incentive to devise financial and accounting strategies that maximize net profit, including tax avoidance, a practice carried out within a framework that appears legal but does not align with Indonesia's tax objectives. In the context of this study, the independent variables comprising thin capitalization, firm size, and profitability simultaneously reflect aspects of managerial decision-making that can be leveraged to reduce the tax burden borne by the firm.

The findings of this study are consistent with those of a study conducted by Hossain et al. (2024), which analyzed the relationship between profitability, firm size, and leverage on tax avoidance in Bangladesh. That study found that all independent variables simultaneously had a significant effect on tax avoidance practices. These findings also reveal a two-way causality between each variable and tax avoidance, reinforcing the existence of a reciprocal relationship in corporate fiscal decision-making. This indicates that not only do firm characteristics influence tax avoidance, but tax avoidance practices can also influence a firm's long-term financial decisions. For example, a tax avoidance strategy that successfully reduces the tax burden will increase net income and, ultimately, strengthen profitability indicators such as ROA in financial statements.

CONCLUSION

Based on the interpretation of the results of the analysis of research data on the effects of thin capitalization, firm size, and profitability on tax avoidance among companies in the non-cyclical consumer sector listed on the Indonesia Stock Exchange for the 2020–2024 period, it was found that, taken together, thin capitalization, firm size, and profitability have a significant effect on tax avoidance; thin capitalization has a significant positive effect on tax avoidance; firm size has a significant negative effect on tax avoidance; and profitability has a significant positive effect on tax avoidance. For future research, other variables that may influence tax avoidance, such as corporate governance, capital intensity, or political connections, could be included to provide a more comprehensive understanding of the dynamics of tax avoidance in the Industry 4.0 era. Future researchers may also extend the study period to examine in greater depth the impact of tax policy changes on the sustainability of various industrial sectors in Indonesia.

Tax authorities are advised to develop more proactive fiscal policies based on a risk-based approach, integrating Artificial Intelligence (AI) and Big Data Analytics to monitor companies listed on the Indonesia Stock Exchange, particularly those with characteristics indicating a high potential for tax avoidance, in real time. For example, tax authorities can tighten oversight of companies with high profitability and a capital structure dominated by debt. Furthermore, industry players are encouraged to view tax compliance as part of a long-term, sustainable business strategy, rather than merely a financial burden, to maintain public legitimacy and investor confidence, and to minimize legal risks that could hinder future operational sustainability. From the perspective of sustainable industrial development, this study sparks a paradigm shift in accounting, viewing corporate tax compliance as a core pillar for meeting Environmental, Social, and Governance (ESG) criteria. Fair and transparent tax contributions are key indicators of sound corporate social responsibility practices. For the non-cyclical consumer sector, which plays a vital role in the daily lives of the general public, tax transparency directly contributes to building public trust and maintaining the long-term stability of market purchasing power.

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