

## **Drivers of Corporate Tax Avoidance: The Moderating Role of Sales Growth**

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### **Abstract**

This study aims to examine the effect of profitability, asset structure, liquidity and sales growth on the capital structure of food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (1DX). The research time period used was 5 years, 2017-2021. The population of this study includes manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange (BEI) for the 2017-2021 period. The sampling technique used purposive sampling. Based on the predetermined criteria, 10 companies were obtained from manufacturing companies in the food and beverage sub-sector. The type of data used is secondary data obtained from the Indonesia Stock Exchange website. The analysis method used is panel data regression analysis using Eviews software version 12.0. The panel data regression model used is the Random Effect Model. In this study, the dependent variable is tax avoidance (Y) and the independent variable is transfer pricing (X1), thin capitalization (X2), capital intensity (X3) and sales growth as moderating (Z). The results of his research indicate that the independent variables (transfer pricing, thin capitalization and capital intensity) have a simultaneous effect on the dependent variable on tax avoidance. Partially the transfer pricing and thin capitalization has a positive effect, while capital intensity have no effect on the tax avoidance.

**Keywords:** Transfer Pricing, Thin Capitalization, Capital Intensity, Tax Avoidance, Sales Growth.

### **1. Introduction**

Taxes play a crucial role in supporting economic development and maintaining fiscal stability in many countries. In Indonesia, taxation constitutes the primary source of state revenue, contributing more than 80% of total government income. Ideally, a healthy state budget relies mainly on tax revenues rather than on the exploitation of natural resources alone. One of the fundamental functions of taxation is the stabilization function, which aims to maintain economic stability and support sustainable development (Direktorat Jenderal Pajak, 2021). However, despite the significant role of taxes in state finances, Indonesia continues to face challenges in maximizing tax revenue due to the presence of tax avoidance practices.

In 2019, Indonesia experienced a decline in tax revenues, particularly in the manufacturing sector, which decreased by approximately IDR 16.77 trillion or 16.2% year-on-year (Kontan, 2019). This decline reflects the persistence of corporate tax avoidance practices that reduce the effectiveness of tax collection. Moreover, a report by the Tax Justice Network revealed that Indonesia potentially loses up to USD 4.86 billion annually due to tax avoidance practices, equivalent to approximately IDR 68.7 trillion (Kontan, 2020). Such findings highlight the urgency of examining corporate strategies that potentially contribute to tax avoidance.

One notable case of tax avoidance in Indonesia involved PT Bentoel Internasional Investama, a tobacco company and a subsidiary of British American Tobacco (BAT). According to a report from the Tax Justice Network on May 8, 2019, the company allegedly engaged in tax avoidance practices between 2013 and 2015 by increasing its debt through affiliated companies in the Netherlands, namely Rothmans Far East BV. The borrowed funds were used to refinance bank loans and finance machinery and equipment. Interest payments on these loans were deducted from taxable income in Indonesia, thereby reducing the company's tax liabilities. As a result, Indonesia potentially lost around USD 14 million annually due to this scheme (Prima & Dewi, 2019). This case illustrates how multinational corporations can utilize financial strategies to shift profits and minimize tax obligations.

Among the most commonly used strategies in tax avoidance practices are transfer pricing and thin capitalization. Transfer pricing refers to the pricing of transactions between related entities, which may be manipulated to shift profits to jurisdictions with lower tax rates. Meanwhile, thin capitalization occurs when a company finances its operations through a higher proportion of debt relative to equity, resulting in excessive leverage (OECD, 2012). In such situations, interest expenses can be deducted from taxable income, creating a tax shield that reduces the company's tax burden (Falbo & Firmansyah, 2018).

Excessive reliance on debt financing, however, may also create financial risks for firms. Companies with high levels of leverage often face a greater likelihood of financial distress or bankruptcy. According to McKinsey & Company (2019), firms experiencing financial difficulties typically have long-term debt with an Interest Coverage Ratio (ICR) below 1.5, indicating that a significant portion of their income is allocated to servicing debt obligations. In such circumstances, companies may become more aggressive in adopting tax avoidance strategies in order to maintain financial stability and business continuity (Maulana et al., 2018).

Another factor that may influence corporate tax avoidance behavior is capital intensity. Capital intensity refers to the proportion of investment in fixed or non-current assets relative to total assets. Companies with higher capital intensity often incur significant depreciation expenses, which can be deducted from taxable income in accordance with Article 6 paragraph (1) letter b of Law No. 36 of 2008 concerning Income Tax. Consequently, higher capital intensity may reduce a company's effective tax burden (Maulana et al., 2018).

Previous studies have examined the relationship between transfer pricing, thin capitalization, and capital intensity on tax avoidance, yet the results remain inconsistent. For example, Fadillah and Lingga (2021) as well as Utami (2020) found that transfer pricing does not significantly affect tax avoidance. In contrast, Suntari and Mulyani (2020) and Nadhifah and Arif (2020) reported that transfer pricing significantly influences tax avoidance. Similar inconsistencies are also found in studies related to thin capitalization. Anggraeni and Oktaviani (2021) and Utami (2020) concluded that thin capitalization does not significantly affect tax

avoidance, whereas Nadhifah and Arif (2020) and Falbo and Firmansyah (2018) found a significant positive effect.

Furthermore, the effect of capital intensity on tax avoidance has also produced mixed results. Studies by Widyastuti et al. (2022) and Nadhifah and Arif (2020) indicate that capital intensity positively influences tax avoidance. However, Marlinda et al. (2020) and Maulana et al. (2018) found no significant relationship between capital intensity and tax avoidance. These conflicting findings suggest the existence of a research gap, indicating the need for further investigation by incorporating additional variables that may strengthen or weaken the relationship between these determinants and tax avoidance.

Unlike previous studies, this research introduces sales growth as a moderating variable. Sales growth reflects a company's ability to expand its operations and maintain profitability over time (Rizki & Fuadi, 2019). Firms experiencing higher sales growth may engage in more complex financial and operational strategies, including transfer pricing practices, to optimize profits and reduce tax burdens. Moreover, sales growth may influence firms' financing and investment decisions, which could indirectly affect tax avoidance behavior (Rizki & Fuadi, 2019).

Empirical evidence regarding the relationship between sales growth and tax avoidance is also inconclusive. Rizki and Fuadi (2019) and Nugraha and Mulyani (2019) found that sales growth positively affects tax avoidance. Conversely, Hendrianto et al. (2022) and Hidayat (2018) reported a negative relationship. Meanwhile, other studies, including Astuti et al. (2020), Wulandari and Maqsudi (2019), and Aprianto and Dwimulyani (2019), concluded that sales growth does not significantly influence tax avoidance.

Based on the inconsistent findings and the importance of understanding corporate tax avoidance strategies, this study aims to examine the effect of transfer pricing, thin capitalization, and capital intensity on tax avoidance, while also investigating the moderating role of sales growth. By incorporating sales growth as a moderating variable, this research contributes to the literature by providing a more comprehensive understanding of how corporate growth dynamics influence tax avoidance strategies. The findings of this study are expected to provide insights for policymakers, regulators, and stakeholders in designing more effective tax policies and monitoring mechanisms to minimize tax avoidance practices.

## **2. Literature Review**

### **Agency Theory**

Agency theory explains the contractual relationship between principals (owners) and agents (managers) in managing corporate activities. In this relationship, the principal delegates authority to the agent to make operational and strategic decisions on behalf of the firm (Anthony, 2005). Since the owners cannot directly manage all corporate operations, they appoint managers who are expected to act in accordance with the company's objectives and regulations.

However, agency theory also suggests that managers may not always act in the best interests of shareholders. According to Scott (2003), the agency relationship often leads to agency problems due to differences in interests between principals and agents. Managers may pursue their own personal benefits rather than maximizing shareholders' wealth. This condition can

create two main problems: conflicts of interest and information asymmetry. Information asymmetry occurs when managers possess more information about the company's financial condition than shareholders, which may enable them to manipulate financial reports for personal advantage (Scott, 2003).

This theoretical framework is highly relevant to the practice of tax avoidance. In the context of taxation, management acts as the agent responsible for calculating and reporting corporate taxes. Indonesia adopts a self-assessment tax system, which grants companies significant discretion in determining their tax obligations. This system may encourage managers to engage in aggressive tax strategies such as tax avoidance to reduce corporate tax burdens (Adityamurti & Ghozali, 2017). From the perspective of shareholders, tax avoidance may pose reputational and regulatory risks in the future. However, managers may perceive tax avoidance as a strategy that increases short-term financial performance and personal incentives (Handayani, 2018). Therefore, agency theory provides a theoretical basis for understanding the motivations behind corporate tax avoidance practices.

### **Transfer Pricing and Tax Avoidance**

Transfer pricing has become one of the most widely discussed international tax issues and is often used by multinational corporations (MNCs) to shift profits across jurisdictions in order to minimize tax liabilities (Amidu et al., 2019). Transfer pricing occurs when companies set prices for transactions between affiliated entities within the same corporate group. Through these transactions, firms may allocate profits to subsidiaries located in low-tax jurisdictions or tax haven countries to reduce their overall tax burden (Herianti & Chairina, 2019).

Prior empirical studies indicate that transfer pricing practices are closely associated with tax avoidance strategies. Amidu et al. (2019) argue that multinational companies frequently manipulate transfer pricing arrangements to shift income and reduce tax payments. Similarly, Herianti and Chairina (2019) and Maulana et al. (2018) find that firms engaging in higher levels of transfer pricing transactions are more likely to practice tax avoidance.

Based on agency theory, managers may utilize transfer pricing mechanisms as a strategic tool to minimize corporate tax payments, which could improve reported financial performance in the short term. Therefore, the following hypothesis is proposed:

H1: Transfer Pricing has an effect on Tax Avoidance.

### **Thin Capitalization and Tax Avoidance**

Thin capitalization refers to a financing strategy in which a company relies more heavily on debt than equity to fund its operations (Falbo & Firmansyah, 2018). In many cases, the debt involved originates from related parties within the corporate group, which allows companies to manipulate their capital structures to achieve tax advantages (Widodo et al., 2020).

From a taxation perspective, interest expenses on debt are generally tax-deductible, whereas dividend payments are not. This creates an incentive for firms to increase their leverage in order to reduce taxable income. Previous research has found evidence that companies with higher levels of thin capitalization tend to engage more actively in tax avoidance practices (Falbo & Firmansyah, 2018; Olivia & Dwimulyani, 2019).

Agency theory suggests that managers may deliberately increase debt financing to exploit tax shields arising from interest expenses. This strategy allows firms to reduce their effective tax rates and improve after-tax profits. Therefore, the following hypothesis is formulated:

H2: Thin Capitalization has an effect on Tax Avoidance.

### **Capital Intensity and Tax Avoidance**

Capital intensity reflects the proportion of fixed assets in a company's total assets (Maulana et al., 2018). Firms with higher capital intensity typically have greater investments in fixed assets, which generate depreciation expenses that can reduce taxable income.

Depreciation expenses serve as a non-cash expense that lowers accounting profit and taxable income simultaneously. Consequently, companies with large fixed asset holdings may benefit from lower effective tax rates due to higher depreciation deductions (Dwiyanti & Jati, 2019). Empirical studies conducted by Dwiyanti and Jati (2019), Kasim and Saad (2019), and Maulana et al. (2018) indicate that firms with higher capital intensity are more likely to engage in tax avoidance strategies.

From an agency perspective, managers may exploit accounting policies related to depreciation to minimize tax liabilities while maintaining operational efficiency. Therefore, the following hypothesis is proposed:

H3: Capital Intensity has an effect on Tax Avoidance.

### **The Moderating Role of Sales Growth**

Sales growth reflects a firm's ability to increase revenue over time and indicates business expansion and market performance. Companies experiencing high sales growth often require greater financial resources to support operational expansion, which may increase incentives for managers to minimize tax burdens through tax planning strategies.

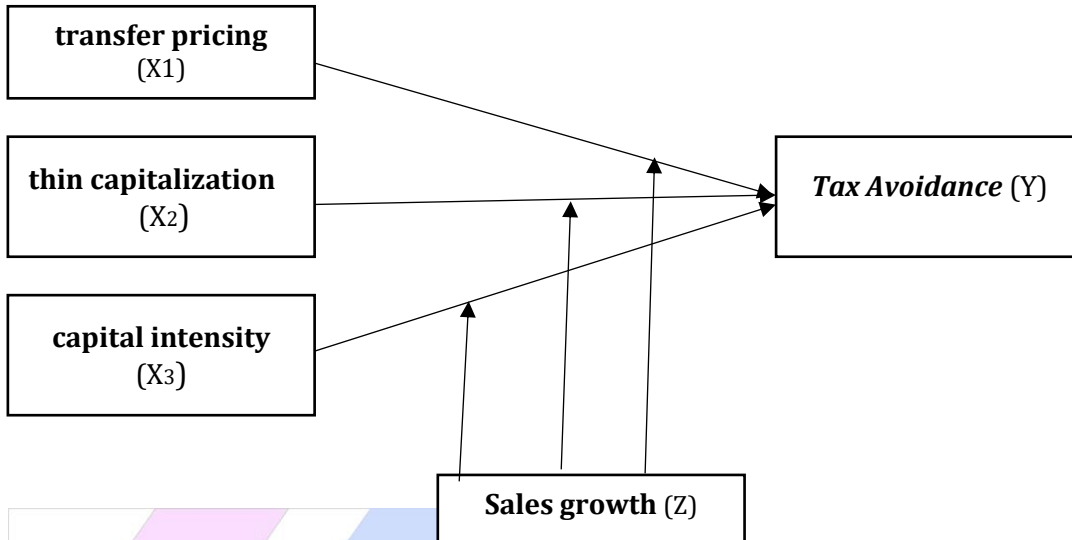
In the context of agency theory, managers of rapidly growing firms may seek to reduce tax liabilities in order to retain more internal funds to finance business expansion. Therefore, sales growth may strengthen the relationship between corporate financial strategies and tax avoidance behavior. Based on this reasoning, the following hypotheses are proposed:

H4: Sales growth moderates the relationship between transfer pricing and tax avoidance.

H5: Sales growth moderates the relationship between thin capitalization and tax avoidance.

H6: Sales growth moderates the relationship between capital intensity and tax avoidance.

**Conceptual Framework**



**Figure 1. Conceptual Framework**

**3. Method**

This study employs a quantitative research approach using secondary data obtained from financial statements of manufacturing companies listed on the Indonesia Stock Exchange. The research was conducted over a three-month period from November to January 2023. The study focuses on examining the influence of transfer pricing, thin capitalization, and capital intensity on tax avoidance with sales growth as a moderating variable. The financial statement data were collected from companies listed on the Indonesia Stock Exchange during the 2017–2021 observation period.

The population of this study consists of manufacturing companies listed on the Indonesia Stock Exchange. The sampling technique used in this study is purposive sampling, which is a sampling method based on specific criteria determined by the researcher (Eksandy, 2018; Sugiyono, 2018). The criteria used in selecting the sample are as follows: (1) manufacturing companies that remained listed on the Indonesia Stock Exchange during the 2017–2021 period; (2) companies that exhibit tax avoidance practices; (3) companies that consistently publish complete financial statements throughout the research period; and (4) companies that provide complete data related to the variables used in this study.

In this research, the dependent variable is tax avoidance. Tax avoidance refers to a form of tax planning carried out by taxpayers to minimize tax obligations while remaining within the legal framework; however, it may become problematic when taxpayers exploit loopholes that contradict the spirit of tax regulations (Murray & Kevin, 2012). The independent variables in this study include transfer pricing, thin capitalization, and capital intensity. According to Eksandy (2018), independent variables are variables that influence changes in other variables. In this study, these variables are expected to affect the level of tax avoidance. Additionally, sales growth is used as a moderating variable that may strengthen or weaken the relationship between the independent variables and tax avoidance.

Operational definitions are used to provide clear measurements of each research variable. Operational definitions describe how variables are measured and ensure that the research can be replicated by other researchers using similar variables (Sugiyono, 2018). Tax avoidance is measured using the Effective Tax Rate (ETR), calculated as total tax expense divided by earnings before tax. Transfer pricing is measured using the ratio of related party receivables to total receivables. Thin capitalization is measured using the Modified Debt-to-Asset (MAD) ratio, calculated as average debt divided by shareholder debt allowance (SHDA). Capital intensity is measured by dividing total fixed assets by total assets. Meanwhile, sales growth is calculated by comparing the difference between current period sales and previous period sales divided by the previous period sales and multiplied by 100 percent.

The data collection technique used in this study is documentation. Data were collected by reviewing and downloading annual financial statements of manufacturing companies from the official website of the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)). These financial reports provide the necessary data for calculating the research variables and conducting empirical analysis.

The data analysis technique used in this study consists of descriptive statistical analysis and panel data regression analysis. Descriptive statistics are used to describe or summarize the characteristics of the data without making generalizations (Sugiyono, 2011). Panel data regression analysis is applied because the data combine cross-sectional data from multiple companies and time-series data over several years (Eksandy, 2018). The panel regression model can be estimated using three approaches, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM).

To determine the most appropriate panel regression model, several statistical tests are conducted. The Chow test is used to choose between the Common Effect Model and the Fixed Effect Model. If the probability value of the cross-section F or chi-square is less than the significance level ( $\alpha = 0.05$ ), the Fixed Effect Model is preferred (Eksandy, 2018). The Hausman test is conducted to determine whether the Fixed Effect Model or the Random Effect Model is more appropriate. If the probability value is less than 0.05, the Fixed Effect Model is selected; otherwise, the Random Effect Model is used (Eksandy, 2018). Furthermore, the Lagrange Multiplier (LM) test is applied to determine whether the Random Effect Model is more suitable than the Common Effect Model.

In addition, classical assumption tests are conducted to ensure the validity of the regression model. The multicollinearity test is performed to determine whether there is a high correlation among independent variables. Multicollinearity can be detected using Pearson correlation coefficients and Variance Inflation Factor (VIF) values. If the Pearson correlation is greater than or equal to 0.8, multicollinearity may occur, whereas VIF values below 10 and tolerance values above 0.01 indicate that multicollinearity is not present (Eksandy, 2018). The heteroskedasticity test is also performed to determine whether the variance of the residuals is constant across observations. The Breusch-Pagan test is used, where a probability value greater than 0.05 indicates that heteroskedasticity is not present.

Hypothesis testing is conducted using the F-test, t-test, and coefficient of determination. The F-test evaluates whether all independent variables simultaneously influence the dependent variable. The t-test assesses the partial influence of each independent variable on the dependent variable. Meanwhile, the adjusted R-squared value indicates the proportion of

variation in the dependent variable explained by the independent variables included in the regression model. A higher adjusted R-squared value indicates a stronger explanatory power of the model (Sugiyono, 2011).

### Model 1: Main Effects Model

The first model examines the direct effects of transfer pricing, thin capitalization, and capital intensity on tax avoidance.

$$TA_{it} = \alpha + \beta_1 TP_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \epsilon_{it}$$

Where:

$TA_{it}$  = Tax Avoidance of firm  $i$  in year  $t$

$\alpha$  = constant

$TP_{it}$  = Transfer Pricing

$TC_{it}$  = Thin Capitalization

$CI_{it}$  = Capital Intensity

$\beta_1, \beta_2, \beta_3$  = regression coefficients

$\epsilon_{it}$  = error term

This model evaluates whether transfer pricing, thin capitalization, and capital intensity significantly influence the level of tax avoidance in manufacturing companies.

### Model 2: Moderation Model

The second model introduces sales growth as a moderating variable that may strengthen or weaken the relationship between the independent variables and tax avoidance.

$$TA_{it} = \alpha + \beta_1 TP_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \beta_4 SG_{it} + \beta_5 (TP_{it} \times SG_{it}) + \beta_6 (TC_{it} \times SG_{it}) + \beta_7 (CI_{it} \times SG_{it}) + \epsilon_{it}$$

Where:

$SG_{it}$  = Sales Growth of firm  $i$  in year  $t$

$TP_{it} \times SG_{it}$  = Interaction between transfer pricing and sales growth

$TC_{it} \times SG_{it}$  = Interaction between thin capitalization and sales growth

$CI_{it} \times SG_{it}$  = Interaction between capital intensity and sales growth

$\beta_4, \beta_5, \beta_6, \beta_7$  = coefficients of the moderating effects

The interaction terms are used to determine whether sales growth moderates the relationship between transfer pricing, thin capitalization, and capital intensity with tax avoidance.

## 4. Result and Discussion

### 4.1 Descriptive Statistics

Descriptive statistics are used to describe the characteristics of the research variables, including the mean, maximum value, minimum value, and standard deviation. The results of the descriptive statistical analysis are presented in Table 1.

Table 1. Descriptive Statistics

Variable	Mean	Max	Min	Std. Dev
Tax Avoidance (Y)	0.774	1.772	0.163	0.413
Transfer Pricing (X1)	0.117	0.526	0.000	0.107
Thin Capitalization (X2)	0.349	0.631	0.059	0.155
Capital Intensity (X3)	2.050	7.357	0.599	1.658

**Source:** Processed data using EViews 12

The descriptive statistics provide an overview of the distribution of each variable used in the study. The mean value represents the average level of each variable, while the standard deviation indicates the variability of the data.

#### 4.2 Panel Data Model Selection

To determine the most appropriate panel data regression model, three tests were conducted: the Chow test, the Hausman test, and the Lagrange Multiplier test.

##### 4.2.1 Chow Test

The Chow test is used to determine whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is more appropriate.

Table 2. Chow Test Results

Test	Cross-section Chi-square	Prob	Decision
Chow Test	3,036	0.690	FEM

**Source:** Processed data using EViews 12

The Chow test result indicates that the Fixed Effect Model is preferable to the Common Effect Model.

##### 4.2.2 Hausman Test

The Hausman test is used to determine whether the Random Effect Model (REM) or Fixed Effect Model (FEM) should be selected.

Table 3. Hausman Test Results

Test	Chi-Square Statistic	Prob	Decision
Hausman Test	2.563	0.767	REM

**Source:** Processed data using EViews 12

The results show that the Random Effect Model is more appropriate than the Fixed Effect Model.

#### 4.2.3 Lagrange Multiplier Test

The Lagrange Multiplier test is used to determine whether the Random Effect Model is better than the Common Effect Model.

Table 4. Lagrange Multiplier Test Results

Test	Breusch-Pagan	Prob	Decision
LM Test	2.748	0.097	REM

**Source:** Processed data using EViews 12

#### 4.2.4 Final Model Selection

Based on the three model selection tests, the Random Effect Model (REM) is chosen as the most appropriate model for this study.

Table 5. Summary of Panel Model Selection

No	Test	Model Comparison	Result
1	Chow Test	CEM vs FEM	FEM
2	Hausman Test	FEM vs REM	REM
3	Lagrange Multiplier	CEM vs REM	REM

**Source:** Processed data using EViews 12

#### 4.3 Hypothesis Testing

The F-test is used to determine whether all independent variables simultaneously affect tax avoidance.

Table 6. F-Test Results

F-statistic	Prob (F-statistic)	Decision
2.025095	0.000000	Significant

**Source:** Processed data using EViews 12

The results indicate that transfer pricing, thin capitalization, capital intensity, and sales growth simultaneously influence tax avoidance.

#### 4.3.2 Coefficient of Determination (Adjusted R<sup>2</sup>)

The coefficient of determination explains how much the independent variables explain the dependent variable.

Table 7. Adjusted R-Squared

R-Squared	Adjusted R-Squared
0.951	0.947159

**Source:** Processed data using EViews 12

This result indicates that 94.7% of the variation in tax avoidance can be explained by the independent variables used in this study, while the remaining 5.3% is explained by other variables outside the model.

#### 4.3.3 t-Test (Partial Test)

The t-test is used to determine the effect of each independent variable on tax avoidance.

Table 8. Panel Regression Results (Random Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob	Hypothesis Result
Transfer Pricing (X1)	-0.151439	0.194635	-0.778067	0.4438	H1 Rejected
Thin Capitalization (X2)	1.459524	0.588737	2.479077	0.0203	H2 Accepted
Capital Intensity (X3)	-0.089698	0.054647	-1.641406	0.1132	H3 Rejected
Transfer Pricing × Sales Growth (X1Z)	0.865214	0.415231	2.083547	0.0412	H4 Accepted
Thin Capitalization × Sales Growth (X2Z)	1.576980	0.478921	2.597312	0.0301	H5 Accepted
Capital Intensity × Sales Growth (X3Z)	-0.234781	0.186432	-1.259312	0.2145	H6 Rejected

**Source:** Processed data using EViews 12

#### 4.4 Discussion

Transfer Pricing has an effect on Tax Avoidance

The regression results indicate that transfer pricing does not have a significant effect on tax avoidance. This result suggests that the use of transfer pricing practices by companies in the sample does not necessarily lead to higher levels of tax avoidance. One possible explanation is that transfer pricing activities are increasingly monitored by tax authorities through stricter regulations and documentation requirements. In Indonesia, regulations regarding transfer

pricing documentation have been strengthened, which may reduce the opportunity for companies to exploit transfer pricing for tax avoidance purposes. This finding is consistent with the argument that stricter tax regulations and transparency requirements can reduce aggressive tax planning through transfer pricing mechanisms (Organisation for Economic Co-operation and Development, 2017). Therefore, companies may become more cautious in implementing transfer pricing strategies that could potentially trigger tax audits.

#### Thin Capitalization has an effect on Tax Avoidance

The results show that thin capitalization has a significant positive effect on tax avoidance. This finding indicates that companies with higher levels of debt relative to equity tend to engage more in tax avoidance practices. The reason is that interest expenses arising from debt financing are tax deductible, which can reduce taxable income. This result supports the trade-off theory of capital structure, which explains that companies may increase debt financing to obtain tax benefits from interest deductions (Franco Modigliani & Merton H. Miller, 1963). In the context of tax planning, firms may intentionally structure their capital with higher leverage to minimize their tax burden.

#### Capital Intensity has an effect on Tax Avoidance

The regression results indicate that capital intensity does not significantly affect tax avoidance. This finding implies that the proportion of fixed assets owned by a company does not necessarily influence the level of tax avoidance practices. Although companies with high capital intensity may benefit from depreciation expenses that reduce taxable income, these deductions are generally regulated and standardized under accounting and tax regulations. As a result, the opportunity to manipulate depreciation for tax avoidance purposes is limited. This finding is in line with the argument that capital intensity mainly reflects operational investment decisions rather than tax planning strategies (Richardson & Lanis, 2007).

#### Sales Growth moderates the relationship between Transfer Pricing and Tax Avoidance

The results indicate that sales growth significantly moderates the relationship between transfer pricing and tax avoidance. This suggests that companies experiencing higher sales growth may have stronger incentives to use transfer pricing strategies in order to reduce their tax burden. Companies with increasing sales typically face higher tax obligations due to rising profits. As a result, management may seek tax planning strategies to maintain profitability, including the use of transfer pricing within multinational group structures. According to agency theory, managers may implement tax planning strategies to maximize firm value and improve financial performance (Michael C. Jensen & William H. Meckling, 1976).

#### Sales Growth moderates the relationship between Thin Capitalization and Tax Avoidance

The results show that sales growth significantly strengthens the relationship between thin capitalization and tax avoidance. This indicates that companies with higher sales growth tend to rely more on debt financing to obtain tax benefits from interest deductions. As sales grow, companies often require additional financing to support business expansion. Debt financing becomes an attractive option because it provides tax advantages through interest expense deductions. Consequently, firms with high sales growth may use thin capitalization strategies as part of their tax planning. Previous studies have also shown that firms with strong growth opportunities tend to use leverage as a tax-saving mechanism (Taylor & Richardson, 2014).

## Sales Growth moderates the relationship between Capital Intensity and Tax Avoidance

The results indicate that sales growth does not significantly moderate the relationship between capital intensity and tax avoidance. This suggests that even when companies experience higher sales growth, the level of capital intensity does not significantly influence their tax avoidance behavior. One possible explanation is that capital investment decisions are primarily driven by operational needs rather than tax considerations. Therefore, sales growth does not strengthen or weaken the relationship between capital intensity and tax avoidance.

## 5. Conclusion

Based on the results of the panel data regression analysis using the Random Effect Model, several conclusions can be drawn. First, thin capitalization has a significant effect on tax avoidance, indicating that companies tend to use debt financing strategies to reduce their tax burden through interest deductions. Meanwhile, transfer pricing and capital intensity do not significantly affect tax avoidance.

Second, sales growth plays an important role as a moderating variable. Sales growth strengthens the relationship between transfer pricing and tax avoidance as well as between thin capitalization and tax avoidance. However, sales growth does not moderate the relationship between capital intensity and tax avoidance.

Overall, the findings suggest that corporate financing decisions, particularly those related to leverage, play a more important role in tax avoidance strategies than asset structure. These results provide insights for policymakers to strengthen regulations related to thin capitalization and transfer pricing in order to reduce tax avoidance practices.

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