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Book Tax Difference and Thin Capitalization as Determinants of Tax Avoidance: Empirical Evidence of Manufacturing Companies

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ABSTRACT

This study aims to examine the effect of Book tax difference (BTD) and Thin Capitalization on Tax avoidance in Indonesian manufacturing companies, motivated by the persistent inconsistency in the findings of previous research. This research uses a quantitative explanatory approach. The sample consists of manufacturing companies in the health and technology sectors listed on the Indonesia Stock Exchange for the 2022-2024 period, selected through purposive sampling. Data were analyzed using multiple linear regression. The results show that Book tax difference and Thin capitalization do not have a significant effect on Tax avoidance, either simultaneously or partially. The implication of this finding is that stakeholders and regulators should not rely solely on BTD and Thin capitalization as primary indicators of aggressive tax practices. The novelty of this research lies in providing recent empirical evidence from a specific contemporary context that challenges the significance of these two common proxies, suggest that other factors are more influential. Future research is encouraged to explore other determinants such as corporate governance mechanisms.

INTRODUCTION

Tax plays a central role in supporting state finances, as evidenced by its contribution reaching 82.4% of Indonesia's total state revenue. However, the realization of tax revenues until October 31, 2024, which was recorded at IDR 1,517.53 trillion or 76.3% of the target, shows ongoing challenges in optimizing state revenues. Companies, as one of the corporate taxpayers, are a significant source of revenue. Within its operational framework, the company's main objective to maximize shareholder wealth often drives management to take various strategic steps, including tax avoidance.[1] This practice is a crucial research issue because, although it is often within the legal corridor, this action is considered unethical and has the potential to substantially harm state revenues.

As an illustration of the impact, Indonesia is estimated to experience losses of up to IDR 81.81 trillion per year due to tax avoidance practices.[2] This issue is exemplified by the alleged tax evasion committed by one of the manufacturing companies in the healthcare and technology subsector that will also be a sample in this study, namely PT Kalbe Farma Tbk. In 2017, the

[1] Turwanto Turwanto dan Fendy Ardiansyah Alfan, "Pengaruh Income Shifting Incentives Dan Penggunaan Auditor Terhadap Penghindaran Pajak," *Scientax* 4, no. 1 (2022): 43–62, https://doi.org/10.52869/st.v4i1.144.
[2] Imam Hadiwibowo dkk., "Pengaruh Profitabilitas, Manajemen Laba, Dan Ukuran Perusahaan Terhadap Penghindaran Pajak," *Jurnal Akuntansi* 12, no. 1 (2023): 15–27, https://doi.org/10.37932/ja.v12i1.758.

company was accused of minimizing its income tax payments by inflating (marking up) net profit, which resulted in a discrepancy between reported and actual profit. This case attracted the attention of fiscal authorities, resulting in the issuance of a Tax Collection Letter (STP) for Rp 527.85 billion for Income Tax and Value Added Tax for the 2016 fiscal year. This action by the Directorate General of Taxes indicates that the company is suspected of engaging in tax evasion practices to reduce its tax burden.[3]

Tax avoidance practices are realized through various financial mechanisms. One of the highlighted ones is the practice of Thin capitalization, which is a condition when a company is funded with a higher proportion of debt than its capital.[4] Increasing debt can reduce the tax burden that must be paid because interest payments on debt can be a deduction from taxable income, unlike dividend payments on capital that cannot be deducted. In addition, the Book tax difference (BTD) or the difference in book value between commercial financial statements and fiscal financial statements, also has a close relationship with tax avoidance. This difference arises due to the existence of accounting standards and tax provisions that are not aligned.[5] Although companies have incentives to optimize their tax payments legally, this optimization practice risks shifting into aggressive actions that can significantly erode the country's tax base.[6]

Agency Theory

Tax avoidance practices in modern corporate structures can be analyzed in depth through the lens of Agency Theory. This theory, popularized by Jensen and Meckling (1976) identified the potential for conflict inherent in the relationship between principals and agents.[7] This conflict arises from the separation of ownership and control functions and the existence of information asymmetry, where management has superior access to information compared to shareholders.[8] In the context of taxation, this information asymmetry allows managers to engage in opportunistic actions. Managers, whose performance is often measured by after-tax profitability, have a strong incentive to minimize the company's tax burden in order to maximize reported profits and, in turn, increase personal compensation or bonuses. Based on the Agency Theory framework, tax avoidance can be explained as a manifestation of a conflict of interest between managers and shareholders or principals.[9]

Book Tax Difference and Thin Capitalization

Within the Agency Theory framework, tax avoidance practices are not seen as the result of a single strategy, but rather as a corporate policy that may involve a series of interrelated decisions. Managers (agents), who have more discretion and information, may use various tools available to achieve the goal of tax minimization.[10] Book Tax Difference (BTD) and Thin Capitalization are two

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[3] Desviya Marta dan Nofryanti Nofryanti, "Pengaruh Intensitas Modal, Pertumbuhan Penjualan Dan Ukuran Perusahaan Terhadap Penghindaran Pajak," *Jurnal Akuntansi dan Keuangan* 28, no. 1 (2023): 55–65, https://doi.org/10.23960/jak.v28i1.756.

[4] Melina Fajrin Utami dan Ferry Irawan, "Pengaruh Thin Capitalization dan Transfer Pricing Aggressiveness terhadap Penghindaran Pajak dengan Financial Constraints sebagai Variabel Moderasi," *Owner* 6, no. 1 (2022): 386–99, https://doi.org/10.33395/owner.v6i1.607.

[5] Muhammad Hidayat dan Rahmayandi Mulda, "Pengaruh Book Tax Gap Dan Kepemilikan Asing Terhadap Penghindaran Pajak Dan Analisis Kebijakan Pemerintah Terkait Penghindaran Pajak," *Jurnal Dimensi* 8, no. 3 (2019), https://doi.org/10.33373/dms.v8i3.2186.

[6] Nita Andriyani Budiman dkk., "Faktor-Faktor yang Mempengaruhi Penghindaran Pajak dengan Komisaris Independen sebagai Pemoderasi," *ijacc* 5, no. 2 (2024): 124–35, https://doi.org/10.33050/ijacc.v5i2.3220.

[7] Dica Lady Silvera dkk., "Tata Kelola Perusahaan dan Tanggung Jawab Sosial Perusahaan: Tinjauan atas Pengaruhnya terhadap Penghindaran Pajak dan Praktik Manajemen Laba," *Jurnal Akademi Akuntansi Indonesia Padang* 4, no. 1 (2024): 35–53, https://doi.org/10.31933/5dz3ke89.

[8] Dwi Wahyuningsih, "Pengaruh Struktur Good Corporate Governance Terhadap Kinerja Perusahaan Dan Manajemen Laba," *Jurnal Akuntansi Trisakti* 7, no. 2 (2020): 287–302, https://doi.org/10.25105/jat.v7i2.6254.

[9] Novi Antari Yuliana dkk., "Pengaruh Perencanaan Pajak, Beban Pajak Tangguhan, dan Penghindaran Pajak Terhadap Manajemen Laba," *SINOMIKA Journal: Publikasi Ilmiah Bidang Ekonomi dan Akuntansi* 2, no. 1 (2023): 55–64, https://doi.org/10.54443/sinomika.v2i1.986.

[10] Erwin Harinurdin dan Karin Amelia Safitri, "Tata Kelola Perusahaan Tercatat Di Indonesia," *Jurnal Vokasi Indonesia* 10,

different mechanisms that can be used complementary. Agency conflicts can encourage managers to take advantage of accounting flexibility to create large BTDs, while simultaneously engineering a capital structure with high debt (thin capitalization) to maximize tax shields.[11] When a company shows both of these characteristics simultaneously, namely having a wide fiscal accounting profit gap and high debt levels, it can be a stronger signal of an aggressive tax planning intention or policy holistically. Therefore, testing the influence of these two variables simultaneously becomes relevant to understand whether the combination of accounting strategy and financing strategy together becomes a stronger determinant of tax avoidance practices.

H1: Book tax difference and thin capitalization simultaneously have a significant effect on tax avoidance.

Book Tax Difference

The gap between accounting and taxable profits, or Book Tax Difference (BTD), has long been a concern in the accounting literature as a potential proxy for earnings management and aggressive tax planning. Theoretically, a large BTD can indicate two things: a temporary difference that is legally valid or deliberate managerial intervention for reporting or tax purposes.[12] The main argument is that opportunistic managers can manipulate accrual components to increase accounting profits while simultaneously minimizing taxable profits. This makes BTD a potential arena for tax avoidance practices. Various empirical studies have tested this relationship with mixed results. For example, several studies found that BTD has a positive relationship with tax avoidance actions.[13] However, other studies, such as those conducted actually found a negative relationship.[14] The ambiguity in these empirical findings suggests that the relationship between BTD and tax avoidance is complex and context-dependent, which strengthens the justification for re-examining the hypothesis of the influence of Book tax differences on tax avoidance.

H2: Book tax difference partially has a significant influence on tax avoidance.

Thin Capitalization

The capital structure of a firm, particularly the decision between financing through debt or equity, has significant tax implications. Tax policies that allow interest expenses to be tax deductible create an advantage known as a debt tax shield. This theoretically encourages firms to use higher levels of debt, a strategy known as thin capitalization. From an Agency Theory perspective, high debt use can be a tool to discipline managers, but it can also be exploited as a tool for aggressive tax avoidance. Empirical evidence on the effect of thin capitalization on tax avoidance also shows mixed results. Several studies, such as those conducted by (Haitsamathif & Putri, 2024)[15] And (Lestari et al., 2023) found that Thin capitalization has a positive and significant effect on Tax avoidance and provides evidence that firms with higher levels of debt tend to engage in greater tax avoidance practices. This finding supports the theoretical argument that firms actively utilize the tax shield of

no. 1 (2022): 46, https://doi.org/10.7454/jvi.v10i1.1178.

[11] Kennardi Tanujaya dan Ameilia Cantikasari, "Hubungan Pengendalian Internal Dan Penghindaran Pajak Dengan Moderasi Kepemilikan Keluarga Dan Ketidakpastian Lingkungan," *Jurnal Akuntansi Trisakti* 9, no. 2 (2022): 155–78, https://doi.org/10.25105/jat.v9i2.14762.

[12] Hotman T Pohan, "Analisis Pengaruh Kepemilikan Institusi, Rasio Tobin Q, Akrual Pilihan, Tarif Efektif Pajak, Dan Biaya Pajak Ditunda Terhadap Penghindaran Pajak Pada Perusahaan Publik," *Jurnal Informasi, Perpajakan, Akuntansi, Dan Keuangan Publik* 4, no. 2 (2019): 113–35, https://doi.org/10.25105/jipak.v4i2.4464.

[13] Dea Mustika Kusuma Wardani dan Arif Nugrahanto, "Pengaruh Book-Tax Differences, Accrual, Dan Operating Cash Flow Terhadap Upaya Penghindaran Pajak," *Jurnal Pajak Indonesia (Indonesian Tax Review)* 6, no. 1 (2022): 159–82, https://doi.org/10.31092/jpi.v6i1.1721.

[14] Ayu Lestari dkk., "Factors-Factors Affecting Tax Avoidance," *Devotion : Journal of Research and Community Service* 4, no. 1 (2023): 289–304, https://doi.org/10.36418/dev.v4i1.383.

[15] Feubravally Haitsamathif dan Vidiyanna Rizal Putri, "Pengaruh Thin Capitalization, R&D Expenditure, Transfer Pricing, Terhadap Tax Avoidance, Pada Perusahaan Pertambangan Yang Terdaftar Di Bursa Efek Indonesia (BEI)," *Journal of Accounting, Management and Islamic Economics* 2, no. 2 (2024): 417–28, https://doi.org/10.35384/jamie.v2i2.615.

debt. However, different findings were reported by (Ayuningtyas & Pratiwi, 2022)[16], which states that Thin capitalization has no significant effect on tax avoidance decision making. This insignificance can be explained by the existence of balancing factors, such as increased bankruptcy risk or the existence of domestic regulations that limit interest charges, which can prevent companies from increasing debt indefinitely. The contradiction in this literature where some studies find a significant effect while others do not is a strong basis for formulating hypotheses and retesting the effect of Thin capitalization on tax avoidance within the scope of this study.
H3: Thin capitalization partially has a significant influence on tax avoidance.

This article offers novelty by comprehensively analyzing the effect of Book tax difference and Thin capitalization on Tax avoidance simultaneously and partially in manufacturing companies in Indonesia, focusing on the health and technology sectors for the period 2022-2024. Unlike previous studies that often test these variables separately or in different combinations, this study aims to present the latest integrated empirical evidence. Thus, the purpose of this study is to analyze and explain the effect of Book tax difference and Thin capitalization both simultaneously and partially on Tax avoidance practices in manufacturing companies listed on the Indonesia Stock Exchange.

METHOD

This study employs a quantitative approach with a causal-explanatory research design. The quantitative method was chosen to statistically test the hypotheses concerning the influence between independent and dependent variables. This research utilizes secondary data of a quantitave nature, which was obtained from the published and audited annnual financial statements of companies.

Research Design

This research is designed as causal-explanatory research to analyze and explain the effect of Book tax difference and Thin capitalization on Tax avoidance, both simultaneously and partially. The research framework is theoretically grounded in Agency Theory, which is used to analyze how the separation of ownership and control can lead to Tax Avoidance practices. The design is structured to test three specific hypotheses regarding the relationship between these variables.

Instrumentation/Data Collection

Data for this study was collected through documentation from published audited annual financial reports. The variables were operationalized as follows:

Table 1
Operational definition of variables

Variables	Definition	Indicator
Tax Avoidance (Y)	The company's efforts to minimize the tax burden by exploiting loopholes in existing regulations	$\text{ETR} = \frac{\text{Income tax burden}}{\text{Profit before tax}}$ (Octavia & Sari, 2022)
Book Tax Different (X1)	The difference between accounting profit before tax and taxable profit (fiscal profit)	$\text{BTD} = \frac{\text{Profit before income tax} - \text{current tax expense}}{\text{Total Assets}}$ (Pohan, 2019)

[16] Fitria Ayuningtyas dan Adhitya Putri Pratiwi, "Pengambilan Keputusan Penghindaran Pajak Pada Perusahaan Multinasional Berdasarkan Multinasionalism, Pemanfaatan Tax Haven Dan Thin Capitalization," *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi* 7, no. 2 (2022): 201–12, https://doi.org/10.24815/jimeka.v7i2.20954.

Thin Capitalization (X2)	The practice of funding companies with relatively high debt levels	$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$ (Sinaga et al., 2023)

Source: Processed Secondary Data (2025)

Participants/Sample Selection and Data Sources

The population for this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) within the health and technology sectors for the 2022-2024 period, This period was chosen because it represents the phase of economic recovery after the COVID-19 pandemic, during which the government is actively promoting investment in the health and technology sectors. This has the potential to influence financial and tax policies for companies in these sectors, making it interesting to analyze. A purposive sampling technique was utilized for sample selection based on several specific criteria. The criteria included: (a) being consistently listed on the IDX during the observation period; (b) publishing complete annual financial reports; (c) presenting all data needed for the research variables; (d) not experiencing consecutive losses; and (e) using the Rupiah currency in financial reports. This selection process resulted in a final samples of 10 companies, providing a total of 30 data samples for analysis. The main data source is the secondary data from annual financial reports downloaded from the official Indonesia Stock Exchange website (www.idx.co.id) and the respective companies' official websites.

Data Analysis/Estimating Model/Variable Measurement

The data analysis technique used in this study is multiple linear regression analysis. This method was chosen to test the effect of the independent variables Book tax difference and Thin capitalization on the dependent variables Tax avoidance, both simultaneously (F-test) and partially (t-test). The analysis was performed using the statistical software package SPSS. Before conducting the hypothesis testing, classical assumption tests were performed to ensure the regression model is valid and meets the Best Linear Unbiased Estimator (BLUE) criteria. These tests include normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

RESULTS

The research hypothesis testing was conducted through multiple linear regression analysis. The results of the determination coefficient (R2) test showed an Adjusted R Square value of 0.096 or 9.6%. This result interprets that variations in tax avoidance can only be explained by independent variables, namely Book tax difference and Thin capitalization, by 9.6%. Meanwhile, the remaining 90.4% is influenced by other factors outside this research model, such as profitability, company size, or corporate governance that are not examined in this study. The results of the Adjusted R Square test can be seen in table 2.

Table 2
Multiple Linear Regression Analysis and Classical Assumption

Result **Variable**	**Coefficient (B)**	**T-Statistic**	**Sig.**
(Constant)	-0.781	-6.003	.000
Book Tax Difference (X1)	-0.152	-1.177	.250
Thin Capitalization (X2)	0.026	0.382	.705
Model Summary			
R Square	0.096		
F-Statistic	1.439		
Sig. F	.255		

Classical Assumption Test Results	**Method/Value**	**Result**
Multicollinearity	VIF = 1.424	No Multicollinearity
Autocorrelation	Runs Test Sig. = 0.853	No Autocorrelation
Normality	P-P Plot	Normal Distribution
Heteroscedasticity	Scatterplot	No Heteroscedasticity

Note: The dependent variable is Tax Avoidance (Y). The classical assumption tests have been met.

Source: Processed Secondary Data (2025)

Simultaneous hypothesis testing (F Test) was conducted to determine whether all independent variables together have a significant influence on the dependent variable. The results of the ANOVA test presented in Table 2 show a significance value of 0.255 which is greater than the alpha level (alpha) of 0.05 indicates that Book tax difference and Thin capitalization simultaneously do not have a significant effect on tax avoidance. Thus, the first hypothesis (H1) in this study is rejected. This implies that the combination of accounting and fiscal profit difference management strategies with debt financing strategies in sample companies is not strong enough to simultaneously become the main determinant of tax avoidance practices. Next, partial hypothesis testing (t-test) is conducted to see the influence of each independent variable on the dependent variable.

The t-test results in Table 2 show that the Book tax difference variable (X1) has a significance value of 0.250. This value is greater than 0.05, so it can be concluded that the second hypothesis (H2) is rejected. This means that the Book tax difference does not have a significant partial effect on tax avoidance. Although the regression coefficient shows a negative direction (1.117), which theoretically implies that the greater the BTD, the lower the ETR (the higher the tax avoidance), this relationship is not proven to be statistically significant in this study. This result is different from the findings (Lestari et al., 2023) which found a significant negative effect. This insignificance may be due to the possibility that BTD that occurred in the sample companies was more driven by temporary differences permitted by regulation, rather than aggressive earnings management practices for tax purposes. From the perspective of Agency Theory, this finding may indicate that the internal monitoring mechanism in the sample companies is effective enough to prevent managers (agents) from utilizing accounting flexibility excessively which can harm the company in the long run.

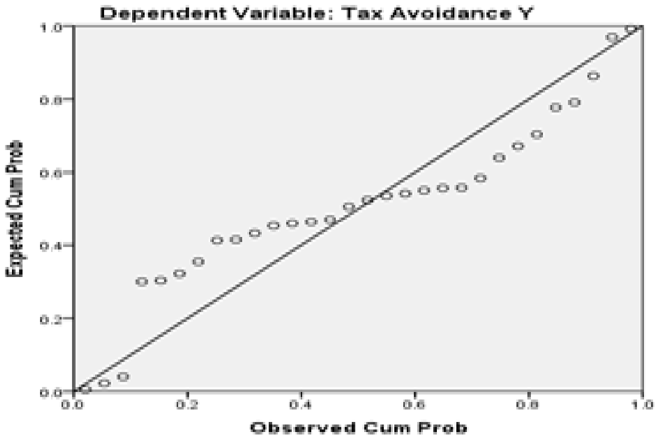
For the Thin capitalization variable (X2), the significance value obtained is 0.705, which is also greater than 0.05. This finding indicates that the third hypothesis (H3) is also rejected, which means that Thin capitalization does not have a significant effect on tax avoidance. The results of this study are in line with the findings (Ayuningtyas & Pratiwi, 2022) which also found no significant effect, but contradicts (Haitsamathif & Putri, 2024) And (Lestari et al., 2023) which found a significant positive effect. The positive direction of the coefficient (0.382) actually supports the argument that higher debt levels have the potential to increase tax avoidance, but this relationship is not strong enough to be considered statistically significant. This may occur because companies may consider the increased risk of bankruptcy due to excessive debt, so that the tax reduction benefits of debt do not necessarily encourage aggressive Thin capitalization practices. In the context of Agency Theory, managers may be cautious in increasing debt because it can increase the company's financial risk, which ultimately also affects the security of their position.

To ensure the multiple linear regression model meets the Best Unbiased Linear Estimator (BLUE) criteria, a classical assumption test was performed. This test covers multicolinearity, normality, heteroscedasticity, and autocorrelation. The multicollinearity test is performed to ascertain whether there is a high correlation among the independent variables in the regression model. This was assessed by examining the Tolerance and Variance Inflation Factor (VIF) values. The results show that the Book Tax Difference (X1) variable has a Tolerance value of 0.702 and a VIF value of 1.424, while the Thin Capitalization (X2) variable has a Tolerance value of 0.702 and a

VIF value of 1.424. Since the Tolerance value for each variable is greater than 0.10 and the VIF value is less than 10.00, it is concluded that there is no multicollinearity issue in this regression model.

Next, The autocorrelation test is used to detect whether there is a correlation between the error term in a given period and the error term in a previous period. Based on the Runs Test, the Asymptotic Significance (2-tailed) value obtained is 0.853. As this value is greater than the significance level of 0.05, it is concluded that there is no autocorrelation problem in the regression model. and The normality test aims to determine whether the residual values in the regression model are normally distributed. The analysis was conducted using a Normal P-P Plot. The results show that the data points spread around and closely follow the diagonal line, indicating that the residuals are normally distributed. Thus, the normality assumption for the regression model is met.

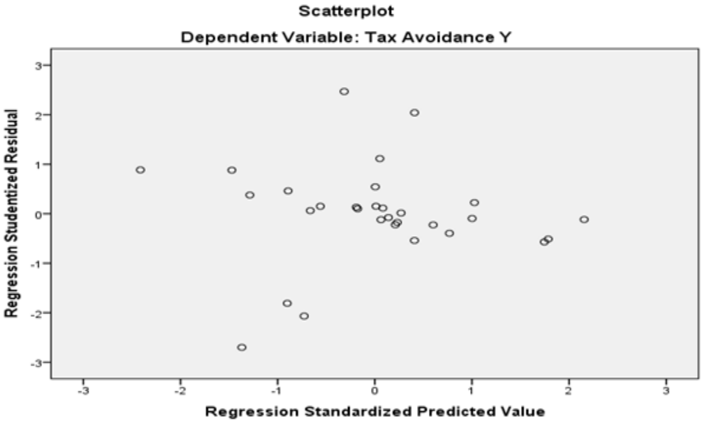
Figure 1
Normality Test - Normal P-P Plot



Source: Processed Secondary Data (2025)

The heteroscedasticity test is used to determine if there is an inequality of variance of the residuals from one observation to another. The analysis was conducted using a scatterplot. The scatterplot of standardized predicted values versus studentized residuals shows that the data points are scattered randomly and do not form any discernible pattern. This random distribution indicates that the variance of the residuals is constant (homoscedasticity). Therefore, the model is free from the problem of heteroscedasticity.

Figure 2
Heteroscedasticity Test



Source: Processed Secondary Data (2025)

Overall, the results of this study provide empirical evidence that in manufacturing companies in the health and technology sectors in Indonesia for the period 2022-2024, both Book tax difference and Thin capitalization are not significant determinants of tax avoidance practices. The low Adjusted R Square value also strengthens the conclusion that there are other factors that are more dominant in influencing corporate tax policies in the sample studied.

DISCUSSION

The Combined Effect of Book Tax Difference and Thin Capitalization on Tax Avoidance

The first hypothesis (H1) postulated that book tax difference and thin capitalization would simultaneously have a significant effect on tax avoidance. The results of the F-test, however, showed a significance value of 0.255, which is above the 0.05 threshold, leading to the rejection of H1. This finding suggests that the combination of managing accounting-fiscal profit differentials and employing debt leveraged financing strategies is not potent enough to be a primary driver of tax avoidance within the observed companies.

From the perspective of Agency Theory, which posits that managers (agents) might engage in opportunistic behavior to maximize their own utility[17], this result is intriguing. It could imply that while managers have discretion over both financial reporting and capital structure, the confluence of these strategies is not being aggressively utilized for tax minimization in this specific context. This lack of a combined effect may stem from several underlying factors. First, the internal and external governance mechanisms within the sampled firms such as an active board of commissioners or scrutiny from auditors and investors may be effective enough to constrain managerial opportunism. These mechanisms can increase the non-tax costs associated with aggressive tax planning, such as reputational damage or the risk of regulatory sanctions, thereby outweighing the potential tax benefits.

Furthermore, the specific context of the health and technology sectors in Indonesia might play a crucial role[18]. These industries are often characterized by high levels of intangible assets, significant research and development costs, and complex operational risks. Consequently, managers might prioritize financial stability and long-term growth over short term tax optimization. An aggressive debt policy (thin capitalization) combined with earnings management (high BTD) could signal excessive risk to the market, potentially increasing the cost of capital and jeopardizing the firm's competitive position. The low Adjusted R Square value of 9.6% further reinforces this, indicating that 90.4% of the variation in tax avoidance is influenced by other factors outside this research model. This outcome suggests that stakeholders and regulators should be cautious about viewing the coexistence of high BTD and high leverage as a definitive red flag for aggressive tax avoidance without considering other contextual factors like corporate governance quality or industry-specific dynamics.

The Partial Effect of Book Tax Difference on Tax Avoidance

The second hypothesis (H2) predicted that book-tax difference would have a significant partial effect on tax avoidance. The t-test results, with a significance value of 0.250, failed to support this hypothesis. Therefore, H2 was rejected. Although the regression coefficient was negative, suggesting a potential inverse relationship, the lack of statistical significance indicates that BTD is not a reliable standalone predictor of tax avoidance in this sample.

The unreliability of BTD as a sole predictor can be further explained through qualitative analysis of the real-world context within the research sample, an approach that also addresses the need for better analysis. The most relevant example is the accounting scandal that occurred at PT

[17] Ririn Breliastiti dkk., "Dinamika Kinerja Keuangan Perusahaan di Sektor Kesehatan, Keuangan, dan Teknologi," *Media Ilmiah Akuntansi* 12, no. 1 (2024): 61–80, https://doi.org/10.34208/mia.v12i1.43.

[18] Nesa Delfi Eftasari dan Neny Desriani, "Apakah Leverage Menjadi Pedang Bermata Dua Bagi Kinerja Keuangan di Tengah Kondisi Financial Distress ?," *Jurnal Mutiara Ilmu Akuntansi* 3, no. 1 (2024): 102–11, https://doi.org/10.55606/jumia.v3i1.3540.

Indofarma Tbk (INAF) in 2024, also one of the companies in this sample. In the INAF case, it was revealed that the company manipulated its financial statements to cover operational losses. This action would undoubtedly result in a significant Book-Tax Difference (BTD), but the primary driver was not a tax avoidance strategy, but rather governance issues and managerial pressure. This phenomenon clearly illustrates the limitations of quantitative proxies, where BTD is an ambiguous signal because its value can be shaped by various opportunistic motivations not captured by the regression model. Therefore, insights from this case study provide a logical explanation for the statistical relationship between BTD and tax avoidance being weak or even insignificant in this study.

This insignificance can also be interpreted more deeply by considering the nature of the industries studied. The health and technology sectors are characterized by significant investment in research and development (R&D) and the accumulation of intangible assets. These activities naturally create legitimate, often substantial, temporary differences between accounting profit (under IFRS/PSAK) and taxable profit, as depreciation and amortization schedules for assets like patents or R&D capitalization differ greatly from tax regulations. Therefore, a large BTD in these firms may simply reflect their core business model and innovation cycle, rather than an explicit strategy of aggressive earnings management for tax purposes.

Within the Agency Theory framework, this result suggests the potential effectiveness of internal monitoring and corporate governance mechanisms. The board of commissioners or audit committees within the sampled companies may be successfully constraining managers (agents) from exploiting accounting flexibility opportunistically. The long-term costs associated with aggressive accounting, such as reputational damage, decreased investor confidence, and heightened regulatory scrutiny, could far outweigh the short-term benefits of tax savings. This aligns with a more sophisticated view of agency relationships where agents are not only motivated by bonuses but also by long-term career preservation.

The Partial Effect of Thin Capitalization on Tax Avoidance

The third hypothesis (H3) stated that thin capitalization would have a significant partial influence on tax avoidance. This hypothesis was also rejected, as the t-test yielded a significance value of 0.705, well above the 0.05 alpha level. This result is consistent with the findings of Ayuningtyas & Pratiwi (2022), but it contradicts studies by Haitsamathif & Putri (2024) and Lestari et al. which found a significant positive effect.

This contradiction in the literature, where some studies find a significant effect while others do not, is not random but appears to be systematically driven by contextual factors, which forms a strong basis for this research. Studies that found a significant positive effect, such as those by Haitsamathif & Putri (2024) and Lestari et al. (2023), were generally conducted in the extractive industry sector, which has a high incentive for debt tax shields. These industries are characterized by high capital intensity and massive tangible assets, making debt financing a primary and highly beneficial tool for tax planning. The direct and substantial tax savings from interest deductions create a powerful incentive for managers to adopt aggressive thin capitalization strategies.

Conversely, studies that reported no significant effect, such as Ayuningtyas & Pratiwi (2022), often used samples from the service sector or were conducted in countries with strict debt regulations. This aligns with the context of our study on the health and technology sectors. These industries are typically less reliant on tangible assets and more dependent on intangible assets like intellectual property and human capital. For these firms, financial flexibility and a strong balance sheet to fund innovation are often more critical than marginal tax gains from debt. Furthermore, high leverage could be perceived by the market as a sign of financial distress rather than strategic tax planning, potentially increasing their cost of capital. This apparent divergence, where industrial characteristics and the prevailing regulatory environment mediate the relationship between thin capitalization and tax avoidance, is suspected to be the main cause of the inconsistent findings. Therefore, re-examining this hypothesis within the unique context of Indonesia's innovation-driven health and technology sectors is crucial to contribute a more nuanced understanding to the existing literature.

While the debt tax shield theoretically incentivizes firms to increase borrowing, the non-significant result in this study implies that other countervailing factors, particularly financial risk, are at play. The health and technology sectors are inherently volatile, characterized by rapid technological change and intense competition. In such an environment, maintaining financial flexibility is paramount. Excessive leverage (high thin capitalization) dramatically increases a firm's financial distress risk. The potential tax benefits derived from interest deductions may be perceived as trivial compared to the substantial risk of bankruptcy or the inability to fund critical, time-sensitive R&D projects during a market downturn. Therefore, firms might strategically opt for a more conservative capital structure to safeguard their long-term operational viability, even if it means forgoing some tax advantages.

From an Agency Theory standpoint, this finding highlights the risk aversion of managers. While debt can serve as a disciplinary tool to align agent-principal interests, excessive leverage increases the company's overall risk profile[19], which could jeopardize the managers' own positions, compensation stability, and professional reputation. A manager's concern for job security may thus act as a powerful deterrent against adopting aggressive debt policies solely for tax purposes. Furthermore, this cautious approach may also be driven by signaling considerations. In industries where innovation and stability are highly valued by investors, a company with low leverage may signal financial prudence and strong future prospects, thereby attracting capital on more favorable terms. This long-term strategic benefit of maintaining a healthy balance sheet appears to outweigh the marginal, short-term gains from tax minimization through debt.

CONCLUSION

This study aims to analyze the effect of Book tax difference and Thin capitalization on Tax Avoidance in manufacturing companies in the health and technology sectors in Indonesia for the period 2022-2024. Based on the results of multiple linear regression analysis, this study concludes that neither Book tax difference nor Thin capitalization has been proven to have a significant effect on tax avoidance practices, either simultaneously or partially. This finding indicates that in the context of sample companies, variations in tax avoidance practices are not determined by the strategy of managing differences in fiscal accounting profits or by the level of corporate debt. This suggests the possibility that other factors outside the model, such as corporate governance or internal policies related to risk, have a more dominant role in shaping corporate tax policy. Thus, the answer to the research objective is that Book tax difference and Thin capitalization are not the main determinants of tax avoidance practices in the sample studied.

This study's findings contribute significant nuance to the broader discourse on tax avoidance. The established proxies of Book-Tax Difference and thin capitalization, often considered reliable indicators of aggressive tax planning in developed markets, appear to lose their predictive power within the specific context of Indonesia's high-growth health and technology sectors. This suggests that the universal applicability of these metrics is questionable and highlights the critical importance of context in corporate finance research. Theoretically, this outcome challenges a simplistic interpretation of Agency Theory. Instead of managers universally exploiting informational asymmetries to minimize tax, their behavior appears constrained by industry-specific risks and a potential prioritization of long-term stability over short-term tax gains. This implies that in certain environments, agency costs related to financial distress and reputational damage may outweigh the benefits of tax aggressiveness.

For practitioners and policymakers, these results serve as a crucial reminder that a multifactorial approach is essential for assessing tax avoidance risk. Regulators and tax authorities should be cautious about using high BTD or leverage as standalone "red flags," and should instead integrate analyses of corporate governance quality, industry norms, and overall economic strategy.

[19] Sessy Wira Wandi, "Perilaku Oportunistik Mekanisme Pengawasan Dan Financial Distress Terhadap Manajemen Laba Dengan Kepemilikan Manajerial Sebagai Variabel Moderasi," *Balance : Jurnal Akuntansi dan Bisnis* 7, no. 2 (2022): 90, https://doi.org/10.32502/jab.v7i2.5379.

For investors and analysts, the study underscores the need to look beyond surface-level financial ratios to understand the underlying drivers of a firm's tax policy and its alignment with long-term value creation. The low explanatory power of the model is not a weakness but a finding in itself, strongly indicating that the dominant determinants of tax strategy in these innovative sectors are likely rooted in more complex variables such as corporate governance effectiveness, strategic risk management, and perhaps even corporate ethical stances, which remain fertile ground for future scholarly inquiry.

This study has limitations, including the limited sample coverage in two industrial sectors and a relatively short observation period. In addition, the low value of the coefficient of determination indicates that many other variables that have the potential to influence tax avoidance are not included in the model. Therefore, further research is advised to expand the sample coverage to other industrial sectors, extend the research period, and consider including other variables such as profitability, company size, capital intensity, and corporate governance mechanisms to provide a more comprehensive understanding of the determinants of tax avoidance.

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