

THE EFFECT OF THIN CAPITALIZATION, CAPITAL INTENSITY, AND DEFERRED TAX EXPENSE ON TAX AVOIDANCE

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Abstract

The purpose of this study is to analyze the effect of thin capitalization, capital intensity, and defined tax liabilities on tax avoidance. The research method uses a quantitative approach with multiple linear regression analysis. The research population consists of manufacturing companies in the goods and consumer goods industry for the period 2021-2023, with a sample size of 20 companies and 60 data observations. According to the analysis results, thin capitalization does not affect tax avoidance, but capital intensity affects tax avoidance and defined tax liabilities affect tax avoidance. This study shows that there is a negative effect between thin capitalization and tax avoidance. The novelty of this study lies in the research object and the data period used.

Keywords: *thin capitalization, capital intensity, deferred tax expense, tax avoidance, accounting*

INTRODUCTION

Based on Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, taxes are mandatory payments that must be made by individuals or entities to the government. This provision is mandatory, implemented by law, and there is no direct return for taxpayers. Revenue generated from taxes is used for state purposes, especially to improve public welfare (Ministry of Finance, 2021). Taxes are one of the main aspects as the largest source of state revenue, so the government has made great efforts in their management and implementation to maintain this source of state revenue (Ningsih et al., 2018). Based on data, "The Ministry of Finance reported that the realization of state revenue in 2022 reached IDR 2,626.4 trillion. This figure reached the target set by Presidential Decree 98/2022, which was IDR 2,266.2 trillion. In 2021, the realization of state revenue was IDR 2,011.3 trillion. Compared to the previous year, state revenue realization in 2022 increased by 30.6%. The majority of state revenue in 2022 came from tax revenue, amounting to IDR 1,716.8 trillion (65.37%), a 34.3% increase compared to 2021" (Mutia Annur, 2023).

Various efforts have been made to improve the quality of the tax system, particularly to increase tax revenue. However, various challenges still hamper the tax collection process. One such challenge is tax practices that exploit loopholes in the "General Provisions and Tax Procedures" (KUP). The government places considerable emphasis on taxation, as it is a key source of revenue that can influence and increase state revenue. Conversely, companies aim to minimize tax liabilities to maximize net profit. These efforts encourage companies to engage in tax management strategies, which allow them to reduce tax payable without sacrificing net profit. Companies have reasons and objectives for implementing tax avoidance and tax planning, specifically to reduce tax liabilities and increase after-tax profits. This, in turn, affects the overall value of the company. Tax avoidance and tax planning are both legitimate strategies for reducing tax liabilities. While both seek to reduce taxes, there are key differences. Tax avoidance takes advantage of loopholes in a country's tax laws, making it legal and permissible.

In contrast, tax planning aims to reduce liability through methods permitted by tax regulations, avoiding conflict between taxpayers and tax authorities. Effective tax planning is crucial for profit-oriented businesses. As a result, companies tend to minimize tax payments as much as possible. Tax avoidance is an action taken by businesses to minimize their tax liabilities. Although tax avoidance is considered legal because it operates within the boundaries of existing tax laws, it often faces criticism from the government. This opposition stems from the potential revenue losses such practices can cause to the state. Companies engage in tax avoidance by exploiting loopholes or deficiencies in tax regulations, which allow them to reduce their tax burden. Such strategies are often viewed as an effective way to manage legitimate businesses. Indonesia has numerous examples illustrating corporate tax

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avoidance behavior. One of the most well-known cases is a report released by the Tax Justice Network on May 8, 2019. The report indicated that British American Tobacco (BAT) had been conducting tax avoidance activities through its subsidiary, PT Bentoel International Investama Tbk. As a consequence of these actions, the state suffered losses of approximately US\$14 million per year. In addition, the report also highlights that BAT has implemented a shift of some of its revenues abroad using mechanisms such as intra-company loans, as well as royalty payments, fees and services back to the UK. An early indicator that can be used as a tax avoidance mechanism is a practice known as Thin Capitalization. This strategy involves creating a capital structure heavily weighted toward interest-bearing debt. Thin capitalization refers to a situation where a company's debt significantly exceeds its equity capital. In Indonesia, regulations related to thin capitalization are outlined in law, particularly those related to the debt-to-equity ratio. This is stated in Article 18 Paragraph (1) of the Income Tax Law (Kurniawan, 2010). Research by Setiawan & Agustina (2018) revealed that thin capitalization positively influences tax avoidance. Meanwhile, this study revealed that thin capitalization does not affect tax avoidance (Dewi et al., 2023).

The second indicator examined in this study is Capital Intensity. Capital intensity is an investment activity carried out by a company in the form of assets. Therefore, this ratio is functionally an important instrument for evaluating how effectively a company uses its fixed assets in its operational activities. Tax calculations can be reduced due to the presence of depreciation expenses, which serve as a deduction. The acquisition cost of fixed assets, systematically allocated over the life of the asset, is recognized as depreciation expense. In capital intensity, the higher the recognized depreciation expense, the lower the reported taxable profit. Research by Rahma et al. (2022) revealed that capital intensity with a positive value influences tax avoidance. This suggests that greater asset investment in fixed assets will influence companies' ability to implement tax avoidance. The final indicator influencing tax avoidance is the deferred tax burden, which is regulated in "Statement of Financial Accounting Standards (PSAK) Number 46." Recognizing a deferred tax burden can reduce net income. Conversely, recognizing a deferred tax benefit will reduce net loss. Future tax liabilities will likely increase due to the settlement of tax liabilities related to the recognition of deferred tax liabilities. This is due to the possibility of settlement of these liabilities (Suandy, 2016).

LITERATURE REVIEW

Agency theory is a relationship between two or more parties involved where one party "agent" is asked to act in the interests of the other party "principal" in Jensen and William H, (1976) in Dwiyooso and Susipta, (2022). The party who makes economic decisions on behalf of the principal is identified as an agent. Therefore, the interaction between a number of parties who have an involvement is called an agent. The relationship that occurs between a number of parties who have an involvement is called an agency relationship. In this study, agency theory is relevant to tax avoidance, because poorly managed companies can experience negative impacts on the company's image and reputation. Thin capitalization is the formation of a company's capital structure with a mix of large debt holdings and small equity holdings. Companies can lower interest rates to reduce taxable income. This reduction has a macro impact in the form of reduced capacity for state sales from taxes. In running their businesses, companies have two sources of capital to choose from: debt and equity. Debt and equity essentially form a company's capital structure with a combination of large debt holdings and minimal equity. Companies that approach or exceed the interest rate limits permitted by thin capitalization regulations tend to engage in tax avoidance. Therefore, researchers suspect that thin capitalization has a significant effect on tax avoidance. This is supported by research conducted by Setiawan and Agustina (2018), and Salwah and Herianti (2019).

H1: It is suspected that thin capitalization has an effect on tax avoidance.

Capital intensity is a type of investment undertaken by a company in relation to expenditures on fixed assets. Capital intensity is quantified as the proportion of a company's fixed assets to total assets. Companies with high capital intensity have more assets that can be depreciated at a higher value, thus allowing them to reduce taxable income using the depreciation method. Therefore, the higher the capital intensity, the greater the likelihood of a company engaging in tax avoidance practices (Wirastiningsih et al., 2023). Therefore, researchers suspect that capital intensity significantly influences tax avoidance. This is supported by research by Rahma et al., (2022), which found that capital intensity significantly influences tax avoidance.

H2: It is suspected that capital intensity has an effect on tax avoidance.

Companies with high deferred tax burdens may be more inclined to engage in tax avoidance as a strategy to manage their tax liabilities efficiently. To increase liquidity and growth potential, companies can use funds for investment or other operations by deferring tax payments. Deferred tax burden is a tax burden or tax benefit that will provide

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additional or reduced tax payments in the future. Differences in the timing of revenue or expense recognition between fiscal tax regulations and commercial financial accounting standards result in deferred taxes (Suandy, 2016).

H3: It is suspected that deferred tax burden has an effect on tax avoidance.

Based on these various factors, the researcher suspects the influence of thin capitalization, capital intensity, and deferred tax burden. This study was conducted using a population of 40 manufacturing companies in the consumer goods and goods sector that were listed on the Indonesia Stock Exchange during the 2021-2023 period. A sample of 20 companies was then multiplied by the three years of the study, resulting in a total of 60 samples.

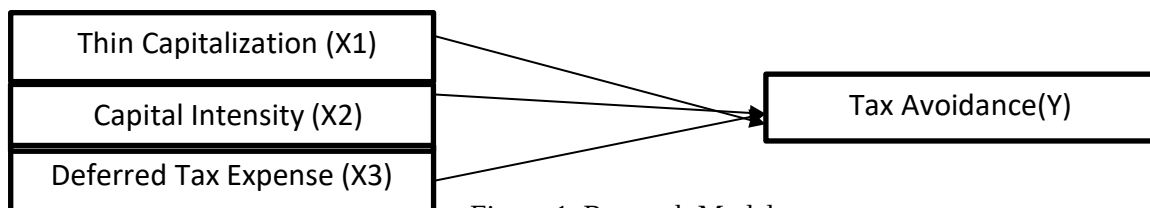


Figure 1. Research Model
Source: Research Data, 2024

METHOD

This research is qualitative and utilizes secondary data from manufacturing companies listed on the Indonesia Stock Exchange for the 2021-2023 period, obtained from the official IDX website, "idx.co.id." The population used in this study is 40 manufacturing companies in the consumer goods and services sector listed on the Indonesia Stock Exchange during the 2021-2023 period. The research sample was drawn using a purposive sampling technique with criteria. The sample in this study was 20 companies, so the total number of companies was multiplied by the three years of research, resulting in a total of 60 samples. In this study, the independent variables examined were: "Thin Capitalization (X1), Capital Intensity (X2), and Deferred Tax Burden (X3)." The independent variables, namely: "thin capitalization," are a capital structure owned by a company with a greater value of debt when compared to share capital. DER "Debt To Equity Ratio" is used to measure Thin capitalization, following the DER calculation method by the formula: (Afifah & Prastiwi, 2019). Capital intensity serves as an indicator of the ratio of a company's investment activities, especially those related to investment in fixed assets. To indicate the level of company efficiency in the use of assets, the capital intensity ratio is used with percentage units (Chytia & Pradana, 2021). The final independent variable examined in this study is deferred tax burden. Deferred tax burden is related to obligations that are postponed until a predetermined time. From a tax regulatory perspective, tax regulations are not only related to the allocation of appropriate resources (budgeting function), but also play a role in shaping taxpayer behavior regarding investment, welfare, and other factors (regulatory function). This function is used to rationalize deviations from financial accounting standards (Anggraini et al., 2019). The dependent variable in this study is tax avoidance, which is a variable influenced by independent variables. Tax avoidance is considered a legitimate action and does not violate tax regulations, where companies only exploit loopholes in tax laws (Puspita and Febrianti, 2017). To assess a company's tax planning capabilities, this study uses the "Effective Tax Rate" (ETR) ratio. The Effective Tax Rate is a measure that compares a company's total income tax burden with its pre-tax income. The formula used is (Astuti and Aryani, 2016).

Testing of each hypothesis submitted can be implemented using multiple linear regression analysis. Multiple regression testing consists of several tests, namely: "Coefficient of Determination Test (R²), F Test, t Test, and F Test. All of these tests are used to test the significance of the regression coefficient as a whole and the influence of independent categorical variables simultaneously faced with dependent categorical variables. The opposite also applies, the t Test determines the extent of the influence of a number of independent categorical variables individually in describing the variation owned by the independent categorical variable. The Coefficient of Determination Test (R²) is used to measure the extent of the ability of a model in describing dependent categorical variables. Researchers use regression analysis when researchers intend to predict changes in (rises and falls) dependent categorical variables, especially if there are two or more independent categorical variables that act as predictors whose values are manipulated or varied (Sugiyono, 2018). In this study, the multiple regression model that will be developed is described as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_6 X_1 X_2 X_3 + e$$

Information :

Y = Tax Avoidance

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α = Constant

$\beta_1\beta_2\beta_3$ = Regression Coefficient

X1 = Thin Capitalization (DER)

X2 = Capital Intensity (CI)

X3 = Deferred Tax Expense (DTE)

e = error

RESULTS AND DISCUSSION

Table 1. Descriptive Statistical Test

Descriptive statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Thin Capitalization	60	.11	2.77	.8445	.66251
Capital Intensity	60	.070	.850	.30640	.190015
Deferred Tax Expense	60	.0000002	6158.7817010	102.669093836	795.0923161551
Tax evasion	60	.0046	2,9009	.287182	.4066885
Valid N (Listwise)	60				

Source: processed data, 2025

Based on the results of the descriptive statistical test described in the scope of table 1, a general description of descriptive statistics shows that the Thin Capitalization (X1) value obtained the lowest value (minimum) of 0.11, the highest value (maximum) of 2.77, and the average value (mean) of 0.8445. In Capital intensity (X2) the highest value (maximum) is 0.850 and the lowest value (minimum) is 0.70 while the average value (mean) is 0.30640. Deferred tax expense (X3) has the highest value (maximum) of 6158.7817010 and the lowest value (minimum) is 0.0000002 while the average value (mean) is 102.669093836. in tax avoidance (Y) the highest value (maximum) is 0.0046 and the lowest value (minimum) is 0.0046 while the average value (mean) is 0.287182.

**Table 2. Normality Assumption Test
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized residual
N		60
Normal Parameters ^{a,b}	Mean	.0194870
	Standard Deviation	.80213288
Most Extreme Differences	Absolute	.109
	Positive	.081
	Negative	-.109
Test Statistics		.109
Asymp. Sig. (2-tailed)		.073 ^c

a. Test distribution is Normal.

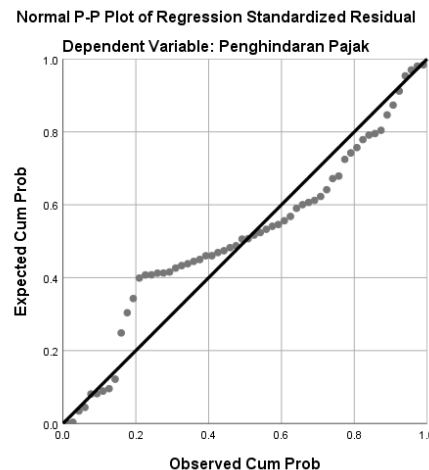
b. Calculated from data.

c. Lilliefors Significance Correction.

Source: processed data, 2025

Based on the results of the Kolmogorov-Smirnov normality test described in Table 2, a significance value of 0.73 was obtained, which is greater than the significance value of 0.05, so it can be concluded that the data distribution is normal.

Figure 2. Normality Test with Data Graph Analysis



From the description of the image above, it can be seen that the data is on the diagonal line and does not spread or go far from the diagonal line, so the data distribution is normal.

Table 3. Multicollinearity Test

		Coefficients ^a				Collinearity Statistics	
Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.	
		B	r	Beta			Tolerance VIF
1	(Constant)	-.114	.334		-.340	.735	
	Thin Capitalization	-.161	.132	-.131	-	.226	.994 1,006
	Capital Intensity	.691	.194	.398	3,568	.001	.915 1,093
	Deferred Tax Expense	.114	.037	.346	3.110	.003	.920 1,087

a. Dependent Variable: Tax Avoidance

Based on the description of the table of results of the multicollinearity test, if the tolerance value is greater than 0.10 or the VIF value is not more than 10, then multicollinearity does not occur.

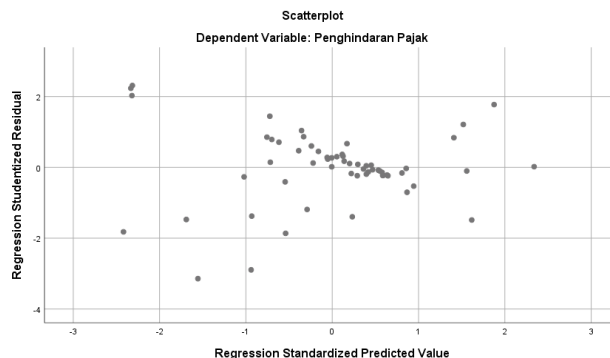
Table 4. Heteroscedasticity Test

		Coefficients ^a			
Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t
		B	Error	Beta	Sig.
1	(Constant)	.403	.182		2,219 .031
	Thin Capitalization	.102	.072	.184	1,426 .159
	Capital Intensity	.014	.105	.018	.133 .895
	Deferred Tax Expense	-.029	.020	-.196	- 1,457 .151

a. Dependent Variable: ABS_RES

Based on the description of the table of results of the heteroscedasticity test, it can be seen that the significance value is greater than the percentage of 5% (0.05). This means that the variables submitted for research do not experience heteroscedasticity. The heteroscedasticity test uses the graph described below.

Figure 2. Heteroscedasticity Test with Data Graph Analysis



From the description of the image above, it can be seen that the data is above or below 0 and the data tends to spread out or not form a certain pattern, so there is no heteroscedasticity.

Table 5. Autocorrelation Test Model Summary

Adjusted R Square	Standard Error of the Estimate
.330	.91638

a. Predictors: (Constant), Deferred Tax Expense, Thin Capitalization, Capital Intensity

b. Dependent Variable: Tax Avoidance

Based on the description of the table of results of the implementation of the data autocorrelation test, it is known that the Durbin Watson value is 1.710 compared to the DW Table value which is 1.6889. From these results, namely the Durbin Watson value is greater when compared to the DU value of $1.710 > 1.6889$ and the 4-DU value ($4 - 1.6889$) it can be concluded that there is no autocorrelation.

Table 6. Multiple Linear Regression Test Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.114	.334		-.340	.735
	Thin Capitalization	-.161	.132	-.131	-1.225	.226
	Capital Intensity	.691	.194	.398	3.568	.001
	Deferred Tax Expense	.114	.037	.346	3.110	.003

a. Dependent Variable: Tax Avoidance

Based on the description of the table above, the calculation of multiple linear regression using the SPSS program SPSS Version 25.0 yields the following regression equation formula:

$$Y = -0.114 - 0.161X_1 + 0.691X_2 + 0.114X_3 + e$$

The constant of -0.114 states that if there are no thin capitalization, capital intensity, and deferred tax burden variables that affect tax avoidance, then tax avoidance will be -0.114. $B_1 = -0.161$ states that if the thin capitalization variable experiences an increase of one unit, then tax avoidance will experience a decrease of -0.161, assuming that other independent variables remain constant. $B_2 = 0.691$ states that if the capital intensity variable experiences an increase of one unit, then tax avoidance will experience an increase of 0.691, assuming that other independent variables remain constant. $B_3 = 0.114$ states that if the deferred tax burden variable experiences an increase of one unit, then tax avoidance will experience an increase of 0.114 assuming that other independent categorical variables remain constant.

Table 7. Determination Coefficient Test

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
			R Square	
1	.603a	.364	.330	.91638

a. Predictors: (Constant), Deferred Tax Expense, Thin Capitalization, Capital Intensity

Based on the explanation of the table above, it reveals that the magnitude of the coefficient of determination (Adjusted R²) = 0.330, meaning that the independent category variables simultaneously influence the dependent category variables with a percentage of 33.0% for the remainder, namely a percentage of 67.0% influenced by other variables that are not included in the study.

Table 8. F Test ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26,880	3	8,960	10,670	.000b
	Residual	47,026	56	.840		
	Total	73,905	59			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), Deferred Tax Expense, Thin Capitalization, Capital Intensity

Based on the results of the F test in the table above, the calculated F value is 10,670 and the significance value is 0.000. Because the calculated F value is <5% (0.000 < 0.05), it can be concluded that thin capitalization, capital intensity, and deferred tax burden simultaneously influence tax avoidance.

Table 9. T-test Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.114	.334		-.340	.735
	Thin Capitalization	-.161	.132	-.131	-1.225	.226
	Capital Intensity	.691	.194	.398	3,568	.001
	Deferred Tax Expense	.114	.037	.346	3.110	.003

a. Dependent Variable: Tax Avoidance

Based on the results of the partial regression test, the calculated t-value is -1.225, the regression coefficient (beta) is -0.161 with a probability (p) = 0.226. Based on the results of data processing where the significant value (p) > 0.05, it can be concluded that thin capitalization does not affect Tax Avoidance. Hypothesis 1 is rejected. Based on the implementation of the partial regression test, the calculated t-value is 3.568, the regression coefficient (beta) is 0.691 with a probability (p) = 0.001. Based on the results of data processing where the significant value (p) ≤ 0.05, it can be concluded that capital intensity with a positive and significant value affects tax avoidance. Hypothesis 2 is accepted. Based on the results of the partial regression test, the calculated t-value was 3.110 with a regression coefficient (beta) of 0.114 with a probability (p) = 0.003. Based on the results of the data processing where the significance value (p) ≤ 0.05, it can be concluded that the deferred tax burden has a positive and significant effect on tax avoidance. Hypothesis 3 is accepted.

DISCUSSION

The Effect of Thin Capitalization on Tax Avoidance

Based on the results of the analysis, thin capitalization provides a t-test of -1.225 with a coefficient value of -0.161 and a profitability value of 0.226 greater than 0.05, indicating that thin capitalization with a negative value has an effect. This reveals that thin capitalization with a negative value affects tax avoidance, so it can be concluded that the first hypothesis (H1) is rejected. The results of this research are in line with previous studies, namely those conducted by Nirmalasari and Susilowati (2021); Ayu et al., (2022), which provide evidence that thin capitalization with a negative value affects tax avoidance. However, the results of this study contradict the research of Nainggolan and Hutabara (2022), which revealed that thin capitalization with a significant value affects tax avoidance.

The Effect of Capital Intensity on Tax Avoidance

Based on the results of the analysis, capital intensity obtained a t-test of 3.568 with a coefficient value of 0.691 and a profitability value of 0.001, less than 0.05. This indicates that capital intensity with a positive and significant value has an influence. This means that capital intensity with a positive and significant value influences tax avoidance, thus the conclusion that the second hypothesis (H2) can be accepted. The results of this study are in line with previous studies, namely those conducted by Sinaga and Malau (2021); Lutfita & Ajimat (2023), which stated that capital intensity with a positive value influences tax avoidance. However, this study differs from the research by Putri and Setiawan (2022); Marlinda et al. (2020), which revealed that capital intensity does not affect tax avoidance.

The Effect of Deferred Tax Expenses on Tax Avoidance

Based on the results of the analysis, the deferred tax burden obtained a t-test of 3.110 with a coefficient value of 0.114 and a profitability value of 0.003, less than 0.05, revealing that the deferred tax burden with a positive and significant value has an influence. This means that the deferred tax burden with a positive and significant value influences tax avoidance, so it can be concluded that the third hypothesis (H3) is accepted. The results of this study are in line with previous studies, namely those conducted by Chrisandy and Simbolon (2022); Cendani and Sofiant (2022), which revealed that the deferred tax burden with a positive value influences tax avoidance. However, the results of this study are not in line with the research of Putri and Yohanes (2025); Syafeia and Sicillia (2024), which revealed that the deferred tax burden does not affect tax avoidance.

CONCLUSION

Based on the results of the analysis and discussion related to the influence of thin capitalization, capital intensity, and deferred tax burden on tax avoidance in manufacturing companies in the goods and consumer goods sector listed on the Indonesia Stock Exchange in 2021-2023. A number of research results have been conducted, the following conclusions can be drawn: "The effect of thin capitalization on tax avoidance has been proven to have no effect on tax avoidance in manufacturing companies in the goods and consumer goods sector listed on the Indonesia Stock Exchange in 2021-2023, so the first hypothesis is rejected. The effect of capital intensity on tax avoidance has been proven to have a positive effect on tax avoidance in manufacturing companies in the goods and consumer goods sector listed on the Indonesia Stock Exchange in 2021-2023, so the second hypothesis is accepted. The effect of deferred tax burden on tax avoidance has been proven to have a positive effect on tax avoidance in manufacturing companies in the goods and consumer goods sector listed on the Indonesia Stock Exchange in 2021-2023, so the third hypothesis is accepted."

SUGGESTION

Practical Advice

Manufacturing companies should increase transparency and prudence in developing tax avoidance strategies in accordance with relevant regulations to ensure they do not abuse regulations that could impact the continuity of their operations. The Directorate General of Taxes needs to improve oversight of tax avoidance practices within companies, particularly in the manufacturing sector, which is characterized by high capital intensity and large deferred tax burdens. Investors should conduct a risk analysis by considering information on capital intensity and deferred tax burdens, as both have been shown to influence tax avoidance.

Theoretical Suggestions

The allocation for further research can carry out the development of the research model by adding more other variables such as profitability, company size, transfer pricing, etc. Apart from that, for further researchers it is also suggested to expand their focus by including data with a longer time span and providing an increase in the number of samples from manufacturing companies in various sub-sectors.

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THE EFFECT OF THIN CAPITALIZATION, CAPITAL INTENSITY, AND DEFERRED TAX EXPENSE ON TAX AVOIDANCE

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