

The Effect of Owner Characteristics and Thin Capitalization on Tax Avoidance with Firm Value as a Mediator

Muhammad Aufa Alhaq

Faculty of Economics and Business, Universitas Islam Sultan Agung (UNISSULA) Semarang, Indonesia, E-mail: 20402400855@std.unissula.ac.id

Abstract. *This study aims to analyze the effect of owner characteristics and thin capitalization on tax avoidance with firm value as a mediating variable. Tax avoidance is a strategy commonly used by companies to minimize their tax burden, but such practices may be influenced by ownership characteristics and corporate financing policies. Owner characteristics are assumed to influence managerial decisions, including corporate tax strategies. Meanwhile, thin capitalization, which reflects the proportion of debt relative to equity, can provide tax benefits through interest expense deductions that reduce taxable income. This research employs a quantitative approach using secondary data obtained from the financial statements of companies listed on the Indonesia Stock Exchange (IDX). The data analysis technique used in this study is panel data regression analysis to examine the relationship between variables, along with mediation testing to determine the role of firm value in mediating the relationship between owner characteristics, thin capitalization, and tax avoidance. The findings of this research are expected to provide empirical evidence regarding the influence of ownership characteristics and thin capitalization on corporate tax avoidance practices, as well as the mediating role of firm value. This study is expected to contribute to the development of financial management and taxation literature and provide insights for investors, corporate management, and policymakers in understanding tax avoidance behavior.*

Keywords: *Firm Value; Owner Characteristics; Tax Avoidance; Thin Capitalization.*

1. Introduction

According to data from the Indonesian Ministry of Finance, tax contributions to the State Budget (APBN) have shown a significant increase in recent years. In 2020, tax contributions reached 74.9%. This figure declined to 71.5% in 2021 due to the COVID-19 pandemic, which caused a global economic slowdown. However, in 2022, the contribution rose again to 76.5%, reaching a peak of around 80% in 2023. This data confirms that a significant portion of APBN financing relies heavily on tax revenues, making effective tax management crucial for maintaining the country's fiscal stability.

However, optimizing tax revenue still faces significant obstacles, primarily due to the prevalence of tax avoidance practices. Tax avoidance is a legally valid practice, but ethically and substantively questionable, as it results in the underutilization of potential state revenues. This is a serious concern because tax avoidance practices are implemented by most large corporations through various aggressive schemes that exploit loopholes in tax regulations.

One important indicator used to measure the effectiveness of a tax system is the tax ratio. The tax ratio compares state revenue from the tax sector to Gross Domestic Product (GDP). A higher tax ratio indicates a country's ability to optimally collect potential taxes from ongoing economic activities. Unfortunately, Indonesia's tax ratio is relatively low compared to other ASEAN countries. Over the past five years, as shown in Figure 1.1, Indonesia's tax ratio has fluctuated and fallen below 12%: 10.2% in 2019, 8.3% in 2020, 9.1% in 2021, 10.4% in 2022, and then again to 10.2% in 2023. The World Bank identifies 15% of GDP as the ideal or optimal tax ratio for developing countries, such as Indonesia. A lower tax ratio indicates a significant gap between the government's potential and realized tax revenues.

Figure I.1Indonesia's Tax Ratio Trend



According to the Fiscal Policy Agency (BKF), the primary cause of this low tax ratio is the existence of tax avoidance practices by companies, both national and multinational. Tax avoidance is typically carried out through transfer pricing strategies, the use of shell companies, the use of tax havens, and capital structures that prioritize debt over equity, known as thin capitalization.

2. Research Methods

This research is categorized as explanatory research using quantitative methods. Explanatory research aims to describe and understand the correlation between variables, particularly in the context of cause-and-effect relationships. The quantitative approach is based on a positivistic paradigm, where the research process is conducted on a specific population or sample using standardized instruments. The collected data is then analyzed quantitatively using statistical methods to describe the phenomena that occur and test existing hypotheses (Sugiyono, 2019).

This research is also causal in nature, as its primary focus is to examine the causal relationship between variables. Specifically, this study analyzes the relationship between four variables: Company Owner Characteristics (X1) and Thin Capitalization (X2) as independent variables, Corporate Tax Avoidance Level (Y) as dependent variable, and Company Value (Z) as mediating variable.

3. Results and Discussion

3.1. The Influence of Company Owner Characteristics on Tax Avoidance

Hypothesis 1 testing shows that the number of Audit Committee members has no effect on the level of tax avoidance in mining sector companies listed on the Indonesia Stock Exchange. However, the independent commissioner variable has a significant positive effect on the level of tax avoidance. This indicates that the greater the proportion of independent commissioners in the board of commissioners structure, the greater the company's tendency to engage in tax avoidance. The logical explanation is that, from an agency theory perspective, an independent board of commissioners functions to oversee and provide direction to management in order to improve company performance. In practice, tax avoidance is often viewed as a strategy that can increase company efficiency by legally reducing the tax burden. Therefore, independent commissioners can provide support for management policies related to tax planning strategies as long as they remain within the limits of tax regulations. This condition means that the presence of independent commissioners does not always suppress tax avoidance practices but can instead encourage the optimization of a company's tax planning strategy. This finding aligns with research showing that board independence has a positive influence on tax avoidance activities undertaken by companies (Ariefiara et al., 2021). Other studies also found that the characteristics of independent governance organs

can be positively correlated with tax avoidance practices due to limited supervision or utilization of networks owned by independent members (Oktavia, 2020).

3.2. The Effect of Thin Capitalization on Tax Avoidance

Thin capitalization policies have a significant negative impact on tax avoidance rates. This means that the higher the implementation of thin capitalization policies, or the greater the proportion of corporate financing derived from debt, the lower the corporate tax avoidance rate tends to be. The logical explanation is that corporations with high debt levels will bear large interest burdens, resulting in stricter payment obligations to creditors such as banks or financial institutions. This condition places companies under more intensive scrutiny from creditors because they have a vested interest in ensuring the company's ability to meet its debt repayment obligations. This high level of oversight from banks or financial institutions makes company management more cautious in making risky decisions, including engaging in tax avoidance practices. This is because overly aggressive tax avoidance practices have the potential to create legal risks, tax sanctions, and reputational damage, which can ultimately increase the company's costs and impair its ability to meet its debt repayment obligations. Therefore, companies with high levels of leverage tend to avoid aggressive tax policies to maintain financial stability and creditor confidence. This is consistent with research showing that a company's financing structure can influence tax avoidance practices, where external oversight from creditors can suppress management's behavior in pursuing high-risk tax strategies (Salehi et al., 2024). Furthermore, other research also shows that corporate financing characteristics, including debt structure and thin capitalization restrictions, play a role in limiting corporate tax avoidance practices (Simamora & Sari, 2021).

3.3. The Influence of Company Owner Characteristics on Company Value

The results of Hypothesis 3 show that the number of Audit Committee members has no effect on company value. However, the number of commissioners has a significant negative effect on company value. This means that the higher the proportion of independent commissioners in the board of commissioners structure, the lower the company's value tends to be. The logical explanation is that although the presence of independent commissioners aims to increase the effectiveness of management oversight, under certain conditions, an excessive number of independent commissioners can slow down the company's strategic decision-making process. A tighter oversight process can also cause management to be more conservative in making investment decisions or business strategies that have the potential to increase company value. Furthermore, differences of opinion between independent commissioners and management can lead to internal conflict or inefficient coordination in the decision-making process. These conditions can hinder management's flexibility in responding to business opportunities, resulting in a decline in company performance and, consequently, a decrease in the company's value in the eyes of investors. This is in accordance with research showing that the proportion of independent commissioners in corporate

governance mechanisms can have a negative impact on company value due to increased monitoring costs and potential inefficiencies in corporate decision-making (Susilowati et al., 2022). Other research also shows that some good corporate governance mechanisms do not always increase company value directly because their effectiveness is highly dependent on the company's internal conditions and the quality of corporate governance implementation (Widiatmoko, 2020).

3.4. The Effect of Thin Capitalization on Company Value

Based on the hypothesis 4 test, thin capitalization has a significant positive effect on firm value. This means that the greater the level of debt usage compared to equity in a company's funding structure, the firm's value tends to increase. The logical explanation is that the use of debt in a larger proportion can provide benefits in the form of tax savings (tax shield) from interest expenses that can be deducted from taxable income. With these tax savings, the company's net profit after tax can increase, thus sending a positive signal to investors regarding the efficiency of the company's capital structure management. Furthermore, the use of debt can also improve managerial discipline because the company is obliged to meet interest and principal payments to creditors. This condition encourages management to be more careful and efficient in managing company resources, thereby improving company performance, which ultimately has an impact on increasing the company's value in the market. This is consistent with research stating that the use of leverage or debt-based funding structures can increase firm value through the benefits of tax shields and discipline mechanisms for management (Kraus & Litzenberger, 1973; Modigliani & Miller, 1963).

3.5. Mediation of Firm Value on the Influence of Owner Characteristics on Tax Avoidance

Corporate value does not mediate the influence of independent commissioners on tax avoidance. This means that the presence of independent commissioners in a company does not affect tax avoidance practices by increasing or decreasing company value. In other words, the relationship between independent commissioners and tax avoidance occurs directly and not through the mechanism of corporate value as an intermediary variable. A logical explanation is that the primary function of independent commissioners in corporate governance mechanisms is to oversee management policies and decisions, including corporate tax policies. However, this oversight is more related to compliance and corporate risk control than to efforts to directly increase company value. Therefore, corporate value does not always explain the relationship between independent commissioners and tax avoidance practices. Furthermore, corporate value is also influenced by many other factors such as financial performance, capital structure, market conditions, and company growth prospects, making its role as a mediating variable in this relationship insignificant. This is in line with research showing that corporate value is unable to mediate the relationship between corporate governance mechanisms and tax avoidance practices because the

influence of corporate governance on corporate tax policy is more direct through its management oversight function.

3.6. Mediation of Firm Value on the Effect of Thin Capitalization on Tax Avoidance

Firm value does not mediate the effect of thin capitalization on tax avoidance. This means that a high level of debt in a firm's financing structure (thin capitalization) does not influence tax avoidance practices by increasing or decreasing firm value. In other words, the relationship between thin capitalization and tax avoidance occurs directly without going through the mechanism of firm value as an intermediary variable. The logical explanation is that thin capitalization policies are directly related to a firm's capital structure strategy, specifically the use of debt, which incurs interest expenses. These interest expenses can reduce taxable profits and thus directly affect the amount of tax a firm must pay. Therefore, the effect of thin capitalization on tax avoidance practices is more direct through the mechanism of reducing the tax burden from interest expenses, rather than through changes in firm value. Furthermore, firm value is more influenced by other factors such as financial performance, growth prospects, firm risk, and market conditions, so it is not always a pathway that explains the relationship between capital structure and corporate tax policy. This is in accordance with research which shows that the influence of capital structure policy on tax avoidance practices is not always mediated by company value because decisions related to taxes and financing are managerial policies which can have a direct impact on the company's tax burden.

3.7. The Influence of Company Value on Tax Avoidance

Corporate value has no effect on tax avoidance. This means that the level of corporate value, as reflected by investor perceptions in the market, does not directly influence corporate decisions to engage in tax avoidance. In other words, companies with high corporate value do not necessarily engage in lower or higher tax avoidance than companies with low corporate value. The logical explanation is that corporate value is more influenced by factors such as financial performance, growth prospects, operational efficiency, and capital market conditions. Meanwhile, decisions regarding tax avoidance are managerial policies related to the company's tax strategy, tax regulations, and considerations of legal and reputational risks. Therefore, corporate value is not always a determining factor in whether a company will engage in tax avoidance. This is consistent with research showing that corporate value does not significantly influence tax avoidance practices because corporate tax policy is more influenced by corporate governance factors and managerial strategies than by market perceptions of corporate value (Mangoting et al., 2020; Hasanah et al., 2019).

4. Conclusion

The results of the study indicate that the number of audit committee members does not affect the level of tax avoidance in mining sector companies listed on the Indonesia Stock Exchange. Conversely, independent commissioners are proven to have a significant positive influence on the level of tax avoidance, indicating that the greater the proportion of independent commissioners, the greater the company's tendency to engage in tax avoidance. These findings indicate that the role of independent commissioners within the agency theory framework can support management strategies in conducting legal tax planning to improve financial performance and company efficiency. This study shows that the thin capitalization policy has a significant negative effect on the level of tax avoidance. This means that the greater the proportion of company financing originating from debt, the lower the company's tendency to engage in tax avoidance practices due to high interest expenses and payment obligations to creditors. This condition places companies under stricter supervision from banks or financial institutions, so management tends to avoid aggressive tax strategies to maintain financial stability, minimize legal risks, and maintain creditor confidence. Hypothesis testing concludes that the number of audit committee members does not affect company value. However, independent commissioners have a significant negative effect on firm value, meaning that the higher the proportion of independent commissioners in the board structure, the lower the firm's value. This indicates that while independent commissioners play a role in enhancing oversight, an excessively large proportion can slow down strategic decision-making and lead to inefficient coordination, potentially reducing the firm's performance and value in the eyes of investors.

5. References

Journals:

- Agyemang, J. K., & Modisane, C. (2025). Ownership structure and corporate tax avoidance: Does audit quality and firm size matter? *Journal of Information Systems Engineering and Management*.
- Almashaqbeh, Ma'in & Mohamad, Nor & Taha, Roshaza. (2023). The impact of ownership structure on the firm's value. *Journal of Governance and Regulation*. 12. 326-332. 10.22495/jgrv12i4siart12.
- Anggraeni, T., & Oktaviani, R. M. (2020). Dampak thin capitalization, profitabilitas, dan ukuran perusahaan terhadap tindakan penghindaran pajak. *Jurnal Akuntansi dan Pajak*. <https://jurnal.stie-aas.ac.id/index.php/jap/article/view/1530>
- Aprilina, V. 2021. Thin Capitalization, Asset Mix, Tax Avoidance. *JRAK: Jurnal. Riset Akuntansi dan Komputerisasi Akuntansi*, 12(2), 69-78.
- Ardillah, K., & Prasetyo, A. C. (2021). Executive compensation, executive character, audit committee, and audit quality on tax avoidance. *Akuntabilitas: Jurnal Ilmu Akuntansi*, 14(2), 169–186.

- Arieftiara, D., Alhady, I., & Lastiningsih, N. (2021). Does board of commissioners independence still relevant in tax avoidance monitoring? *International Journal of Research in Business and Social Science* (2147-4478).
- Aristiyaningrum, U. L., & Falikhatun. (2024). Corporate Tax Avoidance: A Structured Literature Review and Areas for Future Research. *International Journal of Economics, Business and Management Research*.
- Boś, K. (2023). Thin Capitalisation – Application and Limitations under Polish Tax Law and EU Council Directive 2016/1164 (ATA Directive). *Ius et Administratio*.
- Boubraki, Narjess & Bozec, Yves & Laurin, Claude & Rousseau, Stéphane. (2011). Incorporation Law, Ownership Structure, and Firm Value: Evidence from Canada. *Journal of Empirical Legal Studies*. 8. 10.1111/j.1740-1461.2011.01212.x.
- Bui, T. N., Nguyen, X. H., & Pham, K. T. (2023). The Effect of Capital Structure on Firm Value: A Study of Companies Listed on the Vietnamese Stock Market. *International Journal of Financial Studies*, 11(3), 100. <https://doi.org/10.3390/ijfs11030100>
- Cabello, O. G., Watrin, C., & Moraes, M. B. C. (2022). Does Tax Avoidance differ between economies and sectors? Determinants of Tax Avoidance in developed and emerging economies. *Advances in Scientific and Applied Accounting*. <https://doi.org/10.14392/asaa.2022150204>
- Cahyati, F., Poerwati, R., Nuswandari, C., & Bagana, B. (2023). The effect of independent commissioner, institutional ownership, audit quality and audit committee on tax avoidance. *Proceedings of the 2nd International Conference of Multidisciplinary Studies*.
- Carrie, M. Y., & Susanty, M. (2024). What Factors Affect Tax Avoidance? *Jurnal Akuntansi*.
- Chen, X., Hu, N., Wang, X., & Tang, X. (2014). Tax Avoidance and firm value: Evidence from China. *Nankai Business Review International*, 5(1), 25–42.
- Dadaneh, F. Z., Haghighat, H., Rezazadeh, J., & Barzegar Shourabsofla, Z. (2025). Investigating the role of narcissistic CEOs in tax aggressive by considering the moderating role of the audit committee: The case of Iran. *International Journal of Auditing and Accounting Studies*.
- Damayanty, P., & Putri, T. (2021). The effect of corporate governance on tax avoidance by company size as the moderating variable. *Proceedings of the 1st International Conference on Sustainable Management and Innovation (ICoSMI 2020)*.
- Das, P. (2019). Econometrics in theory and practice: Analysis of cross section, time series and panel data with stata 15.1. *In Econometrics in Theory and Practice: Analysis of Cross Section, Time Series and Panel Data with Stata 15.1*. <https://doi.org/10.1007/978-981-32-9019-8>
- Ghozali, I. (2016). Ghozali, Imam. (2016). Aplikasi Analisis Multivariate dengan Program IBM SPSS 23. Semarang: BPFE Universitas Diponegoro. *IOSR Journal of Economics and Finance*. <https://doi.org/https://doi.org/10.3929/ethz-b-000238666>
- Gujarati, D. N. (2004). Basic Econometrics 4th Edition. *In Tata McGraw-Hill*. <https://doi.org/10.1126/science.118687>
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, 50(2–3), 127–178. <https://doi.org/10.1016/j.jacceco.2010.09.002>

- Haryono, U., & Paminto, A. (2015). Corporate governance and firm value: The mediating effect of financial performance and firm risk. *European Journal of Business and Management*, 7, 18–24.
- Hasanah, A., Sirait, J., & Martia, D. (2019). Tax avoidance practice, corporate governance, and firm value. *Proceedings of the 1st International Conference on Applied Economics and Social Science (ICAESS 2019)*. <https://doi.org/10.2991/icaess-19.2019.40>
- Hoopes, J. L., Mescall, D., & Pittman, J. A. (2011). Do IRS Audits Deter Corporate Tax Avoidance?. *Political Institutions: Bureaucracies & Public Administration eJournal*.
- Hung, P. H. (2024). The influence of corporate governance on tax avoidance and the role of independent auditors in Vietnamese firms. *Journal of Advances in Accounting, Economics, and Management*.
- Isgiyarta, J. 2014. Tax Avoidance through Thin Capitalization (Evidence from Indonesian Firms). *International Journal of Research in Business and Technology* 5 (3): 692±99.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Julianti, Julianti & Ruslim, Herman. (2023). The Influence of Capital Intensity and Thin Capitalization on Tax Avoidance Moderated by Profitability. *Indonesian Journal of Multidisciplinary Science*. 2. 3373-3381. 10.55324/ijoms.v2i10.594.
- Kraus, A., & Litzenberger, R. H. (1973). A state-preference model of optimal financial leverage. *The Journal of Finance*, 28(4), 911–922. <https://doi.org/10.1111/j.1540-6261.1973.tb01415.x>

Books:

- Chyz, J. A., & White, S. D. (2014). *The association between agency conflict and Tax Avoidance: A direct approach*.
- Cooper, D. R., & Schindler, P. S. (2014). *Business Research Methods 12th Edition*. In Business Research Methods.
- Cvjetković, C. M. (2010). *Thin capitalization as an Instrument of Tax Avoidance*.
- Dharmika Dharmapala, 2016. "The Economics of Corporate and Business Tax Reform," CESifo Working Paper Series 5864, CESifo.
- Đukič, T. (2014). *Thin capitalization Rules in EU Member States*. International Public Administration Review.
- Istrate, C. (2025). *Determinants of the Corporate Income Tax Avoidance – A Brief Literature Review*. European Financial Resilience and Regulation.
- Jannah, M. (2018). *Pengaruh Corporate Social Responsibility dan Good Corporate Governance terhadap Penghindaran Pajak (Studi Empiris pada Perusahaan Perbankan yang Terdaftar di BEI Tahun 2013-2017)*.
- Knöller, C.-P. (2011). *The Efficacy of Thin capitalization Rules and Their Barriers: An Analysis from the UK and German Perspective*. Intertax.

Lee, B., & Paek, W. D. (2019). *Tax Avoidance, Firm value, and Comparability*. Korean Accounting Review.