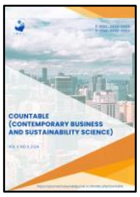

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The Impact of Financial Structure and Liquidity on Tax Avoidance: The Moderating Role of Institutional Ownership in Indonesia's Consumer Goods Sector

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Abstract

This study aims to analyze the influence of Thin Capitalization, Profitability, and Liquidity on Tax Avoidance, as well as evaluate the role of institutional ownership moderation in these relationships in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2022 period. The formulation of the problems raised in this study includes whether Thin Capitalization, Profitability, and Liquidity affect Tax Avoidance and whether Institutional Ownership can moderate the influence of these three variables on Tax Avoidance. This study uses a quantitative method with a causality approach. The data used is secondary data obtained from the company's financial statements, which are analyzed using multiple linear regression and moderate regression analysis (MRA). The results show that Thin Capitalization has a negative and significant influence on Tax Avoidance, while Profitability has no significant influence. Liquidity also has a negative and significant effect on Tax Avoidance. Furthermore, institutional ownership was proven to moderate the influence of profitability on tax avoidance significantly, but it did not significantly moderate the influence of thin capitalization and liquidity. The implications of this study are the importance of considering capital structure and liquidity in corporate tax management, as well as the role of institutional supervision in strengthening the influence of profitability on tax avoidance decisions. The latest of this research lies in incorporating the moderation variables of Institutional Ownership in analyzing the influence of financial factors on Tax Avoidance, especially in the context of consumer goods sector companies in Indonesia.

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INTRODUCTION

Taxes are one of the main sources of state revenue and are vital in supporting development financing. In Indonesia, tax revenue is significant in the State Revenue and Expenditure Budget (APBN) (Caldeira et al., 2019; Kelline et al., 2022). However,

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despite the increase in tax revenue, Indonesia still faces a serious problem related to the low tax ratio compared to other countries in the Asia Pacific region. Data shows that in 2021, Indonesia's tax ratio was only 10.9%, far below the average of Asia Pacific countries, reaching 19.8% (Nugroho, 2024). The low tax ratio is mostly due to tax avoidance actions carried out by taxpayers. Tax avoidance is a legal effort made by a company to reduce the tax burden that must be paid, which is done by taking advantage of legal loopholes in tax regulations (Sugiat, 2023). Profit-oriented companies often use various strategies to reduce their tax burden through efficient tax management (Rahmawati et al., 2020). In this context, tax avoidance not only impacts reducing state revenue but can also cause distortions in the economy.

Several factors can affect a company's decision regarding tax avoidance efforts, including thin capitalization, profitability, liquidity, and institutional ownership (Khan et al., 2016; Malik & Rachmat, 2023; Muhammad et al., 2022; Yanti & Astuti, 2023). Thin capitalization is a corporate funding practice that prioritizes using debt rather than equity to utilize interest costs as a deduction for income tax. However, the effectiveness of thin capitalization in reducing the tax burden may vary, depending on the company's internal arrangements and applicable tax regulations. In addition, the company's profitability is also an important factor in determining the level of tax avoidance. Companies with high profitability tend to have a larger tax burden and are more motivated to carry out tax avoidance strategies. On the other hand, a company's liquidity, which indicates its ability to meet its short-term obligations, can also affect its tendency to pay taxes on time or engage in tax avoidance.

However, research on the influence of these factors on tax avoidance has not yielded consistent results. Some studies have found that thin capitalization and profitability positively influence tax avoidance, while other studies show different results. Similarly, the role of institutional ownership as a moderating factor in the relationship between thin capitalization, profitability, liquidity, and tax avoidance is still a matter of debate among academics.

In this study, thin capitalization, profitability, and liquidity are positioned as independent variables that are assumed to influence tax avoidance as dependent variables. Institutional ownership is considered a moderation variable that can strengthen or weaken the relationship between these variables and tax avoidance. Thin capitalization, as a form of tax management strategy, is assumed to have a positive relationship with tax avoidance. The higher the debt-to-equity ratio, the more likely the company is to use interest expense to reduce taxable income, thereby increasing the tax avoidance rate. Profitability is also assumed to positively influence tax avoidance, as more profitable companies tend to look for ways to reduce their tax burden. In contrast, liquidity is assumed to have a negative relationship with tax avoidance, where companies with high liquidity are better able to meet their tax obligations on time and tend to be less involved in tax avoidance.

Institutional ownership, which represents tighter outside scrutiny of a company's management, is hypothesized to moderate the relationship between thin capitalization, profitability, liquidity, and tax avoidance. Strong institutional ownership can encourage company management to be more transparent and compliant with tax regulations, reducing the tendency to tax avoidance. Based on the above background, the problems in this study can be formulated as follows:

- Does thin capitalization affect tax avoidance?
- Does profitability affect tax avoidance?
- Does liquidity affect tax avoidance?

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- Can institutional ownership moderate the effect of thin capitalization on tax avoidance?
- Can institutional ownership moderate the effect of profitability on tax avoidance?
- Can institutional ownership moderate the effect of liquidity on tax avoidance?

Based on the formulation of the problem, the objectives of this study are as follows:

- Analyze the effect of thin capitalization on tax avoidance.
- Analyze the effect of profitability on tax avoidance.
- Analyze the effect of liquidity on tax avoidance.
- Analyze whether institutional ownership can moderate the effect of thin capitalization on tax avoidance.
- Analyze whether institutional ownership can moderate the effect of profitability on tax avoidance.
- Analyze whether institutional ownership can moderate the effect of liquidity on tax avoidance.

This research is expected to contribute both practically and theoretically. Practically, the results of this study can provide insight for companies about the factors that affect tax avoidance so that they can manage taxes more effectively and efficiently without breaking the law. In addition, this study also provides input for the government in formulating more effective tax policies to reduce tax avoidance practices. In addition, theoretically, this study will enrich the literature on tax avoidance, especially in the context of consumer goods sector companies listed on the Indonesia Stock Exchange. Furthermore, this study contributes to understanding the role of institutional ownership as a moderation variable in the relationship between thin capitalization, profitability, liquidity, and tax avoidance. The latest aspect of this study lies in its approach, which combines institutional ownership moderation variables to analyze the influence of thin capitalization, profitability, and liquidity on tax avoidance. This approach provides a new perspective on how institutional ownership can influence corporate management behavior in managing taxes, especially in the context of consumer goods sector companies in Indonesia.

LITERATURE REVIEW

This study uses the Agency Theory, which was first introduced by Jensen and Meckling (1976). This theory explains the contractual relationship between two parties, namely the principal and the agent (Eisenhardt, 1989). In the context of taxation, the government plays the role of a principal who supervises taxpayers' (agents) compliance with tax rules. Conflicts of interest between principals and agents can trigger agency fees, where agents tend to utilize information they have more control over for personal gain, including through tax avoidance practices. In addition, this research is also supported by the Theory of Planned Behavior from Ajzen (1991), which states that attitudes, subjective norms, and perception of behavior control influence a person's intention to act (Schwenk & Möser, 2008). In this context, institutional and managerial ownership can moderate management's intentions in tax avoidance due to shareholder pressure to maintain compliance with tax regulations.

Furthermore, the development of the hypothesis in this study is as follows:

The Effect of Thin Capitalization on Tax Avodiance

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Thin capitalization refers to the practice of companies that use more debt than equity capital in their funding structure. This practice is often carried out to take advantage of tax deductions from interest expenses that can be deducted from taxable income. Research conducted by Cahyani et al. (2021), and Hermi & Petrawati (2023) shows that thin capitalization positively influences tax avoidance. Thus, companies with high debt ratios tend to reduce their tax burden aggressively through tax avoidance.

The Effect of Profitability on Tax Avoidance

Profitability measures how effective a company is in generating profits from its assets, one of which is measured through Return on Assets (ROA). Based on agency theory, the company's management (as an agent) is incentivized to minimize the tax burden to increase the profits available to shareholders (as principals). Previous research by Putri Utama et al. (2024) and Samos et al. (2024) showed a positive relationship between profitability and tax avoidance. This shows that more profitable companies tend to be more active in tax avoidance to maintain a high net profit level.

The Effect of Liquidity on Tax Avoidance

As measured by the current ratio, a company's liquidity reflects its ability to meet its short-term obligations. Research by Honorris & Yuniarwati (2023), and Maulida et al. (2023) shows that liquidity negatively relates to tax avoidance, where companies with high liquidity tend to be more compliant with tax obligations. However, the results of this study are not always consistent, as several other studies have shown that liquidity does not significantly influence tax avoidance.

Institutional Ownership as a Moderating Variable

Institutional ownership refers to the proportion of a company's shares owned by institutions such as insurance companies, banks, and pension funds. Institutional ownership is often associated with tighter oversight of the company's management, which can affect the company's taxation policy. Research by Ekawati & Utami (2024) shows that institutional ownership can moderate the relationship between profitability and tax avoidance variables by weakening firms' tendency to avoid taxes. However, other research, such as those conducted by Putra et al. (2019), found that institutional ownership does not always play a significant role in moderating these relationships.
Furthermore, based on the development of the hypothesis in this study, the research hypothesis is as follows:

- H1: Thin capitalization affects tax avoidance.
- H2: Profitability affects tax avoidance.
- H3: Liquidity affects tax avoidance.
- H4: Institutional ownership moderates the influence of thin capitalization on tax avoidance.
- H5: Institutional ownership moderates the effect of profitability on tax avoidance.
- H6: Institutional ownership moderates the influence of liquidity on tax avoidance.

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METHOD

This study uses a quantitative research method with a causality approach. This approach is used to test the cause-and-effect relationship between independent variables (thin capitalization, profitability, and liquidity) and dependent variables (tax avoidance) and to see the role of institutional ownership as a moderation variable. The data used in this study is secondary data in the form of financial statements obtained from consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2022 period.

The population in this study is all consumer goods companies listed on the IDX in 2019-2022, totaling 41 companies. The sample withdrawal method used is purposive sampling, with the following criteria:

- The company has complete financial statements during the research period.
- The company suffered no losses during the 2019-2022 tax year period.

Based on these criteria, 29 companies were obtained as research samples and 116 financial statements were analyzed. The data used in this study is secondary data obtained through documentation methods and literature studies. Documentation is carried out by collecting the company's financial statements from the official website of the Indonesia Stock Exchange (IDX) and each company's website. Literature studies are carried out to support analysis and discussion by referring to literature, journals, and books relevant to the research topic.

Furthermore, the collected data is processed using the IBM SPSS program. The first stage in data processing is to perform descriptive statistics to provide an overview of the data used. After that, a classical assumption test was carried out, which included a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test to ensure that the regression model used met the requirements.

Data analysis was done using multiple linear regression and Moderated Regression Analysis (MRA). Multiple linear regression tests the influence of independent variables on dependent variables. Meanwhile, MRA is used to test whether institutional ownership can moderate the influence of thin capitalization, profitability, and liquidity on tax avoidance.

- Regression Model I:

$$Y=\beta 1X1+\beta 2X2+\beta 3X3+\varepsilon \quad (1)$$

Where:
Y = Tax Avoidance
X1 = Thin Capitalization
X2 = Profitability
X3 = Liquidity
β = Regression Coefficient
ε = Error

- Regression Model II (MRA):

$$Y=\beta\ 1X\ 1+\beta 2X2+\beta 3X3+\beta 4X1Z+\beta 5X2Z+\beta 6X3Z+\varepsilon \quad (2)$$

Where:
Z = Institutional Ownership
X1Z, X2Z, X3Z = Interaction between independent variables and moderation.

The operationalization of the variables in this study is as follows:

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- Tax Avoidance (Y): This variable is measured using the Cash Effective Tax Rate (CETR). CETR is calculated by dividing the number of tax payments by profit before tax and multiplying by 100%.
- Thin Capitalization (X1): This variable is measured using the Debt to Equity Ratio (DER). DER is calculated by dividing the total debt by the total capital and multiplying by 100%.
- Profitability (X2): This variable is measured using Return on Assets (ROA). ROA is calculated by dividing net profit after tax by total assets, then multiplied by 100%.
- Liquidity (X3): This variable is measured using the Current Ratio (CR). CR is calculated by dividing current assets by current liabilities and multiplying by 100%.
- Institutional Ownership (Z): This variable is the percentage of shares owned by an institution to the total outstanding shares. Institutional ownership is calculated by dividing the number of shares owned by the institution by the number of outstanding shares, then multiplied by 100%.

RESULTS AND DISCUSSION

Results

Model I Classical Assumption Test

In this study, the results of the classical assumption test on model I are as follows:

- Normality Test: The results of the normality test using the Kolmogorov-Smirnov test show that the residual data is normally distributed, with a significance value of more than 0.05, shown in Table 1 below:

Table 1. Model 1 Normality Test Results

		UnstandardizedResidual
N		116
Normal Parameters [a,b]	Mean	,0000000
	Std Deviation	,04294110
Most Extreme Differences	Absolute	,063
	Positive	,063
	Negative	-,047
Test Statistic		,063
Asymp. Sig. (2-tailed)		,200c

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Results of Data Processing with SPSS

- Multicollinearity Test: The Variance Inflation Factor (VIF) values for all independent variables are below 10, and tolerance values are more than 0.1, which indicates the absence of multicollinearity problems in detail shown in table 2 below:

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Table 2. Multicollinearity Test Results Model 1 and Model 2

Coefficientsa

Type	Collinearity Tolerance	Collinearity Tolerance	Statistics VIF
1	(Constant)		
	X1	,900	1,112
	X2	,995	1,005
	X3	,904	1,107

a. Dependent Variable Y

Source: Results of Data Processing with SPSS

Model II Classical Assumption Test

- Normality Test: The Kolmogorov-Smirnov test for Model II also showed that the residual was normally distributed, with a significance value of more than 0.05 shown in Table 3 below:

Table 3. Model 2 Normality Test Results

		UnstandardizedResidual
N		116
Normal Parameters [a,b]	Mean	,0000000
	Std Deviation	,03687625
Most Extreme Differences	Absolute	,087
	Positive	,087
	Negative	-,066
Test Statistic		,087
Asymp. Sig. (2-tailed)		,081c

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Results of Data Processing with SPSS

- Multicollinearity Test: As in Model I, there is no multicollinearity in Model II, with all VIF values below 10 and tolerance values greater than 0.1 shown in table 2 above.

Hypothesis Test on Model I

The hypothesis test was carried out after the classical assumption test was fulfilled and the results of the hypothesis test of this study based on model 1 are as follows:

Table 4. Hypothesis Test on Model I

Coefficientsa

Type		Unstandardized Coefficients B	Std. Error	Standardized CoefficientsBeta	t	Sig
1	(Constant)	,270	,014		19,011	,000
	X1	-,009	,002	-,534	-5,546	,000
	X2	-,085	,056	-,139	-1,522	,066
	X3	-,004	,002	-,168	-1,746	,042

a. Dependent Variable: TA

Source: Results of Data Processing with SPSS

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Referring to Table 4 above, the results of data processing are as follows:

- The multiple regression equation on model 1 is as follows:

$$Y = 0.270 - 0.009X\,1\; - 0.085X\,2\;\; 0.004X\,3 \quad (3)$$

- Thin Capitalization has a regression coefficient of -0.009, which means that every increase of one unit in Thin Capitalization will reduce tax avoidance by 0.009 units. This relationship is negative and significant at a significance level of 0.000, so the H1 hypothesis is accepted. This shows that companies with a higher debt-to-equity ratio tend to commit lower tax avoidance.
- Profitability has a regression coefficient of -0.085, which means that every increase of one unit in Profitability will reduce tax avoidance by 0.085 units. However, this relationship is not statistically significant because the significance value is 0.066, so the H2 hypothesis is rejected. Nonetheless, these results show a tendency for more profitable firms to commit lower tax avoidance, although the effect is not significant.
- Liquidity has a regression coefficient of -0.004, which means that every increase of one unit in Liquidity will reduce tax avoidance by 0.004 units. This relationship is negative and significant at a significance level of 0.042, so the H3 hypothesis is accepted. This shows that companies with higher liquidity tend to commit lower tax avoidance.

Hypothesis Test on Model II

After passing the data processing from the classical assumption test, it is continued with the hypothesis test on model II, namely the regression analysis (MRA) model shown in Table 8 below:

Table 5. Hypothesis Test on Model II

Coefficientsa

Type		Unstandardized Coefficients B	Std. Error	Standardized CoefficientsBeta	t	Sig
1	(Constant)	,391	,078		5,017	,000
	Z	-,172	,102	-,985	-1,693	,047
	Z_X1	,027	,098	1,230	,275	,392
	Z_X2	1,252	,307	1,939	4,083	,000
	Z_X3	-,006	,013	-,219	-,462	,323

a. Dependent Variable Abs_RES

Source: Results of Data Processing with SPSS

Referring to Table 5 above, the results of data processing are as follows:

- The multiple regression equation on model 1 is as follows:

$$Y = 0.391 - 0.172Z + 0.027(Z \times X1) + 1.252(Z \times X2) - 0.006(Z \times X3) + \; e \quad (4)$$

- The interaction between Institutional Ownership and Thin Capitalization has a positive coefficient of 0.027. However, this result was insignificant (p-value = 0.392), which suggests that institutional ownership did not significantly moderate the effect of thin capitalization on tax avoidance so the H4 hypothesis was rejected.
- The interaction between Institutional Ownership and Profitability has a positive coefficient of 1.252, which is statistically significant (p-value = 0.000). This shows that institutional ownership positively and significantly moderates the effect of profitability on tax avoidance so that the H5 hypothesis is accepted.

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- The interaction between Institutional Ownership and Liquidity has a negative coefficient of -0.006. However, this result was insignificant (p-value = 0.323), which suggests that institutional ownership did not significantly moderate the effect of liquidity on tax avoidance so the H6 hypothesis was rejected.

Determination Test Results

Furthermore, the results of the determination test on the capital equation I and the model equation II are as follows:

Table 6. Determination Test Determination Model I

Model Summaryb

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,517a	,267	,242	,04367

a. Predictors: (Constant), X1, X2, X3
b. Dependent Variable: Y

Source: Results of Data Processing with SPSS

Table 7. Determination Test Determination Model II

Model Summaryb

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,678a	,459	,414	,03838

a. Predictors: (Constant), X1, X2, X3, Z, Z_X1, Z_X2, Z_X3
b. Dependent Variable: Y

Source: Results of Data Processing with SPSS

Referring to Table 6 and Table 7 above, the following things can be interpreted:

- Model I, which only considers the direct effects of Thin Capitalization (X1), Profitability (X2), and Liquidity (X3) on Tax Avoidance (Y), accounts for 26.7% of the variability in Tax Avoidance.
- Model II, which considers the interaction between Institutional Ownership (Z) and independent variables (X1, X2, X3), accounts for 45.9% of the variability in Tax Avoidance.
- The R Square on the Model II (45.9%) is higher than that on the Model I (26.7%). This shows that moderation by Institutional Ownership (Z) substantially improves the model's ability to account for variations in Tax Avoidance. This model becomes more robust by considering the interaction between Institutional Ownership and independent variables.

Discussions

The Effect of Thin Capitalization on Tax Avoidance

Thin capitalization, measured through the debt-to-equity (DER) ratio, significantly influences tax avoidance. These results indicate that companies with higher debt levels than their equity capital tend to commit lower tax avoidance. This study's results align with those of several previous researchers, including Nurhidayati & Fuadillah (2018). Furthermore, in the consumer goods sector, companies may use debt to finance

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expansion or operations without significantly reducing tax liabilities. Based on Agency Theory, this can be explained as management's effort to maintain the trust of principals (shareholders) by showing that they are not too dependent on debt, which could risk reducing long-term profitability.

The Effect of Profitability on Tax Avoidance

Profitability, as measured through Return on Assets (ROA), does not significantly affect tax avoidance. The results of this study are also in line with previous research conducted by Solihin et al. (2023), and Tiala et al. (2019). While there is a tendency for more profitable companies to look for ways to reduce the tax burden, these results do not support the hypothesis statistically. This may be due to variability in tax management strategies among companies in the consumer goods sector. In the Theory of Planned Behavior, a company's attitude to risk, industry norms, and management control over tax decisions can influence the decision to avoid taxes. These results show that profitability is not always the main driver in tax avoidance decisions.

The Effect of Liquidity on Tax Avoidance

Liquidity, as measured through the Current Ratio (CR), has a significant negative influence on tax avoidance. Previous research conducted by Astrina et al. (2024) also states that companies with higher liquidity tend to comply more with their tax obligations. Companies with strong liquidity positions can better meet short-term obligations, including taxes, without aggressive tax avoidance practices. In the context of Agency Theory, companies with high liquidity may seek to maintain good relations with shareholders and other stakeholders by demonstrating compliance with tax regulations.

Moderation of Institutional Ownership on the Effect of Thin Capitalization on Tax Avoidance

The results show that institutional ownership does not significantly moderate the influence of thin capitalization on tax avoidance, and the findings also align with research conducted by Damayanti & Susanto (2016). While it is expected that oversight by institutional shareholders may reduce management's tendency to overuse debt for tax avoidance purposes, the data do not support this hypothesis. This may be due to the complexity of companies' financing strategies in the consumer goods sector, which are not necessarily affected by institutional supervision.

Moderation of Institutional Ownership on the Influence of Profitability on Tax Avoidance

Institutional ownership has been shown to significantly moderate the influence of profitability on tax avoidance, so this finding is in line with previous findings, where the influence of profitability on tax avoidance becomes stronger in companies with high institutional ownership (Muhammad et al., 2022; W. E. Putra et al., 2020). The Theory of Planned Behavior supports these findings, as pressure from institutional shareholders can reinforce management's intention to make favorable decisions from a taxation perspective when the company exhibits high profitability.

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Moderation of Institutional Ownership on the Influence of Liquidity on Tax Avoidance

Institutional ownership does not significantly moderate the influence of liquidity on tax avoidance where this finding also strengthens the previous findings made by Ekawati & Utami (2024). This shows that although the company has strong liquidity and oversight from institutional shareholders, the liquidity factor itself is strong enough to influence tax decisions without the need for moderation influence. This indicates that companies in the high-liquidity consumer goods sector remain committed to tax compliance without being influenced by pressure from institutional shareholders.

CONCLUSION

This study aims to analyze the influence of Thin Capitalization, Profitability, and Liquidity on Tax Avoidance and the role of moderation of Institutional Ownership in these relationships.

- The Effect of Thin Capitalization on Tax Avoidance: The results show that Thin Capitalization has a negative and significant effect on Tax Avoidance. This suggests that companies with higher debt-to-equity ratios commit lower tax avoidance. These findings contradict the assumption that high debt usage will increase tax avoidance.
- Effect of Profitability on Tax Avoidance: Profitability has no significant effect on Tax Avoidance. Although companies with higher profitability tend to look for ways to reduce the tax burden, these results show that profitability is not the main factor influencing companies' decisions to avoid taxes.
- Effect of Liquidity on Tax Avoidance: Liquidity has a negative and significant effect on Tax Avoidance. Companies with higher liquidity tend to be more compliant with their tax obligations, thus reducing the likelihood of tax avoidance.
- Moderation of Institutional Ownership on the Effect of Thin Capitalization on Tax Avoidance: Institutional Ownership does not significantly moderate the effect of Thin Capitalization on Tax Avoidance. This shows that oversight from institutional shareholders does not strengthen or weaken the relationship between Thin Capitalization and Tax Avoidance.
- Moderation of Institutional Ownership on the Effect of Profitability on Tax Avoidance: Institutional Ownership significantly moderates the effect of Profitability on Tax Avoidance. In firms with high institutional ownership, the influence of profitability on tax avoidance becomes stronger, suggesting that pressure from institutional shareholders strengthens this relationship.
- Moderation of Institutional Ownership on the Effect of Liquidity on Tax Avoidance: Institutional Ownership does not significantly moderate the effect of Liquidity on Tax Avoidance. This shows that corporate liquidity is strong enough to influence tax decisions without the need for institutional ownership's influence.

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