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Corporate Governance Moderates the Relationship Between Capital Intensity and Thin Capitalisation with Tax Avoidance

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ABSTRACT: This study analyses Corporate Governance Moderates the Relationship between Capital Intensity, and Thin Capitalization with Tax Avoidance. The population in this study are industrial sector companies listed on the IDX for the period 2018-2022. The sampling technique used in this study was purposive sampling, obtained 14 company samples with a period of five years, so that 70 observation data were obtained. The data analysis used in this study used panel data regression. The results of this study can be seen that simultaneously the Corporate Governance variable Moderates the Relationship between Capital Intensity, and Thin Capitalization together with Tax Avoidance. Partially, the Capital Intensity variable has no effect on Tax Avoidance. Partially, the Thin Capitalization variable has a positive effect on Tax Avoidance. As for the Moderation results, it was found that Corporate Governance could not moderate the relationship between capital intensity and tax avoidance and Corporate Governance weakened the relationship between Thin Capitalisation and Tax Avoidance.

KEYWORDS: Capital Intensity; Thin Capitalisation; Corporate Governance; Tax Avoidance

INTRODUCTION

The current global crisis has made the business world realise that economic crises, economic cycles, management activities, and lives can change indefinitely, and industry competitors are no exception. However, some companies remain strong despite the crisis because they have strategies to survive in the current market situation and even those who take advantage of profit opportunities and therefore it is important to have good governance. Of course, this is very beneficial for company management because it can continue the company's growth and maintain consumer and investor confidence (Triyani, et al. 2018).

Good tax management in a business is very important because it affects the control of company resources in carrying out tax obligations effectively and efficiently to achieve company goals. For corporate taxpayers, taxes are considered as costs or expenses so that they are obliged to pay them to the government. Therefore, without optimal tax management, the business world is likely to face problems related to tax imposition or even fall into tax disputes (Regita Cahyani & Kiswara, 2019).

The company is obliged to pay taxes on the net profit generated by the company. Because through the taxes paid, the government will continue to use these funds to achieve state development in various fields, especially so that the economic activities of a country can run well. For corporate taxpayers, taxes are considered as costs or expenses so they are obliged to pay them to the government. Therefore, if the company does not manage taxes optimally, it is likely that the company will face tax problems or even fall into tax disputes. To minimise the tax burden, businesses can choose to aggressively reduce corporate taxes or avoid corporate tax avoidance (Regita Cahyani & Kiswara, 2019).

The comparison of tax revenue and gross domestic product (GDP) over the same period, especially the tax ratio, is used to determine tax performance. We can find out how much tax is collected in relation to a country's national income by using tax rates. The country's taxpayer compliance rate is still low, as shown by the declining tax rate. Indonesia's tax rates compared to other countries in Asia are presented in Table 1.1.

Table 1. 1 Tax Ratios of Asian Countries

No	Country	Ratio
1.	Nauru	47,5
2.	OECD	33,5
3.	New Zealand	32,2
4.	Japan	31,4
5.	Korea	28

6.	Australia	27,7
7.	Samoa	25
8.	Vietnam	22,7
9.	Cambodia	20,2
10.	China	20,1
11.	Philippines	17,8
12.	Thailand	16,5
13.	Singapura	12,8
14.	Malaysia	11,4
15.	Indonesia	10,1

Source: OECD Global Income Statistics, 2019

According to the Organisation for Economic Cooperation and Development (OECD), the proportion of tax to Gross Domestic Product (GDP) ratio is set. It can be seen that Indonesia is at the bottom with a small proportion. Nauru comes in first with a percentage ratio of 47.5%. It is a small, very rich country that once exempted taxes for its citizens. New Zealand comes in second with a ratio of 33.5%, while New Zealand comes in third with a ratio of 32.2%. The average ratio of Asia-Pacific countries is 19.1%, and Indonesia is in third place with a tax ratio of only 10.1%. According to the OECD, Indonesia's tax ratio fell 1.5 points from 11.6% in 2019 to 10.1% in 2020.

The COVID-19 pandemic led to a decline in Indonesia's tax ratio in 2020. All activities, including taxation, are hampered to survive during difficult times. The level of tax compliance in Indonesia is still relatively low. It is the lowest since 2007. According to the OECD report, Indonesia's tax ratio declined by 2.1 points from 2007 to 2020, falling from 12.2% to 10.1%. The highest ratio during this period was 13% in 2008, and the lowest ratio was 10.1% in 2020. Thus, the high level of tax evasion together with the low level of voluntary compliance of taxpayers is one of the reasons why the country's tax ratio is low. Since they impose lower PTKP limits than Indonesia, Malaysia, Thailand, the Philippines, and Vietnam are still inferior to Indonesia. Malaysia applies a PTKP of IDR 28 million per year, while Indonesia applies IDR 54 million per year. In 2016, former Director of P2 Public Relations of the Directorate General of Taxes Mekar Satria Utama stated that 2000 Foreign Investment (PMA) companies did not pay taxes because they were incurring losses, even though calculations showed that the companies should have paid an average of IDR 25 billion per year in taxes. In addition, it is known that transfer pricing schemes were used.

In this study, the GAP phenomenon occurs at PT Toyota Motor Manufacturing Indonesia (TMMIN). The results of the Directorate General of Taxes (DGT) audit of the Annual Income Tax Return (SPT Tahunan PPh) of PT Toyota Motor Manufacturing Indonesia (TMMIN) from fiscal year 2005 to fiscal year 2008 show that PT Toyota Motor Manufacturing Indonesia is considered to have conducted transfer pricing to avoid its tax payments by using transactions with domestic and foreign affiliated companies such as TAM (Indonesia) and TMAP (Singapore). PT Toyota Motor Manufacturing Indonesia used the transfer price method to sell goods to its affiliates in Singapore, violating the principles of business reasonableness and customariness. (source: www.kompasiana.com).

LITERATURE REVIEW

Tax avoidance practices are used by companies to increase their tax burden. This is why some companies try as much as possible to minimise their tax burden, especially by taking advantage of weaknesses in tax regulations. Tax avoidance (tax evasion) is the act of legally avoiding taxes that does not violate tax regulations in order to minimise the tax burden by taking advantage of weaknesses in tax regulations. The issue of tax evasion is controversial, because on the one hand it is allowed. But on the other hand, it creates reluctance for this to happen. In the study (Moeljono, 2020), the government in an effort to increase or optimise tax revenue makes intensive and far-reaching tax collection efforts.

In-depth efforts include improving tax administration, improving the quality of employees or tax collectors (fiskus), and improving tax regulations. Although important steps have been taken to further expand the scope of taxpayers and increase tax rates, the Government's efforts to maximise tax revenue to realise national development still face many obstacles. Failure to realise tax revenue can occur due to lack of awareness of taxpayers, both individuals and business entities.

Capital intensity is another factor that affects tax avoidance. Business management can avoid taxation by using idle funds to purchase fixed assets. Companies that have a lot of fixed assets may have a greater opportunity to perform tax avoidance measures because their fixed assets will shrink every year, incurring depreciation expenses that can reduce the company's tax burden. Every year, almost all fixed assets owned by the company will experience impairment, which will appear as an impairment charge in the company's financial statements. However, the depreciation expense can be deducted from the company's taxable profit. In other words, the amount of tax payable by a business is positively correlated with the cost of depreciation (Mardianti & Ardini, 2020).

Rosa, H. F., et al. (2022) found that capital intensity has a positive effect on tax avoidance. This shows that the more fixed assets a company has, the more tax avoidance practices it has. Because fixed assets have different economic lives when using tax calculations applied in Indonesia. The amount of tax paid is negatively correlated with depreciation expense. If associated with agency theory, capital intensity is one way to minimise tax payments because it emphasises more on the amount of tax burden borne by the company. The company manager will invest the funds in fixed assets to benefit from the depreciation expense, which can be used as a tax deduction to reduce taxable income.

H1: It is suspected that Capital Intensity has a positive effect on Tax Avoidance

Thin capitalisation is another factor that affects tax avoidance. This method chooses to fund the company's operations with debt rather than equity capital in its capital structure, because debt can increase the value of the company due to loan interest expense as a tax incentive (Jumailah, 2020). In research conducted by (Olivia, I., & Dwimulyani, S. 2019) they investigated the capital deduction method in Australian listed companies. They used the rules set by the Income Tax Assessment Act 97 (ITAA 97) which limits capital reduction issues, and found that thin capitalisation has a positive effect on tax avoidance. To reduce the corporate tax burden, companies use debt as a loophole in the tax plan, making the price of interest the value of money. In relation to agency theory, thin capitalisation is one way for management to fulfil shareholders' desire for the most profit. This makes management succeed in maximising profits by reducing the tax burden that the company has to pay. This policy is chosen by companies because they want to utilise the interest expense from debt financing, which can reduce taxable income. This is different from financing with shares, where dividend payments cannot reduce the company's fiscal income (Fathurrahman, I., et al., 2021).

H2: It is suspected that Thin Capitalisation has a positive effect on Tax Avoidance

Corporate governance is an important effort for businesses to avoid taxes. Corporate governance is a system or set of rules that regulate, manage and monitor the relationship between company managers and company stakeholders. Corporate governance is not only a regulatory and control tool but also provides added value to the company. Corporate governance is an issue that will never disappear and will continue to be a topic of discussion among entrepreneurs, academics, policy makers, and others. Attention to corporate governance has increased along with the emergence of many financial scandals in the business environment. The concept of corporate governance is put forward by many experts and organisations as a means of controlling and monitoring management effectiveness (Sunarsih, U., & Handayani, P. (2018). Due to the implementation of corporate governance, companies will be more compliant in paying taxes and minimising their tax avoidance (Marlinda et al., 2020). In short, the company's management system is positively correlated with investors' reaction to it. Publicly listed companies in Indonesia have not fully implemented corporate governance, as shown by the number of companies that avoid taxes. If associated with agency theory, effective corporate governance can moderate the relationship between capital intensity and tax avoidance. A strong and involved board of directors can oversee the company's tax practices and ensure that such actions are in accordance with the company's objectives and shareholder values. The higher the proportion of independent commissioners, the better the company's management of taxes and the lower the tax avoidance (Mulyana et al., 2020). Researchers draw the conclusion that tax avoidance is one of the practices carried out by a company to minimise the tax burden. This is in line with the interests of shareholders who want to gain more profit by reducing the tax burden or even taking tax avoidance actions. In research conducted by (Muljadi et al., 2022), explaining that Corporate Governance has a negative effect on tax avoidance.

H3: It is suspected that Corporate Governance moderates the relationship between capital intensity and Tax Avoidance.

Thin capitalisation is a condition in which a company has a relatively low level of capital compared to its debt. One of the main purposes of using thin capitalisation is to reduce the company's tax burden. By relying on debt, the company can pay interest on debt as interest expense that can be deducted from taxable income, resulting in a lower tax burden. Agency theory explains the relationship between thin capitalisation and tax avoidance through the dynamics of agency conflict between shareholders (principal) and management (agent). In the context of thin capitalisation, agency conflicts arise because management has an incentive to optimise their personal profits, which may not always be in line with the interests of shareholders. The results of research (Pramita, Y. D., & Susanti, E. N. 2023) Corporate Governance is unable to moderate thin capitalisation with tax avoidance. This is due to the complex structure of the company, especially in the context of companies operating globally, which can create challenges for Corporate Governance. Effective supervision of thin capitalisation policies and tax avoidance practices at the international level can be difficult.

H4: It is suspected that Corporate Governance does not moderate the relationship between Thin Capitalisation and Tax Avoidance.

Corporate Governance Moderates the Relationship Between Capital Intensity and Thin Capitalisation with Tax Avoidance

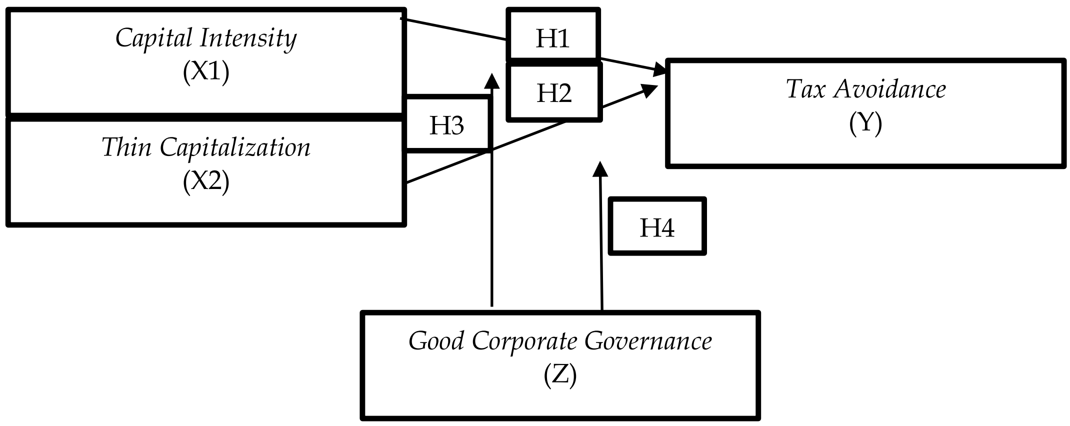

Figure 1. Research model
Source: Research Data, 2023

RESEARCH METHOD

This study uses associative quantitative research, which involves hypothesis testing. The data used comes from the financial statements and annual reports of industrial sector companies listed on the Indonesia Stock Exchange (IDX). Secondary data sources can also be found by reading literature on research issues in print and online media. In this study there are three variables, namely the dependent variable, the independent variable and the moderating variable. The dependent variable used is Tax Avoidance. While the independent variable consists of Capital Intensity, and Thin Capitalisation while the moderating variable used is Corporate Governance..

Tax avoidance is the legal act of saving taxes by using tax regulations to minimise tax liabilities. Although tax avoidance is not prohibited by law, it is still often controversial because it is considered by the tax authorities to have a negative connotation. Therefore, tax avoidance has received increasing attention because it involves various actions aimed at reducing tax liabilities. Tax avoidance is carried out because of loopholes in tax laws and regulations (Octavial et al., 2021). The formula for calculating ETR is as follows:

$$ETR = \frac{\text{Tax Expense}}{\text{Profit Before Tax}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

The fixed asset intensity ratio describes the proportion of a company's fixed assets to the total assets owned by the company. In research conducted (Marlinda et al. 2020), the higher the capital intensity ratio of a company, the lower its ETR. Ownership of fixed assets will have an impact on reducing the amount of tax that must be paid by business actors because fixed assets are subject to depreciation costs. The capital intensity ratio is often associated with the amount of fixed assets and shares owned by the company.

$$\text{Capital Intensity} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

According to Olivia & Dwimulyani (2019), Thin Capitalisation is a tax avoidance scheme that makes the debt structure much larger than capital. Lack of capital can cause taxation problems due to differences in treatment between equity and debt investments. In equity investments, capital gains are in the form of taxable dividends, while debt investments can incur interest expenses that are not taxed because they are deductible costs (Selistiaweni et al. event, 2020). This variable is measured by the debt to equity ratio (DER), namely.

$$DER = \frac{\text{Debt}}{\text{Capital}} \times 100\% \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(3)$$

According to Puspitasari et al. (2023), it is a company management and control system that creates added value for all stakeholders. The measure used uses Financial Services Agency Circular Letter Number 32/SEOJK.04/2015. The governance guidelines include 5 (five) dimensions, 8 (eight) principles of good corporate governance and 25 (twenty-five) recommendations for implementing the dimensions and principles of good corporate governance. Aspects of public company governance include: 1) The relationship between a public company and its shareholders in ensuring shareholders' rights; 2) Function and Role of the Board of Commissioners; 3) Function and Role of the Board of Directors; 4) Stakeholder Participation; and 5) Information Disclosure.

Corporate Governance Moderates the Relationship Between Capital Intensity and Thin Capitalisation with Tax Avoidance

Corporate Governance can be measured using the following ratios:

$$\mathrm{GCG} = \frac{\text{Total Implementation of Aspect Recommendations}}{\text{Total Recommendations Aspect}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(4)$$

This type of data from this study is secondary data obtained from annual reports and financial statements from industrial companies listed on the Indonesia Stock Exchange for the 2018-2022 period which can be accessed through the www.idx.co.id website and official website of each company.

The population in this study is industrial companies listed on the IDX during the 2018-2022 period, which is as many as 60 companies. The sampling method used is the non-probability sampling method with purposive sampling techniques.

The study used non-participatory observation to collect data. This data comes from books, past research journals, official websites, and annual reports and sustainability of companies listed on the Indonesia Stock Exchange from 2018 to 2022. All this information can be accessed through the official websites of each company and www.idx.co.id.

The data analysis technique used in this study begins with conducting descriptive statistical analysis which is then continued with classical assumption tests which include normality tests, autocorrelation tests, multicolleniarity tests, and heteroscedasticity tests. After conducting classical assumption tests, the study continued by conducting Moderated Regression Analysis (MRA), coefficient of determination tests (R2), model feasibility tests (F tests), and individual significance tests (t tests). The regression equation in this study is formulated as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 M + \beta_4 X_1 M + \beta_5 X_2 M + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(5)$$

Information:

Y	= *Tax Avoidance*
α	= Constant
$\beta_{1\text{-}5}$	= Regression coefficient
X_1	= Capital Intensity
X_2	= *Thin Capitalization*
M	= *Corporate Governance*
X_1M	= Interaction between Capital Intensity and Corporate Governance
X_2M	= Interaction between Thin Capitalization and Corporate Governance
ε	= *Error term.*

RESULTS

Companies listed on the Indonesia Stock Exchange for the 2018-2022 period are included in this research field with data obtained through the official website of the Indonesia Stock Exchange, especially www.idx.co.id and the official website of each company. To determine the sample, a non-probability sampling method was used combined with purposive sampling techniques, so that the number of samples used in this study was 14 companies for 5 years with a total of 70 data.

Table 1. Process and Results of Sample Selection Based on Criteria

No.	Information	Total
1.	Industrial sector companies listed on the Indonesia Stock Exchange during the period 2018-2022.	60
2.	Industrial sector companies that publish complete financial statements for 2018-2022	(20)
3.	Industrial sector companies that generate profits during 2018-2022.	(26)
4.	Industrial sector companies that have complete research data related to Corporate Governance, Capital Intensity, and Thin Capitalization variables	(12)
	Samples used	14
	Number of years of observation (2017-2021)	5
	Number of samples during the study period	70

Source: Research Data, 2023

An overview of the variables in this study can be presented in table 2 below:

Table 2. Descriptive Statistical Results

	TA	IM	TC	CGIM	CGTC
Mean	0.251118	0.369556	0.737095	0.216857	0.635313
Median	0.244557	0.388211	0.694891	0.207911	0.559478
Maximum	0.905443	0.816840	1.989027	0.833008	1.878635
Minimum	0.059295	0.022338	0.067269	0.048635	0.061888
Std. Dev.	0.116729	0.201134	0.385776	0.108537	0.346878

Skewness	2.926259	0.437928	1.401516	3.065228	1.472140
Kurtosis	16.50685	2.807950	5.476320	17.43679	5.928520
Jarque-Bera	632.0034	2.345018	40.80168	717.5099	50.29794
Probability	0.000000	0.309589	0.000000	0.000000	0.000000
Sum	17.57827	25.86893	51.59664	15.18000	44.47194
Sum Sq. Dev.	0.940171	2.791378	10.26878	0.812834	8.302386
Observations	70	70	70	70	70

Source: Research Data, 2023

Table 2 shows the results of descriptive statistics with a sample of 14 companies during the period 2018 – 2022. Sampling techniques using purposive sampling, the results of the descriptive analysis table above show that the number of data observed is as many as 70 data obtained from 14 companies multiplied by the observation period for 5 years, namely from 2018 to 2022.

1. The Tax Avoidance variable observed during the research period can be seen from the output results, that the Tax Avoidance value has the lowest value of -0.059295 While the highest value is 0.905443. The mean is 0.251118 with a standard deviation of 0.116729. The results of the descriptive analysis based on these values, it can be concluded that Tax Avoidance has a fairly small variation around its average value (0.251118). A sufficiently wide range of values (from -0.059295 to 0.905443) indicates extreme variation among individual values.
2. The Capital Intensity variable observed during the research period can be seen from the output results, that the capital intensity value has the lowest value of 0.022338, while the highest value is 0.816840. The mean is 0.369556 with a standard deviation of 0.201134. The results of the analysis based on these values, it can be concluded that Capital Intensity has significant variations around its average value. A sufficiently large range of values (from 0.022338 to 0.816840) indicates the presence of extreme variations among individual values.
3. The Thin Capitalization variable observed during the research period can be seen from the output results, that the Thin Capitalization value has the lowest value of 0.067269, while the highest value is 1.989027. The mean is 0.737095 with a standard deviation of 0.385776. The results of descriptive analysis based on these values, it can be concluded that Thin Capitalization has significant variations around its average value. A sufficiently large range of values (from 0.067269 to 1.989027) indicates the presence of extreme variations among individual values.
4. Capital Intensity Variable through Corporate Governance from 70 samples of industrial companies obtained a minimum value of 0.048635 and a maximum value of 1.989027 with an average of 0.216857 and a standard deviation of 0.108537. The results of descriptive analysis based on these values, it can be concluded that Corporate Governance through Capital Intensity has a relatively small variation around its average value. A sufficiently large range of values (from 0.048635 to 1.989027) indicates the presence of extreme variations among individual values.
5. Thin Capitalization variable through Corporate Governance which from 70 samples of industrial companies obtained a minimum value of 0.061888 and a maximum value of 1.878635 with an average of 0.635313 and a standard deviation of 0.346878. The results of the descriptive analysis based on these values, it can be concluded that Thin Capitalization through Corporate Governance has a significant variation around its average value. A sufficiently large range of values (from 0.061888 to 1.878635) indicates the presence of extreme variations among individual values

After conducting descriptive statistical analysis, a panel data model selection test is then carried out in which data is collected from the same observation unit repeatedly in a certain period of time:

Table 3. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.160048	(13,52)	0.0253
Cross-section Chi-square	30.225317	13	0.0044

Corporate Governance Moderates the Relationship Between Capital Intensity and Thin Capitalisation with Tax Avoidance

The results of the chow test shown in table 3 above, the Probability Cross-section F value is 0.0253 and the Probability Cross-section Chi-Square value is 0.0044. This shows the results that both probability values are smaller or less than the level of significance of 0.05, then in the Chow Test the selected model is Fixed Effect, so that the next estimation model is the Hausman Test (Ghozali, 2016).

Table 4. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.776624	4	0.0292

The results of the hausman test table above, obtained the probability value (Prob.) cross section random is 0.0292 < 0.05. Then it can be said that, H0 is rejected and H1 is accepted. This means that the model selected in this research is a fixed random model (FEM)

Table 4 can be concluded that the appropriate model to be used in estimating Corporate Governance variables Moderating the Relationship between Capital Intensity and Thin Capitalizatian with Tax Avoidance as a variable is the Fixed Effect Model.

After conducting the model selection test, the next stage is to test classical assumptions where the results are obtained that the regression moddel has fulfilled the classical assumption test which includes normality tests, autocorrelation tests, heteroscedasticity tests, and multicollinearity tests. In this study, no symptoms of classical assumptions were found.

After the classical assumption test was carried out, then a panel data regression analysis test was carried out with a fixed effect model which obtained the following results.

Table 5. Panel Data Regression Analysis Test Results (Fixed Effect)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008137	0.013290	0.612294	0.5430
IM	-0.016240	0.030312	-0.535780	0.5944
TC	0.247954	0.037453	6.620356	0.0000
CGIM	1.132440	0.021482	52.71501	0.0000
CGTC	-0.282318	0.041312	-6.833763	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.985551	Mean dependent var	0.251118
Adjusted R-squared	0.980828	S.D. dependent var	0.116729
S.E. of regression	0.016163	Akaike info criterion	-5.195174
Sum squared resid	0.013584	Schwarz criterion	-4.616989
Log likelihood	199.8311	Hannan-Quinn criter.	-4.965512
F-statistic	208.6428	Durbin-Watson stat	1.593900
Prob(F-statistic)	0.000000		

Source: Research Data, 2023

Based on the results of the regression equation presented in Table 5, the constant value shows a number of 0.008137 which means that if the value of the independent variable which includes Capital Intensity, Thin Capitalization, and Corporate Governance is equal to zero, then the relative value of the company is 0.008137 assuming the constant independent variable.

1. The value of the IM regression coefficient obtained at -0.016240 is negative, this means that every increase in IM will decrease TA by -0.016240 and vice versa.
2. The value of the TC regression coefficient obtained at 0.247954 is positive, this means that every increase in TC will increase TA by 0.247954 and vice versa.
3. The value of the GCG*IM regression coefficient which is an interaction with GCG with IM of 1.132440 is positive, this means that every increase in GCG_IM will increase TA by 1.132440 and vice versa.
4. The value of the GCG*TC regression coefficient which is an interaction with GCG with TC of -0.282318 is negative, this means

that every increase in GCG*TC will decrease TA by -0.282318 and vice versa.

5. Based on the results of the coefficient of determination test (R2 test) presented in Table 5, an adjusted R2 value of 0.980828 was obtained. This means that 98.08% of the variation in the relative value of the company can be explained by the variables Capital Intensity, Thin Capitalization and Corporate Governance studied, while the remaining 1.92% is explained by other variables outside the study.

6. Based on the results of the model feasibility test (F test) presented in Table 5, Prob (F-statistic) for the entire model shows a value of 0.000000, meaning that the probalibility value is less than the significance of 0.05. df1 (k-1) = (3-1) = 2 and df2 (n-k) = (70-3) = 67 obtained F table 2.74thus F calculate> F table (208.6428>2.74), So it can be concluded in this study that the variables of capital intensity and thin capitalization simultaneously affect tax avoidance with Corporate Governance as a moderation variable.

The results of the individual significance test (t-test) presented in Table 5, the regression coefficient of the capital intensity variable showed a value of 0.5944 with a p-value of 0.5944 < 0.05 so that it can be concluded that capital intensity has no influence on tax avoidance, so the first hypothesis is rejected. This can happen because certain industry or business sector characteristics may play a role. Some industries may have a higher capital structure and, at the same time, have limitations in tax avoidance due to the nature of their business or the limitations of tax regulations applicable to that industry. In addition, the existence of strict tax regulations can limit the ability of companies to carry out tax avoidance. If tax regulations are very strict and do not create many opportunities for tax avoidance, then capital intensity will probably not have a significant impact on tax avoidance. (Masrurroch, L. R., Nurlaela, S., & Fajri, R. N. 2021) stated that capital intensity has no effect on tax avoidance, Because the average amount of capital used by property and real estate companies is only 10% of their income, most of the assets owned by these companies are assets that can be resold, the depreciation cost of fixed assets generated by property and real estate companies that are the sample of this study cannot be intended for tax prevention efforts, but perhaps only to run company operations. The results of the study do not support the agency theory, Strict regulatory and supervisory conditions in certain industries or countries might make companies more careful in managing their tax practices. The existence of effective control mechanisms can make tax decisions more controllable. In addition, corporate management has a strong ethical approach to tax practices, so their decisions are not always directed at aggressive tax avoidance.

The Thin Capitalization variable has a probability value smaller than the signification level (0.05) which is 0.0000. So thin capitalization affects tax avoidance. Because the probability value is smaller than the level of significance, or in other words 0.0000 > 0.05. Then the second hypothesis is accepted. In line with agency theory, it emphasizes conflicts between shareholders (principals) and management (agents). In the context of thin capitalization, conflicts of interest can arise when management uses capital structures with high levels of debt to avoid taxes. Management, as agents of the company, can have a vested interest in creating capital structures that support their own goals. If management has stock options or other incentive schemes tied to the stock price, they can look for ways to increase the value of the shares by utilizing tax-advantageous capital structures. This is in line with previous research by (Jumailah, 2020) and (I.Fathurrahman et al., 2021), which found that Thin Capitalization has an effect on tax avoidance. This is due to the fact that the interest expense payable by the company is getting higher, which in turn will reduce the company's profits and ultimately reduce the income tax owed. Tax deductions can be affected by high debt or thin capitalization. The company has the opportunity to record interest expenses in its financial statements with debt. It is possible that this interest expense is considered a tax deduction, which will reduce taxable profits and, ultimately, help the company reduce its tax liability. Therefore, a tight capital structure can be an effective method of generating tax advantages.

The Capital Intensity variable moderated by Corporate Governance has a probability value smaller than the level of significance (0.05), which is 0.0000. Because the probability value is smaller than the level of significance, or in other words 0.0000 < 0.05. If the value of the coefficient for moderation is positive and the probability (p-value) is also positive, but the partial test results show that the independent variable has no effect this indicates that the relationship between the independent and dependent variables is nonlinear, and moderation cannot be captured well by the linear model used. In this case, the moderation results do not amplify or weaken the effect of the independent variable on the dependent variable. That is, the effect of moderation is not significantly seen in the influence of the independent variable on the dependent variable. Then the third hypothesis was rejected. which means Gorporate Governance cannot moderate Capital Intensity with Tax Avoidance. According to agency theory, managers and shareholders have different interests. While shareholders may want to increase company value and net income, management may want to get more money or more job protection for themselves. In these cases, high capital intensity can increase tax avoidance, but it can also pose a risk of conflicts of interest that are difficult for corporate management mechanisms to overcome. If a company's management system is weak or ineffective, the company's ability to mitigate the impact of capital intensity on tax avoidance may be limited. Businesses that have poor corporate governance practices may not have sufficient checks and balances in place to prevent opportunistic management, especially in terms of taxation practices and capital structure management. If there is an information asymmetry between shareholders and management, it is more difficult for shareholders to see and oversee management actions. Although corporate management can regulate, shareholders' inability to obtain accurate information and implement controls may limit their ability to manage capital intensity and tax avoidance practices. According to research conducted by (Ghozali A. 2021),

company management requires good management supervision due to the information imbalance between agents and owners. Management cannot moderate the effect of capital intensity on tax avoidance. Nevertheless, Corporate Governance fails to strengthen the link between capital intensity and tax avoidance. This is the result of the inability of the independent board of commissioners to stop investing in fixed assets. Companies that invest in fixed assets aim to support business operations and achieve their goal of obtaining high profits, these investments are not made to avoid taxes, but only to support business operations.
The moderated Thin Capitalization variable of Corporate Governance has a probability value smaller than the level of significance (0.05), which is 0.0000. Because the probability value is smaller than the level of significance, or in other words 0.0000< 0.05. The negative coefficient on the moderation variable indicates that there is a negative influence of the moderation variable on the relationship between the independent variable and the dependent variable. That is, the moderation variable weakens or reduces the effect of the independent variable on the dependent variable. Then the fourth hypothesis was accepted. which means Corporate Governance weakens Thin Capitalization with Tax Avoidance. According to agency theory, management and shareholders have different interests. To deal with this conflict, Corporate Governance has mechanisms and practices. Good corporate governance allows companies to create structures and controls that prevent management from using thin capitalization as a tool for their personal interests, such as increasing compensation or guaranteeing job security. Increasing the transparency and accountability of the company to shareholders and other interested parties can reduce management's opportunities to use thin capitalization. According to research (Devriadi, F. S. and Achyani, F. 2023), Corporate governance weakens thin capitalization due to tax avoidance. This could mean that good corporate governance can prevent companies from having huge debts to avoid taxes. Company leaders want to increase transparency and accountability. Corporate governance principles can increase oversight and transparency, thereby reducing the risk of manipulation or unethical practices if thin-cap activities are used to conceal or shift profits to lower tax jurisdictions. Thin capitalization can increase a company's legal and reputational risk, especially if it is perceived as an aggressive attempt to avoid taxes. Good corporate governance encourages businesses to consider the legal and reputational ramifications of their financial policies, which can prevent a tendency to use smaller capital structures.

CONCLUSION

A series of studies have shown that capital intensity has no effect on tax avoidance, thin capitalization has a positive effect on tax avoidance, Corporate Governance cannot moderate the relationship between capital intensity and tax avoidance and Corporate Governance weakens the relationship between thin capitalization and tax avoidance.

Based on the results of the tests that have been carried out, a low adjusted R2 value of 98.08% was obtained which shows that there are limitations of the independent variable used in explaining the dependent variable and 1.92% of the tax avoidance value can be explained by other variables that were not included in the research model. For future researchers who will conduct similar studies are expected to consider re-evaluating the statistical models used and ensuring that the Capital Intensity variables have been measured and modeled correctly. It may be necessary to consider other variables that may affect the relationship between Capital Intensity and Tax Avoidance. For shareholders, the advice given by researchers based on the results of the research is that shareholders and interested parties can demand further disclosure about company practices related to capital intensity, thin capitalization, and tax strategies. More transparent information can provide better understanding. For Regulators, it can strengthen monitoring of the implementation of Corporate Governance practices. Increased supervision can help ensure companies comply with GCG standards for shareholder benefit and business continuity.

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