



## The Tax Avoidance Practice of Indonesian Mining Companies

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### Abstrak

Sektor pertambangan di Indonesia merupakan salah satu penyumbang terbesar penerimaan negara melalui perpajakan. Industri pertambangan menyumbang 33,431 triliun pada semester I 2019. Meskipun jumlahnya tampak signifikan, seharusnya jumlahnya lebih besar jika perusahaan pertambangan tidak menghindari pembayaran pajak. Penelitian ini bertujuan untuk menganalisis peran kepemilikan institusional dalam memoderasi pengaruh profitabilitas, *Thin Capitalization*, dan intensitas persediaan terhadap penghindaran pajak. Penelitian ini menggunakan Moderating Regression Analysis (MRA) untuk analisis data pada perusahaan pertambangan yang terdaftar di BEI dari tahun 2018 - 2022. Data dikumpulkan dari populasi dengan menggunakan purposive sampling menghasilkan 60 sample. Hasil penelitian menunjukkan bahwa variabel profitabilitas dan *Thin Capitalization* berdampak pada penghindaran pajak, sedangkan intensitas persediaan berbeda. Penelitian telah menunjukkan bahwa kepemilikan institusional memoderasi dampak dari profitabilitas dan *Thin Capitalization* terhadap penghindaran pajak. Namun demikian, tidak ada bukti yang menunjukkan bahwa hal ini mengurangi dampak intensitas persediaan pada penghindaran pajak. Penelitian ini menjawab kesenjangan penelitian terkait dampak kepemilikan institusional sebagai variabel moderasi, memberikan kebaruan dengan memilih seperangkat variabel yang berdampak pada penghindaran pajak. Penelitian selanjutnya dapat mereplikasi penelitian ini dengan memperluas industri yang menjadi objek penelitian, rentang waktu yang lebih panjang, dan alat analisis yang berbeda.

**Kata kunci:** Intensitas Persediaan, Kapitalisasi Skala Rendah, Kepemilikan Institusional, Penghindaran Pajak, Profitabilitas

### Abstract

The mining sector in Indonesia is one of the most significant contributors to state revenue through taxation. The mining industry contributed 33.431 trillion in the first semester of 2019. Although the amount seems significant, it would be bigger if mining companies did not avoid paying taxes. This research aims to analyze the role of institutional ownership in moderating the influence of profitability, thin capitalization, and inventory intensity on tax avoidance. This research uses MRA to analyze data on mining companies listed on the IDX from 2018 -2022. Data was collected from the population using purposive sampling to produce 60 samples. The research results show that profitability and thin capitalization variables impact tax avoidance, while inventory intensity differs. Institutional ownership moderates the impact of low profitability and thin capitalization on tax avoidance. However, there is no proof that this lessens the effect of inventory intensity on tax avoidance. By choosing a group of variables that affect tax avoidance, this study fills a knowledge gap in the influence of institutional ownership as a moderating variable. Future research can replicate this research by expanding the industry that is the object of research, extending the period, and using different analysis tools.

**Keywords:** Institutional Ownership, Inventory Intensity, Profitability, Tax Avoidance, Thin Capitalization

## INTRODUCTION

Taxes provide financial resources to the state, which are utilized to address diverse governmental requirements for the population's well-being. Moreover, taxes serve as a primary means of financing the governmental budget. Consequently, it is anticipated that the tax revenue goal will increase annually. The subsequent data presents the specific objectives and actual tax income achieved from 2017 to 2021:

**Table 1. Indonesia's Tax Revenue Target and Realization (Trillion Rupiah)**

Year	Target	Realization	Percentage
2018	1.283	1.151	89.711
2019	1.424	1.315	92.345
2020	1.577	1.332	84.464
2021	1.198	1.070	89.315
2022	.1229	1.231	100.162

Source: Directorate General of Taxes' Performance Report

In 2018, the tax ratio was 89.711%, generating revenue of Rp. One thousand one hundred fifty-one trillion out of the targeted Rp. 1283 trillion. The following year, in 2019, the tax ratio increased to 92.634%, generating Rp. 1315 trillion in revenue, which exceeded the target of Rp. 1424 trillion. However, in 2020, the tax ratio decreased to 7.881%, generating a value of Rp. 1332 trillion out of the targeted Rp. 1577 trillion. From 2020 to 2021, total revenue significantly declined, decreasing 24.485%. The total revenue fell from Rp. 1332 trillion in 2019 to Rp. 1070 trillion. There was restitution of 21,110 percent in global commodity prices, which was the cause of the decline in revenue growth from the mining and palm oil sectors and the normalization of import activities (Direktorat Jenderal Pajak, 2023).

Regarding tax avoidance flows to Indonesian companies ranked 11th in the world. (IMF, 2023). The first rank is done by the company in the United States, amounting to 188.800 billion US dollars. Second is China, with 66.800 billion US dollars; the third is Japan, with \$46.700 billion worth of tax evasion. Indonesia is ranked 11th largest with an estimated value of 6.480 billion US dollars; companies in Indonesia do not pay tax companies to the Tax Office Indonesia. (Simanjutak, 2017).

The mining industry in Indonesia plays a crucial role in generating governmental income through taxation (PWC, 2023). The mining sector contributed 33.431 trillion in the first half of 2019, as Simorangkir (2019) reported. Despite its seeming significance, as of 2022, only 30 percent of the roughly 40 major mining corporations had implemented tax transparency reporting, while the remainder of the tax reports still lacked transparency (PWC, 2023). Since tax transparency is critical in evaluating a company's environmental, social, and governance (ESG) performance, it tends to potentially enhance the firm's financial impact on society, especially in distant locations where the company works. Tax transparency facilitates tax evasion activities, resulting in reduced tax payments by the corporation, which falls short of the actual tax burden (Suwiknyo, 2021). Without transparency, mining businesses intend to maximize earnings and entice potential investors.

An instance of tax avoidance in the Indonesian mining industry is PT Adaro Energy Tbk, accused of engaging in tax fraud and employing tax planning strategies that eventually resulted in tax evasion. Adaro capitalizes on the discrepancy by selling coal to its Singaporean subsidiary, Coal Trade Services International, at a reduced price (Malik & Rachmat, 2023). Subsequently, the coal is exported to foreign nations at a more elevated cost. Consequently, income in Indonesia is subject to lesser taxation than it should be. The endeavor is reported to have been undertaken from 2009 to 2017.

Adaro is accused of deliberately organizing their finances to evade paying taxes amounting to US \$125 million or around Rp. 1.750 trillion less than the required amount in Indonesia (Sigianto, 2019).

The second instance of a tax evasion case is the Directorate General of Tax (DGT) filing a lawsuit against the coal firm PT Multi Sarana Avindo (MSA). The company is accused of transferring Mining Authorization, which has led to a failure to fulfill its responsibility to pay Value Added Tax (VAT). DGT filed three lawsuits in 2007, 2009, and 2010, seeking 7.7 billion. However, DGT was unsuccessful in court. Currently, the DGT continues to pursue identical legal action. The suspicions of the DGT are somewhat justified due to notable disparities. There is a significant disparity between the quantity of goods manufactured and the amount of taxes paid (Yuliawati, 2022).

The effective tax rate (ETR) is a helpful metric for assessing the extent of company tax evasion. Decision-makers and stakeholders often utilize the concept of effective company tax rates to assess and evaluate internal business policies and the corporation tax system (Prasetyo et al., 2018). ETR, or Effective Tax Rate, refers to the percentage of a company's commercial profit subject to taxation. According to Arianti (2020) A firm is more prone to tax evasion when the Effective Tax Rate (ETR) is lower. This research employs the latest Effective Tax Rate (ETR), calculated by dividing the current tax cost by the earnings before taxes. Deferred tax expenditure arises from the influence of future taxes on current operations rather than the tax expense incurred in the current year. Therefore, the current effective tax rate (ETR) solely reflects the current tax expense (Dyrenge et al., 2010). Hence, only by considering long-term tax evasion can the existing effective tax rate (ETR) mitigate the limitations associated with calculating the generally accepted accounting principles (GAAP) ETR (Ahlemann et al., 2017).

Corporate governance is a series of directions and controls that ensure a company's operational activities run in the interests of stakeholders (Haryanti, 2019). GCG, or corporate governance, functions as a regulatory and control structure for a firm by overseeing the interactions among shareholders, corporate management, creditors, the government, employees, and other internal and external stakeholders. Implementing corporate governance inside a firm will impact management's decision-making processes, including adherence to tax regulations (Yuni & Setiawan 2019). In this study, institutional ownership is considered the only measure of corporate governance. The rationale behind this is that for a company to achieve optimal performance, external supervision is required, which is facilitated by institutional ownership (Pattiasina et al., 2019). Institutional investors exert a substantial influence on firms through their ability to influence company processes, including accounting and financial reporting practices (Pattiasina et al., 2019). Institutional investors exert a substantial influence on firms through their ability to influence company processes, including accounting and financial reporting practices (Eskandar & Ebrahimi, 2020).

The company's profitability level indicates its capacity to generate profits. As the company's earnings increase, so does the tax owed. Within the agency theory framework, the agent endeavors to effectively handle its tax obligations to prevent a decrease in its performance-based remuneration due to a reduction in the company's profits caused by the erosion of tax burden. In order to optimize agent performance and pay, the agent should utilize the firm's resources to minimize the company's tax liability, thereby maximizing overall company performance. Thin capitalization is a tax avoidance strategy where corporations prioritize debt financing over equity capital in their capital structure. As mentioned by Ismi (2016). This strategy involves companies' investment decisions in financing activities. The reason for this is that, unlike dividends, debt may enhance the value of a company by taking advantage of tax benefits through the deduction of interest payments on loans. Inventory intensity refers to the proportion of a company's total assets comprising inventory. Increased maintenance and storage costs will directly impact a company's profitability, resulting in fewer tax payments. Incidental expenses incurred by the firm concerning inventory should be excluded from the inventory cost and instead recorded as an expense during the period they occur. This practice might lead to reduced corporate profits due to the costs associated with inventory maintenance and storage (Rosandi, 2022).

Indonesia's corporate taxpayers contribute to the country's tax revenue (Rachdianti et al., 2016). Businesses must pay taxes on the money they generate within a specific timeframe, reducing their net income. However, taxes serve as a means of generating income for the government. Owing to the divergence of interests between taxpayers and the government, taxpayers may endeavor to evade tax payments (Moeljono, 2020). Tax avoidance may be understood through agency theory, which posits that there exists a relationship of authority between the principal and the agent. In this connection, the agent is granted the power to operate the firm on behalf of the principal (Jensen & Meckling, 1976; Prismanitra, 2021). Furthermore, stakeholder theory elucidates the decision-making process of enterprises, wherein stakeholders' interests are taken into account. The government, being involved, has a financial interest in tax money generated from earnings documented in the financial statement, so operational enterprises must consider the government's concerns. An agent-principal conflict of interest, also known as a conflict of interest, is present per agency theory. Companies frequently use tax evasion to reduce their tax liabilities and preserve substantial post-tax profits (Pratama and Suryarini, 2020).

Prior studies conducted by various researchers have demonstrated an apparent correlation between profitability and tax avoidance (Olivia & Dwimulyani, 2019; Darsani & Sukartha, 2021; and Ismi, 2016). Meanwhile, research conducted by Arianandini & Ramantha (2018) revealed the other way that profitability has no effect against tax avoidance. From thin capitalization and tax avoidance relationship, the studies conducted by Falbo and Firmansyah. (2018), Jumailah (2020) dan Prastiwi and Ratnasari (2019) proved that thin capitalization influences tax avoidance, but contrary to research conducted by Irmanslian et al. (2021) and Ismi (2016). Lastly, providing evidence on the moderation relationship, Cahyani et al. (2021) Prasatya et al., (2020) and Olivia and Dwimulyani (2019) institutional ownership weakens the effect of profitability on tax avoidance, which is not in line with Utami and Ernandi (2021).

To be involved and bring fresh nuance into the debate, this study combines those relationships into a more cohesive research model and validates in the context of the Indonesian mining industry. Moreover, Wulandari and Cahyonowati (2024), calls for future studies in tax avoidance to expand the topic discussion under agency and stakeholder theory. This paper addressed this recommendation by using these theories as the underlying theory to examine the connection between profitability, thin capitalization, and inventory intensity.

## LITERATUR REVIEW

### Agency Theory

According to Jensen & Meckling (1976), an agency relationship is a contract between one or more parties (the principal or employer) that appoints another party (the agent) to carry out a variety of tasks and grant decision-making authority. There are numerous approaches to managing an agent's actions concerning tax management. The process involves analyzing the company's financial data and comparing the results with potential tax aggression measures the agent may implement. The ratio is calculated by dividing the company's earnings before taxes (ETR) by its tax burden.

### Positive accounting theory

Positive accounting theory was first introduced (Watts & Zimmerman, 1986). Positive accounting theory explains the attitude of company management in making financial reporting. Positive accounting theory also explains the changes from time to time regarding actual accounting practices, shown through the perception of management voluntarily using standard accounting rules and accounting procedures. Positive accounting theory explains that managers sometimes do things the principal cannot predict. Positive accounting theory also says that bonuses to agents will influence how much agency costs fall but can make agents more likely to take advantage of opportunities. According to Al Amin (2018) positive accounting theory aims to explain an activity by utilizing accounting abilities, insight, and knowledge; apart from that, it also uses the most harmonious accounting rules to overcome certain situations in the future. Positive accounting theory, according to Ritonga (2019), acknowledges three agency relationships: management and governance (political

costs hypothesis), management and owners (bonus plan hypothesis), and management and creditors (debt agreement hypothesis).

### **Tax Avoidance**

Tax avoidance is when a business minimizes the tax burden by using authentic and acceptable alternatives by fucus (Mulyana et al., 2020). So, Tax avoidance is legal because it does not violate tax law regulations. However, this tax avoidance is unique because, on the one hand, it is legally legal. On the other hand, this tax avoidance act is not very avoided by the government because it will impact state revenue; specific regulations permit taxpayers to engage in accelerated depreciation, as an illustration. Indeed, this will result in reduced tax liabilities for the company (Carolina & Vinny, 2021).

### **Profitability**

Profitability describes the company's ability to earn profit. Various ratios can measure profitability, including the return on assets (ROA). The higher the ROA value, the greater the profit earned by the company. In this case, the theory of planned behavior can be used to explain the behavior of taxpayers in fulfilling their tax obligations. Before the individual does something, the individual will have confidence in the results obtained from the behavior. Then, the concerned will decide whether to do it or not. If the company earns a profit, it tends to comply with its obligations to pay taxes because it has confidence and considers that the company can manage income and pay taxes (Olivia & Dwimulyani, 2019) .

### **Thin Capitalization**

Thin capitalization is forming a company capital structure with a combined ownership of large debts and small capital. The company can reduce interest expenses so that taxable income will be less. Subtraction like this causes a macro effect by reducing potential state revenue from taxes (Salwah & Herianti, 2019).

### **Inventory Intensity**

The company's inventory (inventory intensity) is part of its current assets to meet its long-term needs and operations. Intensity intentionally, part of the company's assets, will reduce profits. Inventory strength is the portion of assets estimated to compare inventory capital stock with total assets owned by the company. Company Investing in warehouse inventory will unavoidably cause maintenance and inventory costs, leading to increased costs that can reduce company profits (Rosandi, 2022).

### **Institutional Ownership**

Institutional ownership is a percentage of shares owned by the corporate institution at the end of the year. Existing ownership by institutional investors such as securities companies, corporations, insurance, banking, investment companies, pension funds, and other institutions will encourage more optimal supervision of management performance. Institutional ownership is expected to be able to carry out a practical monitoring function on management companies in decision-making (Rahayu & Rusliati, 2019).

### **Hypothesis Development**

Agency theory posits that a conflict of interest arises between the tax authorities (acting as the principal) and the business or taxpayer (acting as the agent) when the corporation aims to maximize its earnings. The firm must generate substantial profits while minimizing its tax liability, while the tax authorities want to maximize tax revenue. The firm's strategies to optimize its net profit will depend on its profitability. The profitability of an organization directly correlates with its potential to generate more significant profits. Consequently, as the degree of profitability increases, the tax burden on the company's profits also becomes more substantial (Wardani & Purwaningrum, 2018)

Return on Assets (ROA) is an effective measure of profitability that indicates how well a firm utilizes its assets to generate net income. The research was undertaken by [Wardani & Purwaningrum \(2018\)](#), [Kimsen \(2018\)](#), and [Darsani and Sukartha \(2021\)](#), demonstrates a correlation between return on assets and tax evasion. The greater the ratio, the more efficient the company's utilization of assets in generating net income. If the company's profitability increases, the amount of tax paid and the company's efforts to evade taxes will also increase ([Putra & Zahroh, 2023](#)).

**Hypothesis 1: Profitability positively influences the practice of tax evasion.**

According to tax laws, interest expenditure is considered deductible from taxable income. However, the distribution of dividends is not deductible from taxable income. Upon examining the multinational corporation, it becomes evident that the company would receive incentives in the form of tax deductions on tariffs, which are increased due to the loan interest. Conversely, a collection of enterprises in a nation with a lower interest rate will generate interest income. Managers have the advantage of information asymmetry over shareholders, enabling them to decide on the company's capital structure policy. Shareholders may erroneously suppose that leveraging debt might expand funding sources. Nonetheless, it has been shown that management has utilized this approach to engage in tax avoidance.

Thin capitalization is a tax avoidance strategy where a company finances its capital structure primarily through debt rather than equity. By doing so, the company can benefit from tax advantages in the form of deductions on loan interest expenses, which ultimately enhances the company's overall value ([Olivia & Dwimulyani, 2019](#)). Thin capitalization substantially impacts tax evasion, as indicated by the studies conducted by [Falbo and Firmansyah \(2018\)](#) and [Nadhifah & Arif \(2020\)](#). As thin capitalization increases, the corresponding interest expenditure also increases, decreasing the company's earnings and the amount of income tax that needs to be paid.

**Hypothesis 2: Implementing thin capitalization rules will have a favorable effect on reducing tax evasion.**

The inventory intensity ratio indicates the number of times the stock is rotated within a specific time frame, reflecting the organization's efficacy and efficiency in managing its inventory investment—at a particular moment. Inventory costs, which encompass expenses related to the acquisition, transformation, and other incurred costs before the inventory is in a suitable state and location for sale or use, are linked to the company's investment in fixed assets. Stock prices are subtracted from taxable income. The corporation's tax liability decreases proportionally with its taxable revenue. The government's goals, which aim to maximize the efficient utilization of tax revenue, conflict with this. In order to keep the tax burden low, the company actively preserves its financial interest. The firm maintains a substantial inventory level to minimize tax liabilities ([Irmanslian et al., 2021](#)).

Institutional shareholders will exert greater control over management in the decision-making process regarding inventory purchases vs equity. Shareholders anticipate a favorable turnover ratio for their inventory to mitigate supplementary expenses, such as storage, handling, and other charges. The amount of managerial oversight is heightened with the involvement of institutional shareholders. By mitigating conflicts of interest, the occurrence of agency difficulties and the likelihood of tax evasion can be diminished ([Trisnawati & Firmansyah, 2022](#)).

The maintenance and storage burden escalates proportionally with a company's stock expansion. Both costs can potentially decrease the company's earnings within a specific time frame, reducing the company's tax obligation ([Andhari & Sukartha, 2017](#)). The motivation of managers to align their conduct with intended behavior will be influenced. In this scenario, the actions taken by management are influenced by their perception of the expectations set by influential stakeholders, particularly those who prioritize high profits and minimal tax obligations. As a result, business management is motivated to fulfill these expectations, driven by their normative beliefs ([Dwiyanti & Jati, 2019](#)). This shows that the level of inventory intensity has a beneficial effect on the practice of tax evasion.

**Hypothesis 3: The level of inventory has a favorable impact on the practice of minimizing tax liability.**

The tax payable is contingent upon the magnitude of the company's profit; hence, the larger the profit, the higher the tax liability. Agency theory suggests that management will use aggressive tax avoidance strategies to manipulate the firm's tax burden. This is done to prevent a decrease in the agent's performance remuneration resulting from lower corporate earnings caused by tax payments. Tax avoidance involves aspects of secrecy that diminish openness inside a corporation. Hence, it is imperative to have effective corporate governance. Institutional ownership is a notable application of effective corporate governance. Increased institutional ownership is anticipated to enhance control (Ngadiman & Puspitasari, 2017).

Institutional ownership serves as a supervisory mechanism for management, effectively deterring the use of aggressive tax management strategies (Wirawan, 2010). Olivia & Dwimulyani (2019) and Prasatya et al., (2020) have found that institutional ownership has the potential to diminish the connection between profitability and tax avoidance. This suggests it can decrease enterprises' inclination to participate in tax avoidance practices.

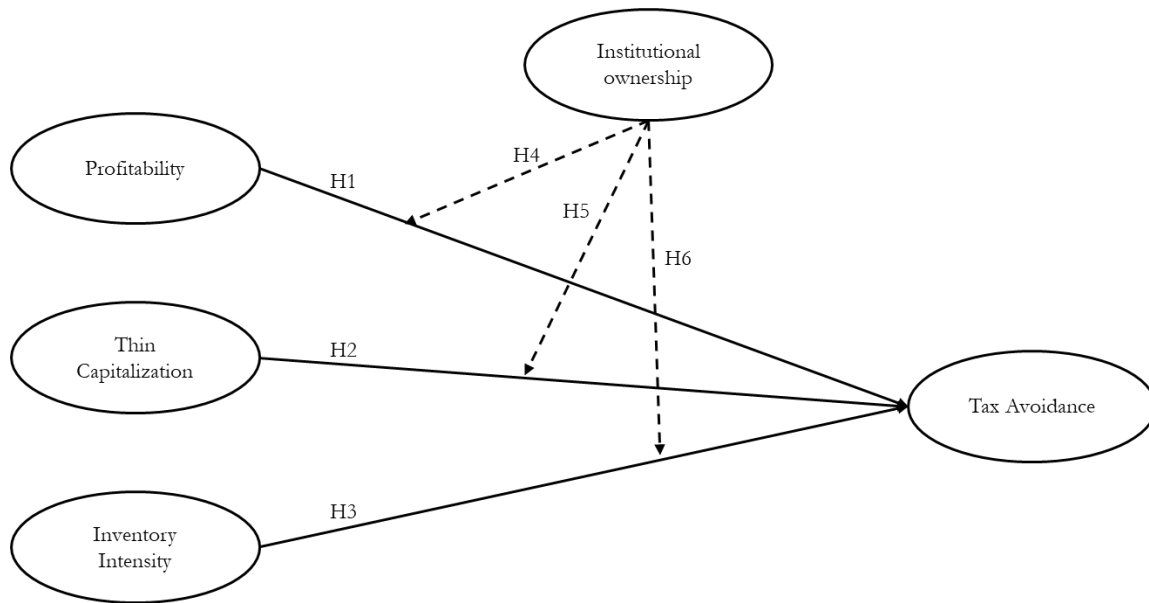
**Hypothesis 4: The presence of institutional ownership will diminish the correlation between profitability and the practice of tax evasion.**

The degree of institutional ownership directly influences the decision-making process on strategies to alleviate the tax burden on firms. Agency theory and stakeholder theory propose that principals and stakeholders want to exert control and influence on the firm's objectives, ultimately aiming to benefit the shareholders. According to the study, institutional ownership is a component of company governance that safeguards agents against opportunistic behavior associated with tax evasion operations (Bachmann et al., 2018). Aligned with Romario and Rahmanto (2023) That concludes that idealism and love of money do not influence the ethical perception of tax avoidance but rather the variable of relativism. The agent will mitigate the impact of the tax burden on their performance, ensuring that the company's lower earnings do not adversely affect them.

**Hypothesis 5: Institutional ownership will diminish the correlation between thin capitalization and tax evasion.**

Institutional ownership is a component of company governance that safeguards agents against opportunistic acts associated with tax evasion measures. Institutional ownership is crucial in enhancing control over agents when acquiring excess inventory. The principal desires a high turnover ratio for the stock to minimize additional expenses related to storage and maintenance. The existence of institutional owners increases the level of oversight over agents and reduces conflicts of interest, hence mitigating issues related to confidentiality and lowering the possibility of tax evasion (Tandean., & Winnie, 2016). Institutional ownership may diminish the correlation between inventory intensity and tax evasion.

**Hypothesis 6: The presence of institutional ownership will diminish the correlation between the level of inventory and the practice of tax evasion.**



**Figure 1. Research Model.**

This study examines the influence of institutional ownership on the relationship between profitability, thin capitalization, inventory intensity, and tax evasion. This study builds upon prior research conducted by [Arianandini & Ramantha \(2018\)](#), which examined the consequences of profitability, leverage, and institutional ownership. Additionally, it explores the influence of thin capitalization, profitability, tax avoidance, and institutional ownership, as investigated by. The unique aspect of this study is that the author included an inventory intensity variable. The justification is that the level of inventory held is one of the elements that affect the appropriate amount of taxes and the level of corporate tax avoidance. A large inventory can lead to reduced taxes for a firm, as the expenses associated with maintaining and storing the inventory might reduce the company's revenues. Furthermore, this study focuses on a distinct demographic. Specifically, mining businesses publicly traded on the Indonesia Stock Exchange from 2018 to 2022.

## RESEARCH METHODS

This study employs a quantitative research approach, utilizing a research design focused on hypothesis testing. Research data is secondary data in the form of financial reports originating from the IDX and each company's website. This research covers a population of 47 mining business actors registered on the Indonesia Stock Exchange (BEI) from 2018 to 2022. Over five years, 60 samples were collected using purposive sampling techniques.

The study used tax evasion as the dependent variable. The independent variables in this study are profitability, thin capitalization, and inventory intensity. The study considers institutional ownership as the moderating element.

The data gathering method involves utilizing a documentary strategy by retrieving the financial records of mining businesses from the IDX website, namely [www.IDX.co.id](http://www.IDX.co.id). The employed analytical techniques encompass descriptive statistics, classical assumption testing, and regression analysis. The application of Moderated Regression Analysis (MRA) in hypothesis testing using multiple regression analysis. In order to evaluate all assumptions in this study, equation 1 is presented below:

$$TA = \beta_0 + \beta_1ROA + \beta_2TC + \beta_3II + \beta_4ROA*IO + \beta_5TC*IO + \beta_6II*IO + e..... (1)$$

Notes:

TA	= Tax Avoidance
ROA	= Return on Asset
TC	= Thin Capitalization
II	= Inventory Intensity



- IO = Institutional Ownership  
 $(\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6)$  = The independent variable's regression  
(e) = coefficient Error

Following the procedure outlined in this study, the authors gathered samples according to the following standards.

**Table 2. Criteria of Sample**

Source: Data Processed, 2023

NO	Sample Criteria	Beyond Criteria	Included Criteria
1	IDX listed Mining companies listed for the period 2018-2022		47
2	The published financial statements for the period 2018-2022 successively	(6)	41
3	The company consistently listed in the 2018-2022 period	(1)	40
4	The profitable company during the 2018-2022 period	(26)	14
Eligible company			14
Years of observation (2018-2022)			70
Outliers			(10)
Final samples			60

## RESULTS AND DISCUSSION

Descriptive statistics can provide a more comprehensive understanding of profitability (ROA), thin capitalization, inventory intensity, institutional ownership, and tax avoidance by offering an in-depth description of the sample used for this study.

**Table 3. Descriptive Statistics**

	N	Min	Max	Mean	SD
ROA	60	.002	.282	.0971	.061
TC	60	.097	1.947	.739	.049
II	60	.006	.137	.052	.035
IO	60	.006	.999	.751	.279
TA	60	.060	.525	.296	.085
Valid N (listwise)	60				

Source: data processed, 2022

Table 3 descriptive statistics indicate that the return on assets (ROA), which represents the profitability variable, has a mean value of 0.097. This means that the net income to assets ratio is 9.711%, implying that the company's assets generate a net profit of 9.711%. The debt-to-equity ratio (DER) indicates that mining companies, on average, use debt to finance around 73.917% of their entire equity investment, reflecting thin capitalization. The average inventory intensity, the average inventory as a proportion of total assets, has a mean value of 0.052, indicating that the company's average inventory constitutes 5.281% of its total assets. The average value of institutional ownership is 0.751, which is high and suggests that mining companies have a relatively high proportion of institutional share ownership. The effective tax rate (ETR) shows that the average value of tax avoidance is 0.296, indicating that the mean ETR of mining businesses falls below the threshold for the low criterion, implying a relatively significant level of tax evasion by the company. As the ETR value

decreases, the likelihood of the company's tax evasion efforts increases, and vice versa (Astuti & Aryani, 2016).

**Table 4. Operational Definition Classical assumption test**

Variables	Operational Definition	Measurement
Tax Avoidance	ETR is calculated by dividing tax expenditure by profit before tax; it does not distinguish between current and deferred tax costs.	Tax Expense / Pretax Income
Institutional ownership	To determine how many shares each institution owns, researchers divided the total number of shares issued by the number of shares held (Olivia & Dwimulyani, 2019)	$\sum$ Institutional ownership / $\sum$ outstanding shares.
ROA	Return on assets is a measure of the net profit gained from employing assets (Oktamawati, 2017)	Net Income/Total Assets
Thin Capitalization	The maximum allowable debt-to-capital ratio (Olivia & Dwimulyani, 2019)	Debt /Equity
Inventory Intensity	Investments in fixed assets and inventories can provide businesses with tax benefits (Anindykaet al., 2018).	Total Stock /Total Aset

Source: Data Processed, 2023

According to the study's specifications, the variables' operational definitions revealed items.

#### **Data Normality Test.**

The normality test findings using the Kolmogorov-Smirnov test, with a sample size of 60, demonstrate asymptotic behavior. A significance score of 0.200 indicates that the data follows a normal distribution.

**Table 5. Normality Test Result**

		Unstandardized Residual
N		60
Normal Parameters <sup>a,b</sup>	Mean	.000
	Std.Deviation	.071
Most Extreme Differences	Absolute	.088
	Positive	.076
	Negative	-.088
Test Statistic		.088
Asymp.Sig.(2-tailed)		.200 <sup>c,d</sup>

Source: data processed, 2023

#### **Multicollinearity Assessment**

According to the multicollinearity test findings, all study variables have a tolerance value larger than 0.1 or a VIF value less than 10, indicating that multicollinearity is not present.

**Table 6. Multicollinearity Test Result**

Variable	Tolerance	VIF	Description
ROA	.765	1.307	Non multicollinearity
TC	.781	1.280	Non multicollinearity
II	.831	1.204	Non multicollinearity

Source: data processed, 2023

**Autocorrelation Test.**

The autocorrelation test using the Durbin-Watson statistic yielded a value of 1,859, falling within the range of 1,479 to 2,520, which indicates the absence of autocorrelation.

**Table 7. Autocorrelation Test Result**

N	DI	du	4-du	4-dl	DW	Conclusion
60	1.688	1.479	2.520	2,312	1.859	No autocorrelation

Source: data processed, 2022

**Heteroscedasticity Test**

Results from the heteroscedasticity test using the Glejser test indicate that the regression model does not exhibit heteroscedasticity. All independent variables were found to have significant values above 0.050.

**Table 8. Heteroscedasticity Test Result**

Variable	Sig	Description
ROA	.099	There is no heteroscedasticity
TC	.740	There is no heteroscedasticity
II	.089	There is no heteroscedasticity

Source: data processed, 2023

**Table 9 Summary of hypothesis testing result.**

Hypothesis		Coefficient $\beta$	Sig	Result
H <sub>1</sub>	Profitability positively influences tax avoidance.	- 0.474	0.009	Supported
H <sub>2</sub>	Reducing capitalization will help prevent tax evasion.	0.058	0.010	Supported
H <sub>3</sub>	High levels of inventory have a beneficial impact on tax evasion.	0.065	0.828	Not support
H <sub>4</sub>	Institutional ownership will diminish the correlation between profitability and tax evasion.	-0.702	0.001	Supported
H <sub>5</sub>	Institutional ownership will diminish the correlation between thin capitalization and tax evasion.	0.047	0.038	Supported
H <sub>6</sub>	Institutional ownership will diminish the correlation between inventory intensity and tax evasion.	0.107	0.761	Not support

Source: data processed, 2023

With an R2 value of 0.314, or 31.400 percent, the coefficient of determination shows that the model can account for 31.40% of tax evasion; factors not included in this study account for the remaining 68.600% of the explanation. Equation 2 displays the results of the moderated regression and a description of the hypothesis testing findings in Table 5:

**Profitability influences tax avoidance.**

Based on the research results, the profitability factor negatively affects tax avoidance, as indicated by the effective tax rate (ETR). In agency theory there is a potential conflict of interest between the principal and the agent, where the principal wants the manager to maximize company value, including through tax efficiency. However, companies with high profitability levels will receive more attention from the government and make managers more careful in avoiding taxes because of the risks they will face. In the context of positive accounting theory, companies will analyze the cost-benefits of tax avoidance. For companies with large profits, the potential costs of tax avoidance, such as fines, penalties, and reputation damage, may outweigh the benefits of avoided taxes, so they tend to reduce tax avoidance efforts. Share prices will be negatively impacted if the company has a bad reputation; One of the things that can give you a bad reputation is if the tax authorities find out about tax avoidance by company managers (Oktamawati, 2017).

These results are supported by previous research conducted by Dwiyanti and Jati (2019), Ismi (2016), Darsani & Sukartha (2021), Yulianty et al. (2021), and Prasetya & Susilowati (2024) profitability will further reduce tax avoidance because companies with high profits are more likely to convey their tax information honestly than companies with low profits. Achieving profits through effective management performance will stimulate company motivation to improve tax planning, thereby reducing tax avoidance practices. However, this is not following the findings of Olivia & Dwimulyani (2019).

**Implementing thin capitalization rules will effectively reduce tax evasion.**

As thin capitalization increases, companies are more likely to rely on debt as the primary funding source. Due to the company's significant dependence on borrowed funds, known as thin capitalization, interest expenses will increase. This will cause a reduction in income, thereby reducing the amount of income tax that must be paid (Jumailah, 2020). According to agency theory, managers and owners will have a conflict of interest. Owners focus more on long-term goals, while managers focus on short-term ones and pursue compensation. Managers will choose to use thin capitalization to reduce the company's tax burden so that managers can increase their compensation. The connection with positive accounting theory is that companies choose accounting policies that maximize owners and managers. These findings align with the studies conducted by Falbo and Firmansyah (2018), Olivia & Dwimulyani (2019), Prastiwi & Ratnasari (2019), and Jumailah (2020), which all indicate that thin capitalization does not affect tax avoidance. However, the findings contradict the research conducted by Ismi (2016) and Irmanslian et al. (2021).

**Higher levels of inventory intensity are associated with increased tax evasion.**

The average inventory intensity variable is 0.052, equivalent to 5.280 percent. Businesses with a low inventory intensity ratio do not benefit from reducing taxable revenue via the expense of holding and maintaining inventory. Therefore, it does not serve as a motivation for mining businesses to participate in tax evasion actions. Mining businesses may invest in acquiring tangible fixed assets, like heavy machinery. This is done because allocating funds to fixed assets has a greater risk of diminishing corporate profitability due to depreciation expenses. The inventory level does not impact the practice of tax avoidance, potentially due to the absence of tax incentives in the tax law for enterprises that possess substantial inventories (Romadhina, 2019). Agency theory posits that managers want to minimize the incremental burden resulting from stock ownership to preserve profits. Conversely, managers aim to increase the company's costs to mitigate the tax burden.

This study aligns with the conclusions given by [Andhari and Sukartha \(2017\)](#), [Irmaslian et al. \(2021\)](#), [Sonia and Suparmun \(2019\)](#) and [Pratama and Suryarini \(2020\)](#). Nevertheless, the research conducted by [DwiYanti and Jati \(2019\)](#) and [Anindyka et al. \(2018\)](#) presents conflicting results, indicating no correlation between inventory intensity and tax evasion.

**The presence of institutional ownership will diminish the correlation between profitability and the practice of tax evasion.**

With the company's earnings rise, its tax liability also increases. Institutional ownership helps monitor agents and prevent aggressive behavior toward corporate taxes, ensuring compliance with legislation and maintaining the company's image and accountability ([Olivia & Dwimulyani, 2019](#)). Agency theory explains an agency conflict between the owner and the agent, allowing the agent to use opportunistic behavior. If it is related to positive accounting theory which predicts and explains accounting practices based on economic intensity and external pressure, a high level of profitability will enable agents to avoid taxes. However, pressure from institutional shareholders can emphasize compliance and accurate reporting.

A study by [Prasatya et al., \(2020\)](#) showed that institutional ownership can moderate the impact of profitability on tax evasion. Businesses with a well-defined organizational ownership structure will experience more significant enhancements in company performance. The ownership structure of firms, specifically corporate governance, can help reduce the impact of revenue on tax evasion ([Rosandi, 2022](#)).

The findings are consistent with the studies by [Olivia & Dwimulyani \(2019\)](#) and [Prasatya et al., \(2020\)](#). However, they do not align with the findings of [Utami and Ernandi \(2021\)](#).

**The presence of Institutional Ownership will diminish the correlation between thin capitalization and the practice of tax evasion.**

Based on the research, establishing ownership inside an organization can diminish the impact of thin capitalization on the practice of tax evasion. According to [Jumailah \(2020\)](#), institutional ownership in corporate governance helps the firm maintain a balanced capital structure by combining funds from loans and shareholder investments. The extent of institutional ownership, whether large or small, will impact the company's policy decisions to reduce its tax liability. An institutional ownership structure is a component of corporate governance that oversees management for opportunistic behavior, such as engaging in tax evasion practices.

Agency theory explains an agency conflict between the owner and the agent, allowing the agent to use opportunistic behavior. It is related to positive accounting theory, which predicts and explains accounting practices based on economic intensity and external pressure. Institutional investors tend to be more conservative when it comes to financial reporting and tax avoidance. They usually prefer accounting practices that are less aggressive and more compliant with regulations. In doing so, they can pressure managers to avoid overly aggressively using thin capitalization as a tax avoidance tool.

The results align with the research conducted by [Olivia & Dwimulyani \(2019\)](#), [Cahyani et al. \(2021\)](#), but contradict the findings of [Jumailah \(2020\)](#), [Winarto and Daito \(2021\)](#) and [Bachmann et al. \(2018\)](#).

**The presence of Institutional Ownership will diminish the correlation between the level of inventory held and the practice of tax evasion.**

The third hypothesis of this research finds that inventory intensity does not affect tax avoidance. Mining companies do not store large amounts of inventory, avoiding additional storage and maintenance costs. These costs can reduce company profits and have an impact on cost reduction. Agency theory explains an agency conflict between the owner and the agent, allowing the agent to use opportunistic behavior. If it is related to positive accounting theory, which predicts and explains accounting practices based on economic intensity and external pressure. Institutional ownership

typically drives accounting transparency and compliance. However, inventory intensity is more related to operational and inventory management efficiency than to accounting policy choices that directly influence tax avoidance.

Based on the findings of [Tandean and Winnie \(2016\)](#), institutional ownership has no significant impact on tax avoidance. Therefore, institutional ownership cannot be considered a moderating variable in the link between inventory intensity and tax avoidance. The results align with the research conducted by [Trisnawati and Firmansyah \(2022\)](#), [Luthfiyyah \(2018\)](#), and [Indrawan et al. \(2016\)](#).

## **CONCLUSION**

This study examines the effects of profitability, thin capitalization, and inventory intensity on tax evasion. Institutional ownership is considered a moderating factor. The study finds that profitability harms tax avoidance. This is because companies with higher profits have sufficient cash flow to pay their taxes, thus reducing the need for tax evasion. On the other hand, the thin capitalization factor has a positive impact on tax avoidance. When companies use debt as capital, it may incentivize agents to engage in tax avoidance by reducing loan interest expenses, lowering revenues, and eventually reducing taxes owed. However, regardless of institutional ownership, inventory intensity does not significantly impact tax avoidance. This suggests that mining companies prioritize investments in fixed assets over inventory. Fixed assets help reduce tax liability through depreciation costs. Institutional ownership weakens the relationship between profitability and tax avoidance. It also acts as a supervisory mechanism to prevent management from engaging in opportunistic tax avoidance. While institutional ownership enhances the connection between thin capitalization and tax evasion, management cannot determine debt financing strategies.

### **Theoretical Suggestion**

This study is limited in that it solely relies on institutional ownership as a moderating variable to reflect corporate governance without considering other phenomena that may have macroeconomic implications. Additionally, the research has just been conducted in Indonesia. Further investigation might involve comparing research indicators across many nations, such as those in Asia or the ASEAN region. Subsequent studies are anticipated to incorporate an audit quality variable as a moderating factor according to the authors' hypothesis that organizations with high audit quality will have the ability to mitigate tax evasion behaviors. Furthermore, it takes into account occurrences that have significant impacts on the whole economy.

### **Practical Suggestion**

The research results show that institutional ownership can moderate the influence of profitability on tax avoidance and the influence of thin capitalization on tax avoidance. So, companies need to pay attention to and increase the presence of institutional ownership by monitoring the company to prevent opportunistic agent behavior in the form of tax avoidance. Apart from that, companies also need to pay attention to capital and debt structures to maximize tax benefits and set strategies for determining tax policies within the company. Capital structure balances equity and debt financing a company's operations. Debt has tax advantages because debt interest can be deducted from taxable income, reducing the company's tax burden. Maintaining a healthy DER (Debt to Equity Ratio) ratio is critical to taking advantage of tax benefits without excessive risks. Companies can determine strategies for determining tax policies within the company which include various strategies aimed at reducing the tax burden legally, such as carrying out transfer pricing so that the company can allocate income and expenses between subsidiaries in various countries with different tax rates, thereby minimizing the tax burden global or with tax deferral, namely delaying revenue recognition or accelerating expense recognition to reduce the current tax burden.

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