**Capital Intensity Moderates Corporate Risk and Thin Capitalization of Tax Avoidance**

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| **KEYWORDS** | **ABSTRACT** |
| corporate risk, thin capitalization, tax avoidance, capital intensity | This study aims to determine the effect of corporate risk and thin capitalization on tax avoidance by adding capital intensity as a moderating variable. This research uses a sample of 62 companies from the industrial sector that are listed on the Indonesia Stock Exchange from 2019 to 2021. The data used is secondary data in the form of financial reports and annual reports of the sample companies. Hypothesis testing was carried out using a panel data linear regression model with eviews 12 software. The results of this study indicate that Corporate Risk has an effect on Tax Avoidance, Thin Capitalization has an effect on Tax Avoidance, Capital intensity cannot moderate the effect of corporate risk on Tax Avoidance, Capital intensity cannot moderate the effect of Thin Capitalization on Tax Avoidance |
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**Introduction**

Taxes are the main source of revenue in increasing the state treasury. Taxes have a very large role in the financing of a country, so taxes have a very large contribution to the development of the country. In addition to playing an important role in state revenue, taxes also function as a tool in regulating and implementing government policies in many fields, such as in the social and economic fields. According to 2017-2021 data, the source of the State Budget (APBN) of state revenue has a very large percentage, namely 85.64%, 85.40%, 82.51%, 82.62%, and 82.85% and the rest comes from non-tax contributions and grants (Kamil, 2022).

Taxes, which are the spearhead of state revenue, make the government look for ways to increase tax revenue every year. One of the ways that the government does is by exploring tax potential through extensification and stensification of tax revenues. Extensification is carried out by exploring or expanding new tax objects through legislation while intensification through improving collection in the field without having to change applicable laws, (Sakti, 2017).

Based on the Law on General Provisions and Tax Procedures (KUP) No. 28 of 2007 Article 1 Paragraph 1, "Tax is a mandatory contribution to the state owed by an individual or entity that is coercive based on the law, with no direct compensation and used for state purposes for the greatest prosperity of the people". The current tax law in Indonesia adheres to a self-assessment system. This means that the amount of tax owed is entrusted to the taxpayer (WP) itself, where the taxpayer must regularly report all the amount of tax owed and the amount of tax that has been determined in tax laws and regulations. Therefore, to support the successful implementation of the *self-assessment* system, one of the basic things that must be done is to carry out tax *law enforcement*. Law enforcement in taxation has a positive correlation with the success of tax revenue. This means that the implementation of tax law enforcement firmly and consistently will be able to create better compliance from taxpayers and will lead to an increase in revenue from the tax sector, (Kesuma &; Nur, 2020).

In fact, tax collection that acts as the main state income is not an easy thing to implement. This is due to differences in interests and views held by each party. Taxes from the government side are a source of state funding for infrastructure development and financing state household needs, while taxes from the corporate side are one factor to be considered because taxes are considered a burden that can affect the survival of the company, and are also considered as instruments that will affect the company's profit generation, so companies want to pay taxes to the state with the minimum possible value, with these differences, it causes an impact on the company's efforts as taxpayers intend to carry out *Tax Avoidance practices*. (Abdillah &; Nurhasanah, 2020),

*Tax Avoidance* is an active resistance that comes from taxpayers taking advantage of loopholes in tax law to avoid or reduce tax obligations by not supporting the purpose of forming tax laws to obtain state income from taxes. *Tax* avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with tax provisions, where the methods and techniques used tend to take advantage of weaknesses (*gray areas*) contained in the tax laws and regulations themselves, to minimize the amount of tax owed (Rizky & Puspitasari, 2020)

Tax avoidance uses methods permitted by statutory provisions or can also be by exploiting weaknesses in tax laws. Tax avoidance causes the state to lose tens to hundreds of billions of rupiah annually in state revenue in the tax sector. With reduced tax revenue, improved education, public welfare, public infrastructure development, and regional development are not optimal. The community views that companies should participate in advancing the welfare of the wider community through tax payments. However, the government, in this case, the Directorate General of Taxes cannot carry out legal prosecutions, because these tax avoidance perpetrators take advantage of loopholes and take advantage of things that have not been regulated in tax law even though this action harms the state, (Roostina Nugrahani Putri &; Setiawati, 2021).

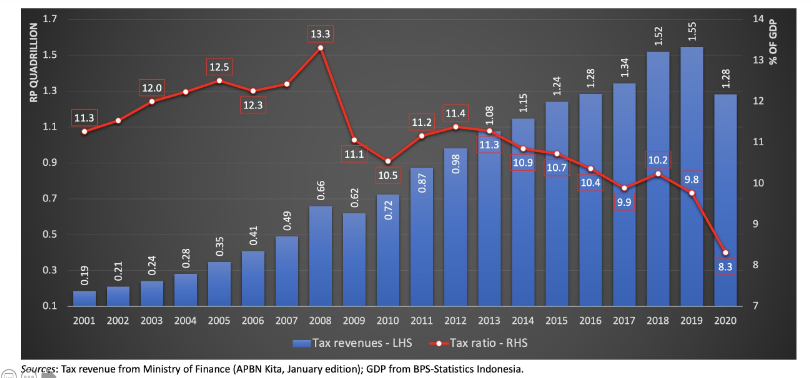
The Company as a Corporate Taxpayer has the obligation to pay Income Tax the amount of which is calculated from the taxable income obtained. When the company has a high taxable income, the amount of tax paid by the company will also increase. This causes companies to consider taxes as costs that will reduce company profits. That condition causes many companies to try to find ways to reduce the cost of taxes paid, and does not rule out the possibility that companies will become aggressive in terms of taxation, (Ayem & Tarang, 2022).

Companies see that *tax avoidance* can provide economic benefits to companies. In terms of tax avoidance, companies are not reluctant to participate in implementing national mutual assistance but only more towards regulating the amount of tax to be paid less than the amount that should be. Shareholders expect the tax burden to be reduced so that the company can maximize profits. Shareholders also need *tax avoidance* in the right amount, not too little because it can reduce profits and not too much because it has the risk of fines and falling company reputation, (Ayem &; Tarang, 2022).

Many companies conduct tax *avoidance* in an effort to streamline the tax burden. The tax burden is calculated based on the tax rate multiplied by the company's profit. Corporate profit according to PSAK 46 is divided into accounting profit and fiscal profit. The difference in the calculation of accounting profit contained in financial statements with fiscal profit calculated according to tax regulations is a loophole that can be exploited to avoid paying taxes, (Dwika Lodia Putri, Rahmat, & Aznuriyandi, 2020).

Regarding the practice *of tax avoidance*, taxpayers do not clearly violate the law or interpret the law but are not in accordance with the aims and objectives of the law. The practice of tax *avoidance* carried out by the management of a company solely to minimize tax liabilities that are considered legal, makes companies have a tendency to do various ways to reduce their tax burden. Therefore, the issue of tax avoidance is  *a unique and complicated issue because*  on the one hand tax avoidance does not violate the law, but on the other hand *tax* avoidance is  *not desired by the government*, (Romadona &; Setiyorini, 2020).

The high level of tax *avoidance* will certainly affect the revenue of the tax ratio which is reflected in a significant decrease in the state tax ratio, this is reflected in the table below:



Source *tax revenue from ministry of finance* (APBN Kita)

Figure 1 Fluctuation in Indonesia's Tax Ratio

In 2013-2020 Indonesia experienced significant fluctuations in tax ratios, but the peak of a significant decrease in tax revenues occurred in 2019-2020 where the Indonesian state experienced a significant decrease both in terms of state revenue from taxes and a decrease in the tax *ratio*. This will have a negative impact on state revenue from taxes, considering that the largest amount of state revenue is from taxes. The high tax avoidance that occurs in Indonesia is allegedly the cause of a decrease in state revenue and a decrease in tax ratios, this is certainly a problem for all parties because with low tax revenues it will have significant consequences on a country's operations ranging from limited government ability to finance public programs such as health care education, infrastructure and national security. Then dependence on debt, because if tax revenues are low, the government may become more dependent on debt which will increase the risk of long-term economic instability, and other significant consequences.

In-depth is very important to be studied more deeply about *tax avoidance, especially factors that influence, support and cause the increase* in tax avoidance that occurs in Indonesia so that the government can take the necessary steps to mitigate the decline in *tax* revenue in the future. There are many factors that cause *tax avoidance* actions carried out by companies, but in this study researchers want to focus on several variables but studied in depth in order to get good research results, including company risk, *thin capitalization* and *capital intensity*

Regarding company risk, companies that carry out tax avoidance are of course also through policies taken by the company leader himself because company decisions and policies are taken by the company's leader. Company leaders usually have two characteristics, namely, risk *taker* and *risk averse*. Company leaders who have risk *taker* and *risk averse* characters are reflected in the size of existing company risks (Haya &; Mayangsari, 2022). Company risk is the *volatility* of a company's earnings, which can be measured by a standard deviation formula. Thus, it can be interpreted that corporate  *risk is a deviation or standard*  deviation from earnings, whether the deviation is less *than planned (downside risk*) or more than planned (*potential upset*), the greater the standard deviation  *of* earnings The company indicates the greater the company's risk. The high and low risk of this company indicates whether the executive character includes risk *taker* or *risk averse* (Dessy, Kamaludin, &; Nikmah, 2021).

The higher the level of business risk, the higher the company's tendency to do tax avoidance, and vice versa, the lower the business risk, the lower the company's tendency to do tax avoidance. The rise and fall of corporate risk reflects the tendency of executive characteristics. A higher level of corporate risk indicates that the executive character has more risk *taker* traits compared to a lower level of company risk indicates that the executive character has more risk *averse* traits. When company leaders or executives have a *risk taker* nature, it will indicate that executives dare to take risks, risks here can be of various types, including risks for tax avoidance, risks for financing through debt, and other types of risks. (Suryadi & Afridayani, 2021).

Research on company risk to tax avoidance  *was conducted by* (Kamil &; Masripah, 2022), which states that company risk affects tax avoidance, this is supported by Sakti's research, (2017) *also states that company risk affects the high and low level of*  tax avoidance *carried out by companies.*

*Thin capitalization* is where this mechanism refers to investment decisions by companies in funding operations by prioritizing debt funding rather than equity capital in its capital structure. This is because, in contrast to dividends, debt can increase the value of the company with tax incentives in the form of loan interest expenses. In addition, *thin capitalization* can be a problem in taxation due to the difference in treatment between capital investment and debt investment. In capital investment, the return of capital in the form of dividends will be taxed, while through debt funding will incur interest expenses that can be used as a deduction from taxable income (Anah, 2022).

Loans in the context of *thin capitalization* are loans in the form of money or capital from shareholders or parties who have a special relationship (*related party*) with the borrower, which usually involves *holding companies* in countries with low tax rates so that taxes that should be the right of a country can be transferred to other countries. The mode is that in financing its subsidiary, a *holding company* will contribute in the form of debt (not capital). Thus*, the subsidiary will be burdened with interest costs which are a deductible element in calculating Taxable Income, so that the tax borne by the subsidiary can also shrink so that tax* avoidance actions  *occur.* (Nainggolan &; Hutabarat, 2022).

Leung et al.'s (2019) research in Andawiyah (2020) examined  *thin capitalization practices of listed companies in Australia using the rules of Income Tax Assessment Act 97 (ITAA 97) which limits the issue of*  thin capitalization, and found that *thin* capitalization affects tax avoidance. Similarly, the results of Jumailah's research, (2020) show that companies with interest-bearing debt restrictions (in this case ISSI sharia index companies) are proven to reduce the positive relationship between *thin capitalization* and tax avoidance because of the lack of management gaps in optimizing debt ownership related to tax management.

*Capital intensity is* how much the company invests its assets in the form of fixed assets in order to increase profits made by company managers. Fixed assets are one of the company's assets that have an impact that can reduce the company's income where almost all fixed assets can experience depreciation or depreciation which will be a cost for the company itself. The tax of a company can be affected by the intensity of fixed assets owned by the company. The higher the level of intensity of fixed assets, the higher the depreciation expense that will affect tax payments, because depreciation expenses will reduce tax payments

*Capital Intensity* is appointed as a moderation variable because to the knowledge of researchers in some studies has not focused capital intensity as a moderation variable*, even though capital intensity is closely related to* tax avoidance*, and also* capital *intensity* is closely related to *thin capitalization* actions Because the debt repayment scheme by earning interest costs to reduce the tax burden and loan proceeds is also used to buy fixed assets which will be capital *intensity* related to *tax avoidance*.

Previous research related to  *capital intensity moderating the effect of corporate risk on*  tax avoidance was carried out by *(Malik, Pratiwi, &; Umdiana, 2022)* which stated that capital intensity strengthens companies in carrying out *tax avoidance* actions. This is supported by research from (Febriyanto &; Finatariani, 2021) which states that *capital intensity* strengthens the company's risk of *tax avoidance*

This research is a development of research from previous researchers Salwah &; Herianti, (2019), regarding the Effect of Business Risk on *Tax Avoidance* with Leverage as a Moderation Variable. In this study, researchers modified by eliminating *leverage* and replacing it with *thin capitalization into the same independent variable related to corporate debt but* thin capitalization is more detailed in the company's operational debt flow scheme. Then researchers added *the capital intensity variable as* moderation because there have not been many studies on  *tax avoidance that raise*  capital intensity as a moderation variable even though *capital intensity* is closely related to *tax avoidance*. Based on this, the researchers conducted a study entitled **"*Capital Intensity* Moderates Corporate Risk and *Thin Capitalization* of *Tax Avoidance*”.**

**Research Methods**

This type of research uses quantitative methods which are an emphasis on hypothesis testing through measuring research variables with numbers and conducting data analysis with statistical procedures. This research refers to the formulation of associative problems, namely a formulation of research problems that are asking the relationship between two or more variables Ghozali (2018: 8), quantitative methods can also be interpreted as research methods based on the philosophy of positivism, used to examine certain populations and samples, data collection using research instruments, quantitative / statistical data analysis, with the aim of testing the established hypotheses (Gujarati, 2019).

With the form of a comparative causal relationship, namely research with problem characteristics in the form of cause-and-effect relationships between two or more variables. Associative research is research that aims to determine the influence or relationship between two or more variables. This research has the highest level compared to discriptive and comparative because with this research can be built a theory that can function to explain, predict and control a symptom. This research is referred to as a type of quantitative research because the available data is in the form of numbers that can be measured and then assisted by statistical tools. Ghozali (2018 :47)

The research to be carried out is using panel data. According to (Gujarati, 2019: 58) panel data is a combination of time series data and cross section data. Time series data is data from one object with several specific time periods, while cross section data is data obtained from one or more research objects in the same period. Through the use of panel data, it is expected to allow observations that show the dynamics of variation between times of each variable to be used in this study. Data sources from research conducted by researchers are secondary data sources, that is, data sources obtained from historical data.

The depth of research in this study is not deep, but the level of generalization is high. The research environment in this study is a contrived setting environment or artificial setting, this study uses secondary data with the unit of analysis taken from figures obtained from the financial statements of industrial sector companies between 2019 – 2021 which all data are taken from the official IDX website, namely: www.idx.co.id.

**Results and Discussions**

The coefficient of determination is used to measure the extent to which the percentage of the ability of the independent variable affects the dependent variable simultaneously. In this study the independent variables used, namely*, Tax Avoidance,* Company Risk and *Thin Capitalization* in the coefficient of determination test researchers use adjustR whose results are as in table 1 below:

**Table 1**

**Table of Coefficients of Determination**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Effects Specification | |  |  |
| Cross-section fixed (dummy variables) | | | |  |
| Root MSE | 0.017064 | R-squared | | 0.907990 |
| Mean dependent var | 0.248665 | Adjusted R-squared | | 0.858919 |
| S.D. dependent var | 0.056407 | S.E. of regression | | 0.021187 |
| Akaike info criterion | -4.601032 | Sum squared resid | | 0.053866 |
| Schwarz criterion | -3.469555 | Log likelihood | | 490.5954 |
| Hannan-Quinn criter. | -4.142472 | F-statistic | | 18.50331 |
| Durbin-Watson stat | 2.726836 | Prob(F-statistic) | | 0.000000 |

Table 1 shows that the test result of the R Square coefficient of determination is 85.8 or 86%. Which means that the independent variables in this study (*Company Risk* and *Thin Capitalization*) simultaneously affect *the Tax Avoidance* variable by 86%. While the rest were influenced by other factors that were not contained in the regression analysis in this study.

#### Test Results t

The statistical test t is used to determine whether or not there is an influence of each independent variable (x) partially or individually given to the dependent variable the significance standard is set α < 0.05, so it is known that if the significance value of the individual independent variable is smaller than 0.05, it can be decided that the individual independent variable has an effect on the dependent variable. The following are the results of t tests that have been conducted by researchers.

**Table 2 Test t**

Source: Secondary data processed 2023

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 0.238401 | 0.006930 | 34.39989 | 0.0000 |
| X1 Risk | -0.025351 | 0.011290 | -2.245556 | 0.0266 |
| X2 Thin Cap | 0.047139 | 0.023490 | 2.006771 | 0.0470 |

Based on table 3 it can be seen that:

1. The independent variable of Company Risk has a significant effect on Tax Avoidance, *this can be seen from the significance value in* the Company Risk table which is much smaller by 0.0266 than the value of α 0.05.

*2.* The Thin *Capitalization variable has a significant effect on* Tax Avoidance, *this is indicated by the value of Sig* Thin Capitalization 0.0470 *which is much smaller than the value of α 0.05.*

#### Analysis Regresi Linier Data Panel

**Table 3**

**Analysis Regresi Data Panel**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 0.238401 | 0.006930 | 34.39989 | 0.0000 |
| X1 | -0.025351 | 0.011290 | -2.245556 | 0.0266 |
| X2 | 0.047139 | 0.023490 | 2.006771 | 0.0470 |

Based on table 3 above, the panel data regression equation can be arranged as follows:

Y = 0.238401 -0.25351X1 + 0.047139X2

Based on the results of the regression test above, it can be concluded that,

1. The constant value of 0.238401 indicates that if the independent variable is considered non-existent, there will be an increase in tax avoidance of 0.238401.

2. The regression coefficient for Corporate Risk of -0.25351 means that if there is a change in 1 unit of corporate risk, there will be a decrease in the dependent variable tax avoidance by 0.25351.

3. The regression coefficient for the Thin Capitalization variable is 0.0470, this shows that if there is an addition of 1 unit of *Thin Capitalization*, it will increase the *Tax Avoidance* variable *by 0.0470*.

#### Uji *Moderated Regression Analysis* (MRA)

**Uji *Moderated Regression Analysis* Risiko Perusahaan**

**Tabel 4**

**Uji *Moderated Regression Analysis* (MRA) Risiko Perusahaan**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 0.249250 | 0.003227 | 77.23210 | 0.0000 |
| X1 Risk | -0.019595 | 0.010967 | -1.786674 | 0.0765 |
| Z Capital Intens | -0.000791 | 0.000393 | -2.011278 | 0.0465 |
| M1 | 0.025567 | 0.026090 | 0.979959 | 0.3291 |

Source: Secondary data processed 2023

TA = a + β1X1 + β2M1+ β3X1\*M1 + e

Based on the results of this moderation regression analysis output, it was obtained that the results of the significance of capital intensity moderation on company risk to tax avoidance *showed a number of 0.3291 which was greater than the significance value of 0.005, which means that*  the capital intensity *variable cannot moderate the effect of company risk on*  *tax avoidance*. Capital intensity in moderating corporate risk acts as a predictor of moderation. Because, because the effect of *Capital Intensity on* Tax Avoidace *in the first estimate is significant and the* effect of Interaction Z on the second estimate is not significant. This means that this moderation variable only acts as an independent variable in the relationship model of the regression model.

**Uji *Moderated Regression Analysis* *Thin Capitalization***

**Tabel 5**

**Uji *Moderated Regression Analysis* (MRA) *Thin Capitalization***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 0.240930 | 0.006977 | 34.53114 | 0.0000 |
| X2 | 0.033232 | 0.023510 | 1.413520 | 0.1601 |
| Z | -0.000618 | 0.000410 | -1.506896 | 0.1345 |
| M2 | -0.000779 | 0.002653 | -0.293755 | 0.7695 |

TA = a + β1X1 + β2M1+ β3X1\*M1 + e

Based on the results of this moderation regression analysis output, it was obtained that the results of the significance of capital intensity  *moderation on Thin Capitalization on tax avoidance*  showed a number of 0.7695 which was greater than the significance value of 0.005, which means that  *the capital intensity* variable cannot moderate the effect of *Thin Capitalization* on tax avoidance*.*

*Capital intensity* in moderating Thin Capitalization acts as a Moderation Homologizer. because the effect of *Capital Intensity on* Tax Avoidace  *in the first estimate is not significant and the* effect of Interaction Z on the second estimate is not significant. This means that this moderation variable only acts as an independent variable in the relationship model of the regression model. That is, this variable does not interact with the independent variable and does not have a significant relationship with the dependent variable. That is, *the Capital Intensity* variable does not interact with the *Tax Avidance* variable and does not have

significant relationship with *Thin Capitalization variables*.

## Research Discussion

### The Effect of Company Risk on *Tax Avoidance*

Based on table 1, the results of the H1 hypothesis test show that the Company's Risk variable affects Tax *Avoidance*. In table 2 above, the resulting value of the Company Risk coefficient is negative -0.025 with a Sig value of 0.0266 smaller than α 0.05. With the explanation above, the decision of the H1 hypothesis can be accepted and it can be concluded that the company's risk has a negative effect on *Tax Avoidance*, meaning that the higher the company's risk will reduce *the tax avoidance* actions taken by the company.

Based on the regression results that show negative results indicate that the smaller the company's risk, the greater the company to do *tax avoidance*, this is illustrated from the risk value of the sample company which there are 99% of sample companies that have a low risk value below 0.01 and and only 1% of companies that have a large risk above 1, this illustrates that industrial companies in the sample have a small level of risk. Company management in the sample of industrial companies will only take *tax avoidance actions when the company's risk level conditions are still within low limits and not too high in terms of operational risk, market risk or financial risk. Because management is aware behind the* tax avoidance action To increase profits, there is the potential for inspection from DGT which has the potential to cause additional tax penalties because the effect of *tax avoidance* carried out by management will actually increase the level of financial risk of the company.

In agency theory, tax scanning carried out by company management is certainly with the aim that the company can record maximum profits in the financial statements, and so that investors get a good return from their investment results. Management will become a *risk taker* if the profit recorded in the financial statements of the company's operational activities does not reach the *forecasting target.* This is to avoid investor dissatisfaction with the performance of the company's management and to secure a management position in the company as well as so that investors do not withdraw their capital from the company after knowing that the company has not succeeded in carrying out its operations.

Company risk affects tax avoidance, in accordance with previous research conducted by  *(Mustofa et al., 2021) and* (Panjaitan &; Mulyani, 2020)Company risk affects tax avoidance*.*

**Influence *Thin Capitalization* Terhadap *Tax Avoidance***

Based on table 1, the results of the H2 hypothesis test show that the *Thin Capitalization*  variable affects Tax *Avoidance*. In table 2 above shows the result value of a positive *Thin Capitalization*  coefficient of 0.04 with a Sig value of 0.04 smaller than α 0.05. With the explanation above, the decision of the H2 hypothesis can be accepted and it can be concluded that *Thin Capitalization* has a positive effect on *Tax Avoidance*,

The higher the *thin capitalization* carried out by the company, the higher the tendency of the company to use debt in its financing so that the greater the possibility of tax avoidance by the company. This is illustrated by the position of the average value of *thin capitalization* in the sample company is at a positive number of 0.29 which means that the company has a high proportion of debt to finance its operations.

In industrial companies, companies related to companies that have high liquidity *or related to companies that have large current asset conditions or* subsidiary companies  *with parent companies that have large capital will tend to do* Tax avoidance *through the* Thin Capitalization  *scheme,* because this is also covertly used for *money laundry* schemes, namely the transfer of cash assets from *subsidiary* companies to parent companies through interest-bearing debt schemes. In this case the subsidiary company benefits through the interest tax burden paid to the parent company, in other cases the parent company also benefits from the interest paid by the *subsidiary company*.

In theory agencies *with thin capitalization, management tries to maximize principal profits with* tax avoidance schemes *through* thin capitalization. In the conditions of *holding* companies and subsidiary companies, the management of subsidiary *companies* will certainly prefer to maximize their debt to the parent company or 1 management compared to adding shares or through bank lending schemes to meet operational fund needs, company management may have the advantage of maximizing their profits by using the highest level of debt. high, because the interest paid to the parent company on the debt can be a deduction from the income tax of the subsidiary company so that the tax costs paid by the company are getting smaller but actually the interest profits paid still go to the parent, meaning that *cashflow* in aggregate only rotates in 1 company cluster.

*Thin Capitalization affects tax avoidance, in accordance with previous research conducted by*  (Mustofa et al., 2021) *and (Panjaitan &; Mulyani, 2020)*Thin Capitalization affects  tax avoidance *.*

***Capital Intensity* Moderates the Effect of Corporate Risk on *Tax Avoidance***

Based on table 1, the results of the H3 hypothesis test show that the *Capital Intensity variable* does not moderate the effect of Company Risk on *Tax Avoidance*. In table 3 above, the resulting MRA *Capital Intensity* coefficient of 0.025 with a Sig value of 0.3291 is greater than α 0.05. That is, *Capital intensity* in moderating company risk acts as a Predictor of Moderation.

With the explanation above, the decision of the H3 hypothesis can be rejected and it can be concluded *that Capital Intensity* cannot moderate the effect of Company Risk on *Tax Avoidance*, meaning that when the company has low or high company risk, the application of *capital intensity* will not affect the company's decision to take *tax avoidance actions*.

In the sample companies in this study, the capital intensity ratio *shows that only 16% of the sample companies have a* capital intensity number of more than 2. This means that there are only 16% of companies that carry out *tax avoidance strategies* through *capital intensity*. The company's management considers that although having *capital intensity* has a relatively low risk, this does not include management options as an effort to do *tax avoidance.* Management considers that *tax avoidance actions with* capital intensity *have many shortcomings among them*  is the value of the company's liquid assets to be limited  because a lot of money is spent on buying assets just to increase the cost of depreciation of assets whose value is not too large compared to the investment value of fixed assets that must be spent by the company, with limited liquidity later management will difficulty paying off its liabilities and ultimately will only increase financial risk, management with risk *taker* character will choose  *to do tax avoidance through greater risk but require less capital to do* tax avoidance.

*Capital intensity cannot moderate the effect of corporate risk on tax avoidance, in accordance with previous research conducted by*  (Mustofa et al., 2021) *and (Panjaitan &; Mulyani, 2020)* which stated that Capital intensity cannot moderate the effect of corporate risk on *tax avoidance*.

***Capital Intensity* Moderasi Pengaruh *Thin Capitalization* Terhadap *Tax Avoidance***

Based on table 1, the results of the H4 hypothesis test show that the *Capital Intensity variable* does not moderate the effect of *Thin Capitalization* on *Tax Avoidance*. In table 3 above, the MRA *Capital Intensity coefficient* results from -0.0007 with a Sig value of 0.7695 greater than α 0.05. This means that *Capital intensity* in moderating *Thin Capitalization* acts as a Homologizer of Moderation. With the explanation above, the decision of the H4 hypothesis can be rejected and it can be concluded that *Capital Intensity* cannot moderate the effect of *Thin Capitalization* on *Tax Avoidance*, meaning

When companies that have a lot of capital through loan schemes, high or low *capital intensity* will not affect the company's decision to take *tax avoidance actions*. This is reinforced by the *capital intensity ratio showing that only 16% of companies use* high capital intensity *in addition to tax* avoidance

In the sample of companies in the industrial sector, companies that perform *thin capitalization* do not choose to invest funds obtained from third-party loans to buy fixed assets or increase capital *intensity* because this would require a lot of capital just to produce depreciation costs whose value is not proportional to the value of the capital issued. The loan value obtained by the company is preferred by the management to be used for diversification and business expansion programs to obtain future profits and brighten positive cash flow projections in the future. Because when the company has debt that has a *leveraged* nature, the company should use it for business development to generate higher sales and profits so that the company has the ability to pay off its debt and pay interest, because if the company only invests in fixed assets, the company will lack funds to expand its business while the principal obligations and interest on loans must continue to be paid, So that the company has the potential to experience *financial distress*.

In *agency theory* there is a strong relationship between *thin capitalization and* capital intensity*, management tries to maximize principal profits with tax* avoidance schemes *through* thin capitalization. In the condition of *holding* companies and subsidiary companies, the management of *subsidiary companies will certainly prefer to maximize their debt to the parent company rather than adding shares, this debt will later be used by subsidiary* companies to buy fixed assets that will increase the value of *capital intensity*. From the high fixed assets the company will get costs through depreciation costs which will be a reduction in profits, then from the debt that the *subsidiary* company has to the parent company also the company benefits from reducing profits through interest expenses paid to the parent company, with this scheme the company can do *tax avoidance* Maximally utilize by utilizing profit deductions from depreciation and interest expense.

*Capital intensity cannot moderate the effect of Thin Capitalization on tax avoidance, in accordance with previous research conducted by*  (Retdhawati &; Habibah, 2022) and *(Sarif &; Surachman, 2022)* which stated that Capital intensity cannot moderate the effect of Thin Capitalization *on*  tax avoidance *.*

**Conclusion**

This study examines Capital Intensity, Moderating Corporate Risk and Thin Capitalization on Tax Avoidance: an empirical study on industrial companies listed on the IDX 2019-2021. The study used 186 sample data. The analysis used in this study was a panel data regression test using the Eviews 12 program. Based on the series of research processes that have been carried out, starting from the process of collecting data, grouping data, testing data and discussion of the results of data testing that has been carried out in the previous chapter. So the following conclusions can be drawn:

Company Risk affects Tax Avoidance. Company management will only take tax avoidance actions when the company's risk level conditions are still within low limits. Because management is aware that behind the tax avoidance actions taken, there is the potential for inspection from DGT which has the potential to cause additional tax penalties that will increase the level of financial risk of the company.

Thin Capitalization affects Tax Avoidance. Subsidiary companies with parent companies that have large capital will tend to do Tax avoidance through the Thin Capitalization scheme, because this is also covertly used for money laundry schemes, namely the transfer of cash assets from subsidiary companies to parent companies through interest-bearing debt schemes.

Capital intensity cannot moderate the effect of corporate risk on Tax Avoidance. The company's management considers that although having capital intensity has a relatively low risk, it does not include management options as an effort to do tax avoidance. Because capital intensity has many shortcomings, among them is that it requires a large investment just to increase the depreciation cost of assets whose value is not too large

Capital intensity cannot moderate the effect of Thin Capitalization on Tax Avoidance. Companies that do thin capitalization do not choose to invest funds obtained from third-party loans to buy fixed assets or increase capital intensity but prefer to fund operations, because capital intensity will require a lot of capital just to generate depreciation costs whose value is not proportional to the value of capital issued.

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