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The Effect of Transfer Pricing, Book Tax Difference and Thin Capitalization on Tax Avoidance Practices

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ABSTRACT

The aim of the study is to test and examine the effect of transfer pricing, book tax difference and thin capitalization on tax avoidance practices. This study uses quantitative methods with a population in the form of all consumer goods industry entities listed on the IDX for the period 2021-2023. Secondary data is the data needed for research and is sourced from the IDX website. Purposive sampling was applied in order to obtain samples and produce a data sample of 72 samples which after trimming extreme data outliers became 63 samples. Data processing utilizes IBM SPSS Statistic 25 software and multiple regression analysis testing, The test results in this study reveal that simultaneously all transfer pricing, book tax difference and thin capitalization variables affect tax avoidance practices. The results in the partial test show that tax avoidance practices can be influenced by transfer pricing. Conversely, book tax difference and thin capitalization do not affect tax avoidance practices. This study has a sample data update of 2023 and examines a sector that is quite rarely researched in related variables. This research is expected to contribute to the understanding and insight of the literature in. In addition, this research is expected to contribute to increasing regulation and public awareness regarding tax avoidance practices also designing more effective tax policies.

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INTRODUCTION

The largest source of state funding is taxes paid by citizens. One of the state's main sources of funding is taxes, especially when it develops economically and the government provides for the welfare of its citizens. In Indonesia, tax money serves as the primary source of both direct and indirect funding for most development initiatives. An essential role that taxpayers play for the state is their awareness of and willingness to carry out their tax responsibilities. But businesses want to make as much money as possible. Since taxes are perceived as a burden that can adversely affect a firm's net profit, their existence runs counter to the process of accomplishing company goals. Some taxpayers find themselves in a difficult situation as a result of this viewpoint since taxes drastically alter the distribution of income. As a result, taxpayers are reluctant to freely accept and execute their commitments.

The goal of the government is to maximize the amount of money earned through state taxes. Reaching the tax revenue realization target encourages more efficient tax use for the benefit of society. The government's commitment to reaching the state tax realization target is demonstrated by the state tax revenue growth that has occurred since 2021. The realization of tax revenue from 2021 to 2023, as reported by BPS, is attached.

The primary cause of the rise in tax avoidance strategies is the conflict of interests between tax authorities, who seek to raise revenue, and taxpayers, who wish to pay as little tax as possible. When preparing for long-term sustainability in tax burden management, businesses take tax avoidance strategies into consideration as a substitute tactic. This is because tax avoidance is thought to be legal and acceptable in and of itself.

Entities that engage in tax avoidance can do so by searching for legal loopholes or gaps in the laws regulating permitted and prohibited tax procedures and systems. Companies can use these loopholes to reduce the total amount of taxes that have to be paid as effectively as feasible. Transferring transactions to entities that are not tax objects is another way that tax avoidance practices can be implemented.

The entity's strategy to escape the growing tax burden each year is the foundation of this tax avoidance practice. Because avoidance of taxes goes against the goals of the tax laws and is regarded as lacking ethical and normative standards, it cannot be justified. Tax avoidance can have a negative impact on state revenues, which may hinder community welfare and state development. Additional effects include the community's infrastructure not developing as planned and the rise of social and economic inequality.

Tax avoidance can be caused by a number of causes. Entities with special connections are a significant factor that can be employed. Transactions between related parties, reduced loan interest rates, the purchase of intangible assets, and compensation for fiscal losses are some of the ways that special connections can lead to tax avoidance activities. it is due to the fact that its use has an impact on how fairly prices, expenses, and other benefits are allocated in the relevant transaction. Transfer pricing is the general term for this aim.

Entities are required to be active in related party transactions that apply nationally and internationally. With the existence of transfer pricing, entities have the opportunity to reduce taxable income through the technical transfer of income received to countries that impose smaller fiscal rates. In addition to the utilization of fiscal rates, exchange rate differences are also considered in tax avoidance practices. Most multinational companies in Indonesia utilize this potential.

One of the tax avoidance cases with transfer pricing strategy in Indonesia occurred in PT Indofood Sukses Makmur Tbk in 2013. Indofood (INDF) transferred assets, debts and capital to its new entity (ICBP). The amount of tax avoidance carried out by Indofood was 1.3 M in rupiah. Another phenomenon involving transfer pricing strategies occurred at PT Bentoel Internasional Investama and was discovered due to news from the Tax Justice Network in 2019. The strategy was to borrow from entities within the same group for payment of machinery and equipment and bank debt financing. The interest incurred in the loan transaction became a deduction from PT Bentoel's taxable income in Indonesia.

Table 1 Realization of State Revenue from 2021 to 2023 (in trillion rupiah)

	2021	2022	2023
I. Revenue	2.006	2.630	2.634
Tax Revenue	1.547	2.034	2.118
Non-tax Revenue	458	595	515
II. Grant	5	5	3
Total	2.011	2.635	2.637

Source: Badan Pusat Statistik (2024)

The study's findings (Utami and Irawan, 2022) reveal that tax avoidance activities are positively impacted by transfer pricing. Conversely, studies (Hasyim et al., 2022) reveal that tax avoidance activities are negatively impacted by transfer pricing. (Sutanto and Lasar, 2023) concluded there is no connection between tax avoidance methods and transfer pricing.

Another aspect that leads to tax avoidance strategies is the variety of entity bookkeeping in terms of tax terms and book value. This discrepancy, sometimes referred to as the "Book Tax Difference" or "Book Tax Gap," results from variations in the tax and accounting rules that were applied to prepare the financial statements. The disparities in the entity's profit and loss calculation are the effect of the book tax difference. A permanent difference in book tax is brought about by variations in the rules of recognition based on accounting and based on fiscal principles, particularly in the recognition of income and costs. On the other hand, the temporary book tax difference is impacted by the difference in recognition time (timing difference).

The findings of research (Wardani and Nugrahanto, 2022) demonstrate that the difference in book taxes has a beneficial impact on tax avoidance. (Hidayat and Mulda, 2019) demonstrate that book tax difference has a considerable, but limited impact on tax avoidance strategies. Book tax difference has no bearing overall on tax avoidance tactics, according to research findings (Jati and Murwaningsari, 2020) that examined the book tax difference proxy, which consists of fixed assets and intangible assets.

Entity funding with debt as its capital structure is an alternate technique that could be used in tax avoidance schemes. Debt financing is a common method of corporate finance planning because interest costs from loans can be applied to lower the amount of income payable to taxes. In Indonesia, there are restrictions on how much debt and entity capital can be compared in order to calculate income tax. Minister of Finance Regulation No.169/PMK.010/2015 is the relevant regulation. Article 2 paragraph 1 lists the set debt to capital comparison, which is a maximum four-to-one (4:1) similarity.

According to the study's findings (Utami and Irawan, 2022), tax avoidance methods are positively impacted by thin capitalization. (Tarmizi and Perkasa, 2022) demonstrate that tax avoidance tactics are significantly positively impacted by thin capitalization. Conversely, studies (Olivia and Dwimulyani, 2019) demonstrate that tax avoidance strategy are unaffected by thin capitalization. (Azlia, 2023) demonstrates how tax avoidance activities are positively impacted by thin capitalization. According to (Putri and Sekar Mayangsari, 2023) tax avoidance activities are negatively impacted by thin capitalization.

Previous studies show that there are still inconsistencies and gaps related to aspects that affect tax avoidance strategy. The importance of this gap to be researched is because tax avoidance practices can reduce the amount of realization of state tax revenue which results in hampering the achievement of targets and optimal tax utilization.

Testing of the book tax difference is still minimal on tax avoidance practices. This research also tests the latest data in 2023. This study has the intention to test and analyze the effect among transfer pricing, book tax difference, and thin capitalization on tax avoidance practices with an empirical study of all consumer goods industry companies listed on the IDX in the 2021-2023 period.

The consumer goods industry sector was chosen in this study based on its important role in meeting consumer needs in everyday life. In addition, this sector has a large enough contribution and is followed by its rapid development. This development is based on a relatively large population with large purchasing power and needs. The test results in this study are expected to produce contributions in increasing academic knowledge related to tax avoidance practices.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory according to (Putri and Mulyani, 2020) is the theory that everyone has a personal interest. It is the agent's duty to give the principal information pertaining to reality. The reality that prevails frequently demonstrates that when information is asymmetrically received, agents make actions that are against the interests of the principal. When there is a discrepancy in goals among the agent and the principal, it can lead to the practice of tax avoidance. The corporation engages in tax avoidance methods because it wants to maximize profit whereas the government wants the state to reach its tax revenue objective (Sterling and Christina, 2021) The agent and principal relationship can also apply to management and shareholders.

Tax Avoidance

Law No. 28/2007 clarifies that as taxes are regarded as an important governmental contribution, every member of society who fulfills the requirements must register as a taxpayer. If a taxpayer has fulfilled all of their tax-related duties and rights, they are deemed compliant. Tax avoidance is defined as a strategy used by the tax authorities to reduce the amount of taxes owed by taking use of legitimate and feasible alternatives (Mulyana et al., 2020). Risks associated with tax avoidance tactics include the potential for criminal activity to entangle the company and damage its reputation.

Transfer Pricing

According to (Hasibuan and Gultom, 2021), one way to take benefit of differences in tax rates is to change the transfer price so that profits can be transferred to another country with a lower tax rate. This action is usually called transfer pricing. On the other hand, transfer pricing mechanism can also be used in related party transactions by utilizing tax treatment such as income tax and luxury sales tax.

The results of research by (Utami and Irawan, 2022) prove tax avoidance practices is positively impacted by transfer pricing. Another study by (Putri & Mulyani, 2020) proved that tax avoidance practices affected by transfer pricing positively. The reason is due to the utilization of opportunities in the tax law by multinational companies. The study's findings are consistent with earlier studies by (Dewi et al., 2023) which proves transfer pricing significantly influences tax avoidance implementation. Meanwhile, (Olivia and Dwimulyani, 2019) prove that tax avoidance strategy unaffected by thin capitalization.

H_1: Transfer pricing affects tax avoidance practices

Book Tax Difference

Book tax difference according to (Raudhah and Saleh, 2018) is the amount of difference between fiscal profit and accounting profit. Profit calculation according to accounting is based on the standards authorized in PSAK while profit calculation according to fiscal is based on tax rules and regulations, especially those governing income tax (Jati and Murwaningsari, 2020). The impact of the book tax difference is the difference in the calculation of profit and loss by the entity. Differences in the principles of recognition based on accounting and based on fiscal, especially in the recognition of income and expenses, cause a book tax difference that is permanent. While the difference in recognition time (timing difference) affects the book tax difference which is temporary.

According to (Hidayat and Mulda, 2019), there's a considerable effect of the book tax differential on tax avoidance activities, although a partial one. Research by (Monica and Sari, 2024) proves that there's a notable effect of the book tax difference on tax avoidance. This refers to entities that have large profits also have to pay large taxes, triggering entity management to engage in tax avoidance practices. (Wardani and Nugrahanto, 2022) prove that the differential in book taxes has a beneficial effect on tax avoidance due to accelerated economic growth as an opportunity to maximize profits. Meanwhile, (Jati & Murwaningsari, 2020) prove that book tax difference has no bearing overall on tax avoidance.

H_2: Book tax difference affects tax avoidance practices

Thin Capitalization

Corporate funding planning through debt is often done because loans can generate interest expenses that can be utilized in reducing the amount of income subject to tax. Significant consequences will occur from large debt utilization (Pramita and Susanti, 2023). (Hidayat and Mulda, 2019) assess that thin capitalization can reduce entity profits through high interest expenses and tends to be transferred to entities based abroad.

(Azlia, 2023) demonstrate that tax avoidance practices positively impacted by thin capitalization. According to (Jumailah, 2020), on tax avoidance practices affected positively and obviously by thin capitalization. Thin capitalization is considered to be able to create tax incentives and can reduce the taxable income of an entity. Other research by (Kurniawati and Mukti, 2023) also shows that tax avoidance practices positively influenced by thin capitalization. Meanwhile, (Olivia and Dwimulyani, 2019) prove that tax avoidance strategy unaffected by thin capitalization.

H_3: Thin capitalization affects tax avoidance practices

RESEARCH METHOD

This research is using a quantitative method and uses IBM SPSS Statistic software version 25.0 in the data processing. The data source includes secondary data, which is the financial statements that listed on the IDX for the 2021-2023 period by entities. Sample data collection applies purposive sampling method with the qualifications of consumer goods industry entities listed on the IDX; entities that IPO before January 1, 2021; entities that regularly provide financial reports on the IDX for the 2021-2023 period; entities that make profits consistently for the 2021-2023 period; and entities that present the data needed in the test.

Tax Avoidance (Y) is the dependent variable of this study. This variable can be projected by applying the Effective Tax Rate (ETR) proxy. An increasing ETR level indicates a decreasing tax avoidance practice while a decreasing ETR level indicates an increasing tax avoidance practice. The formula used in the ETR calculation to measure tax avoidance refers to research (Sutanto and Lasar, 2023).

$$ETR = \frac{Tax\ Expense}{Pretax\ Income} \tag{1}$$

Table 2 Purposive Sampling

Criteria	Total Entity	Total Data
Consumer goods industry entities that listed on the IDX	94	282
Entities that IPO before January 1, 2021	(30)	(90)
Entities that regularly provide financial reports on the IDX for the 2021-2023 period	(8)	(24)
Entities that make profits consistently for the 2021-2023 period	(16)	(48)
Entities that present the data needed in the test	(8)	(24)
Total	24	72

Source: Rachelle Elishang (2024)

Transfer Pricing (X1), Book Tax Difference (X2) and Thin Capitalization (X3) are independent variables in this study. Based on Government Regulation Number 55 Year 2022, transfer pricing is emphasized as the price in transactions driven by special relationships. Related party transactions are broadly stated in PSAK No. 7 as the transfer of resources or services from the reporting entity and related parties, without charging a price. The assessment of a related relationship looks at the substance and legal form of the relationship. The transfer pricing variable in this study is based on special relationship receivable transactions and is measured referring to the research used by (Herianti et al., 2021) with the following formula:

$$TP = \frac{\text{Receivables to Related Parties}}{\text{Total Receivables}} \tag{2}$$

Book Tax Difference (BTD) is described as the amount of the link between fiscal-based earnings and accounting-based earnings that can provide information related to the quality of a company's earnings. Earnings affected by the book tax difference mechanism can create opportunities for companies in the future to practice tax avoidance. The greater the book tax difference in the company will reduce earnings quality. Testing the book tax difference variable is measured by referring to research (Yuniarti and Astuti, 2020) with the following formula:

$$BTD = \frac{(\text{Accounting Profit} - \text{Fiscal Profit})}{\text{Total Assets}} \tag{3}$$

Corporate financing is one of the mechanisms in tax avoidance practices. The difference in tax treatment of interest and dividends means that taxpayers can choose to finance company operations through shareholder capital or debt (Noor and Sari, 2021). The increasing value of the company's thin capitalization indicates growing tax avoidance practices, while the decreasing thin capitalization indicates low tax avoidance practices (Mahardini et al., 2022). Minister of Finance Regulation Number 169/PMK.010/2015 is a reference in calculating thin capitalization in this study.

$$TC = \frac{\text{Total Debt}}{\text{Total Equity}} \tag{4}$$

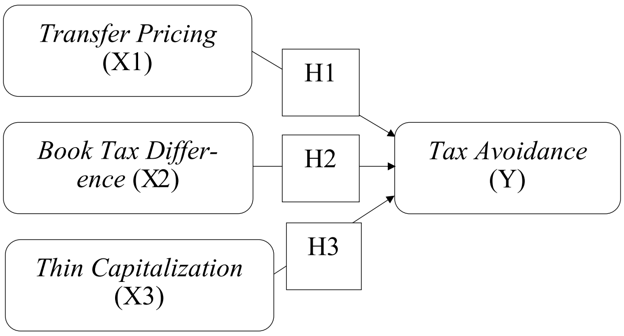

Figure 1 Conceptual Framework
Source: Rachelle Elishang (2024)

Regression Model Selection
The equation applied in hypothesis testing in this study is :

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e \quad (5)$$

Details :
α = Constant
β1 - β3 = Regression Coefficient
e = Error

RESULTS AND DISCUSSIONS

Descriptive Statistical Analysis

The goal of this analysis was to see how the research variables projected and to offer descriptive data by the smallest, largest, average, and standard deviation based on the research data.

According to table 3, the independent variable transfer pricing has a minimum level of 0.0002 which is at Sekar Bumi Tbk (SKBM) in 2022, then the maximum level reaches 0.9725 which is at PT Sariguna Primatirta Tbk (CLEO) in 2021 with an average level of 0.32851 and a standard deviation of 0.32208. Book tax difference has a minimum level of 0.0009 which is at PT Phapros Tbk (PEHA) in 2021 and 2023, then the maximum level reaches 0.0866 which is at PT Industri Jamu Dan Farmasi Sido Muncul Tbk (SIDO) in 2021 with an average level of 0.02893 and a standard deviation of 0.01693. Thin capitalization has a minimum level of 0.1085 which is at PT Wilmar Cahaya Indonesia Tbk (CEKA) in 2022, then the maximum level reaches 2.2475 which is at Tunas Baru Lampung Tbk (TBLA) in 2021 with an average level of 0.66305 and a standard deviation of 0.46118. The dependent variable tax avoidance has a minimum level of 0.1676 which is at PT Siantar Top Tbk (STTP) in 2021, then the maximum level reaches 0.3272 which is at PT Sekar Bumi Tbk (SKBM) in 2022 with an average level of 0.22648 and a standard deviation of 0.02945.

Normality Test

The test is carried out to fulfill the classical assumption test which aims to evaluate the distribution of research data whether it is normally distributed in parametric statistical analysis. The test uses the Kolmogorov-Smirnov test on 72 samples with a significance value of 0 in the first test. Author chose to trimming the extreme outlier data as many as 9 samples and conduct a normality test based on the Sig value. Monte Carlo value of 0.300 and more than the significance limit of 0.05 in the second test. The results proved that the data was distributed normally.

Multicollinearity Test

This test is conducted to discover and evaluate the existence of a linear relationship among independent variables. Based on the output in table 5, all variables in the study have a tolerance level of more than 0,10 followed by a VIF level of less than 10. The transfer pricing has a tolerance 0,989 > 0,10 followed by a VIF value of 1,011 < 10. Book tax difference has a tolerance 0,769 > 0,10 followed by a VIF value of 1,301 < 10. Thin capitalization has a tolerance 0,768 > 0,10 followed by a VIF value of

Table 3 Descriptive Statistic

	N	Min	Max	Mean	Std. Deviation
Transfer Pricing	63	0,0002	0,9725	0,32851	0,32208
Book Tax Difference	63	0,0009	0,0866	0,02893	0,01693
Transfer Pricing	63	0,1085	2,2475	0,66305	0,46118
Tax Avoidance	63	0,1676	0,3272	0,22648	0,02945

Source: Processed Data, 2024

1,302 < 10. The result from the observation results indicates that the variables are not correlated with each other. The conclusion in this multicollinearity test is that no multicollinearity symptoms arise.

Autocorrelation Test

The intention of the autocorrelation test is to verify the existence of residual correlation during time period t and time period t-1. The testing tool used is Durbin-Watson. The Durbin Watson (DW) score is 1.725. In this study, it is known that k is 3 and n is 63. According on the DW Table, the DU value is 1.6932 and 2.3068 is the value of 4-DU. When compared, the DU value is smaller than DW (1.6932 < 1.725) and the 4-DU value is greater than the DW value (2.3068 > 1.725). These results prove the autocorrelation problem does not occur in this test.

Heteroscedasticity Test

The intention of the heteroscedasticity test is to identifying the diversity of variations from residues between observations. The test method in this study is the park test. Considering the outcomes in table 7, all variables have a significance that exceeds 0.05. Transfer pricing has a significant of 0,321 > 0,10. Book tax difference has a significant value of 0,331 > 0,10. Thin capitalization has a significant value of 0,240 > 0,10 The observation results indicate that there are no symptoms of heteroscedasticity and indicate a good regression model that contains homoscedasticity.

Multiple Regression Analysis

By doing this analysis, the link among independent and dependent variables is shown to have a specific direction. The resulting estimation model is:

$$ETR = 0{,}236 - 0{,}035\,TP - 0{,}087\,BTD + 0{,}007\,TC + e \quad (6)$$

It is clearly defined that :

1. The (Constant) value of 0.234 indicates that if the transfer pricing, book tax difference, and thin capitalization value is 0 or there is no independent variable that affects the dependent, then tax avoidance variable has a value of 0.234.
2. The regression coefficient value of transfer pricing of -0.035 indicates that assuming all other factors remain constant, tax avoidance falls by 0.035 if transfer pricing gains one unit in value.
3. The regression coefficient value of book tax difference of -0.087 indicates that assuming all other factors remain constant, tax avoidance falls by 0.087 if book tax difference gains one unit in value.
4. The regression coefficient value of thin capitalization of 0.007 indicates that Assuming that all other factors remain constant, tax avoidance rises by 0.007 if thin capitalization gains one unit in value.

Determination Coefficient Test

The intention of the R square test is to evaluate how well the independent variables

Table 4 Normality Test

	Unstd. Residual (First Test)	*Unstd.Residual* (Second Test)
N	72	63
Asymp.Sig	,000c	,025c
Monte Carlo. Sig	,000d	,300d

Source: Processed Data, 2024

Table 5 Multicollinearity Test

Description	Value
DU	1,6932
N	63
K	3
DW	1,725

Source: Processed Data, 2024

Table 6 Autocorrelation Test

	Sig.
(*Constant*)	,000
Transfer Pricing	,321
Book Tax Difference	,331
Thin Capitalization	,240

Source: Processed Data, 2024

Table 7 Heteroscedasticity Test

	Tolerance	VIF
Transfer Pricing	,989	1,011
Book Tax Difference	,769	1,301
Thin Capitalization	,768	1,302

Source: Processed Data, 2024

can explain the dependent variable. From the output of table 9, the adj R^2 level is 0.113. According to this outcome, every independent variable, namely transfer pricing, book tax difference and thin capitalization simultaneously have an influence of 11.3% on tax avoidance. Meanwhile, outside variables that have not been studied have an influence of 88.7%.

Partial Test

The test refers to table 10 which shows the significance level of transfer pricing is 0.002 and less than 0.05. This level indicates that tax avoidance is impacted by transfer pricing. Meanwhile, the significance level of book tax difference is more than 0.05 worth 0.714 and indicates that book tax difference does not have an effect on tax avoidance practices. Followed by the sig. level of thin capitalization which is more than 0.05 worth 0.411, indicating tax avoidance practices are unaffected by thin capitalization.

Simultaneous Test

The simultaneous test in this study found that the F count was 3.631 with a significance level of 0.018 and below the 0.05 significance limit. These results prove that transfer pricing, book tax difference also thin capitalization simultaneously affect on tax avoidance practices.

Transfer Pricing Effect on Tax Avoidance Practices

Transfer pricing has a sig. level of 0,002 < 0,05. This level indicates transfer pricing has an impact on tax avoidance practices. This test proves that first hypothesis in this study is accepted. This result indicates that the allocation of assets and liabilities supported by special relationships in an entity has an impact on tax avoidance. Entities have the opportunity to reduce taxable income via transfer pricing techniques by transferring income to other countries with a lower tax rate. Tax rates and exchange rates are the focus of multinational transfer pricing. Government policies related to transfer pricing are believed to be successful in reducing tax avoidance. Whereas, transfer pricing is used by entities for the interest of investors by increasing the value and performance of the entity. The test results are consistent with (Dewi et al., 2023) which proves transfer pricing significantly affect tax avoidance practices. On the one hand, this test contradicts research (Sutanto and Lasar, 2023) that proves tax avoidance not affected by transfer pricing.

Book Tax Difference Effect on Tax Avoidance Practices

Book tax difference shows a significance level of 0,714 > 0,05 and shows that the difference in book taxes has no effect on tax avoidance. This test proves that second hypothesis in this study is rejected. This result indicates that the diversity in the company's bookkeeping has no effect on the tax avoidance practices carried out by the entity. Book tax difference can occur due to inefficient management. It can also come from management's interest in developing and

Table 8 Multiple Regression Analysis

	Unstd.Coefficients		***Std.Coefficients***	**T**	**Sig.**
	B	*Std. Error*	Beta		
(*Constant*)	,236	,012		19,676	,000
Transfer Pricing	-,035	,011	-,383	-3,181	,002
Book Tax Difference	-,087	,237	-,050	-,368	,714
Thin Capitalization	,007	,009	,113	,827	,411

Source: Processed Data, 2024

Table 9 Multiple Regression Analysis

R	***R²***	***Adj. R²***	***Std. Error***
0,395	0,1516	0,113	0,0277398

Source: Processed Data, 2024

evaluating long-term strategies. This result is in line with research (Jati and Murwaningsari, 2020) which proves book tax differences have no impact on the activities of tax avoidance. Conversely, (Monica and Sari, 2024) prove that book tax difference has an impact on tax avoidance practices and contradicts the outcome of the study.

CONCLUSIONS

This study found that in the 2021-2023 period, transfer pricing affects tax avoidance practices in consumer goods industry entities, with a significance level of less than 0.05. Therefore, the first hypothesis in this study is accepted. Meanwhile, in the same period and the same entity, it shows that book tax difference and thin capitalization have a significance level of more than the 0.05 level, which indicates that tax avoidance practices are not influenced by book tax difference and thin capitalization. So it is concluded that the second and third hypotheses are rejected in this study.

This study certainly has limitations, including that this observation was tested on all consumer goods industry entities listed on the IDX for the 2021-2023 period with a total final sample of 63 after purposive sampling and outliers of 7 samples from an initial total of 282 samples. This case is the basis that this research does not generally apply to all consumer goods industry sector entities. Then the practice of tax avoidance can be affected by many other aspects such as CSR, audit quality, inventory intensity, and other aspects .

Thin Capitalization Effect on Tax Avoidance Practices

The thin capitalization whose significance level is more than 0,05 is 0,411, indicating the impact of thin capitalization variable on tax avoidance is zero. This test proves that third hypothesis in this study is rejected. This result indicates that the dominance of debt in the capital structure of the entity has no impact on tax avoidance practices. It can be said that thin capitalization has not been launched effectively in the entity. Thin capitalization is indicated to have no effect due to legal restrictions that regulate the proportion of debt and capital as well as the risks that can arise in managing interest expenses. The test's outcomes are consistent with studies by (Olivia and Dwimulyani, 2019) which demonstrates that tax avoidance tactics are unaffected by thin capitalization. However, (Azlia, 2023) demonstrates that thin capitalization influences tax avoidance tactics, which is inconsistent with this test.

A wider scope is expected to be used in future research considering that the variables examined in this study only contribute 11.3% to tax avoidance practices and the rest 88.7% is influenced by additional variables that this study did not evaluate. Future researchers are also expected to utilize moderation variables in strengthening the variables to be used

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Table 10 Partial Test

	T	Sig.
(*Constant*)	19,676	,000
Transfer Pricing	-3,181	,002
Book Tax Difference	-,368	,714
Thin Capitalization	,827	,411

Source: Processed Data, 2024

Table 11 Simultaneous Test

	Sum of Square	df	*Mean Square*	F	Sig.
Regression	,008	3	,003	3,631	,018[b]
Residual	,045	59	,001		
Total	,054	62			

Source: Processed Data, 2024

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