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Tax Avoidance Mediated by Constitutional Ownership as Moderating Variables

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Abstract
This study analyzes Tax Avoidance Mediated by Institutional Ownership as a Moderating Variable. The analytical method used is Partial Least Square (PLS), with a sample of seventy-seven food and beverage manufacturing companies listed on the IDX for 2014 - 2020. The findings of this study show that thin capitalization, profitability, and return on assets (ROA) on tax avoidance are influenced by institutional ownership. This condition is one of the challenging issues to overcome in terms of tax avoidance for manufacturing companies in the food and beverage sector of the food and beverage sector listed on the Indonesia Stock Exchange. The results of this study can be used as a reference in making decisions for company owners and managers. Before investing their shares, investors will evaluate whether tax avoidance by the company will provide benefits to overcome the tax burden or vice versa.

Keywords:
tax avoidance, profitability, thin capitalization, return on asset (ROA), institutional ownership

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INTRODUCTION

Several factors contribute to the problem of tax avoidance in Indonesia. The tax ratio reflects the government's ability to collect tax revenues or absorb GDP from taxes from the general public—the greater the tax ratio of a country, the better the tax collection performance. In Indonesia, the tax ratio is still meager and cannot be increased by tax collection. The low tax ratio in Indonesia shows that the tax function has not been fully utilized. In 2014, the tax ratio in Indonesia was 11.4%; in 2015, the ratio was 10.7%; in 2016, the ratio was 10.4%; in 2017, the ratio was 10.7%; and in 2018, the ratio was 10.4%. The tax ratio achieved by Indonesia is lower than other ASEAN countries. Only a few ASEAN countries have a tax ratio achievement below Indonesia in 2018, such as Myanmar, because Indonesia's tax ratio achievement is lower when compared to the tax ratio achieved by other ASEAN countries such as Vietnam, Thailand, Singapore, and Malaysia.

Taxation is very important in ensuring the continuity of government administration and state life. The fact shows that although the purpose of tax revenue in Indonesia continues to increase yearly, the proportion of collected tax revenue tends to remain stable. In short, Indonesia's tax ratio in 2015 was 11.6%. The following year, the tax ratio fell to 10.8%. After that, the tax ratio decreased to 10.7%. The tax ratio grew to 11.6% and decreased to 10.69% in 2019. The Directorate General of Taxes (DGT) strives to maximize tax collection through tax intensification and counseling. However, this effort is not without challenges, one of which is tax avoidance. Thin capitalization is one strategy that can be used to avoid paying taxes. Thin capitalization refers to a company relying on debt rather than equity to raise funds (OECD, 2012).

Because interest expense on debt can decrease taxable income, debt can be used to increase the value of an organization. Following the trade-off theory, it is said that one benefit or quality must be sacrificed to increase another part with the advantage and quality of other benefits. Therefore, the corporation, in this case, sacrifices its profits to pay interest. However, the interest on the loan itself can benefit the company; because it meets one of the requirements for a tax deduction from the government and can be used as a loophole for tax avoidance. The larger the thin capitalization, the greater the interest expense that must be paid, which will almost certainly reduce the company's income and the amount of income tax owed.

There is no doubt that Indonesia will conduct further research on applying the law on interest restrictions in the country's tax system. Interest-limitation restrictions are often considered effective in preventing tax avoidance in other countries. However, Syahidah & Rahayu (2018) noted that in Indonesia, the guidelines that were in effect in 2016 should provide concessions for business actors seeking financing. In PMK169, the maximum amount of corporate debt used to compensate for income tax (PPh) is four times the amount of capital owned by a business. Minister of Finance Regulation 169/PMK.10/2015 affects the capital structure of companies in Indonesia. Various study findings show that thin capitalization regulations for companies in OECD countries efficiently reduce tax management through debt obtained through particular relationship loans (Buettner et al., 2012).

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Several studies on thin capitalization have been conducted before. Thin capitalization positively impacts tax avoidance (Taylor & Richardson, 2012; 2013). Evidence of a relationship between the company's profitability and institutional ownership has been discovered (Hamdan & Al-Sartawi, 2013). Investors prefer to invest in companies with low profitability ratios (Barucci & Falini, 2015). Salihu et al. (2015) suggest the possibility of multinational companies exploiting their international scales of operations to avoid taxes.

Institutional ownership is critical in minimizing agency conflicts between shareholders and management (Jensen & Meckling, 1976; Lopes, 2022). Agency theory state that each person is driven entirely by his or her interests, resulting in a conflict of interest between the principal and agent (Panda & Leepsa, 2017). Institutional investors with significant shareholding and voting rights can force management to prioritize the company's success over personal interests. Thus, institutional ownership can potentially erode the practice of thin capitalization and profitability in the face of tax avoidance.

Agency theory assumes that each individual is solely motivated by his or her interests. It will create a conflict of interest between the principal and the agent. Jensen & Meckling (1976) and Lopes (2022) reveal that institutional ownership is vital in minimizing agency conflicts between shareholders and managers. Institutional investors with considerable shareholdings and voting rights can force managers to focus on the company's performance and avoid opportunities to attach importance to their interests. Therefore, institutional ownership can weaken the practice of thin capitalization and profitability against tax avoidance.

The more profit the business makes, the more income taxes it has to pay. According to the agency hypothesis, it will seek to manage its tax burden so that it does not reduce the agency's performance rewards as a consequence of the tax burden eroding the firm's earnings. This condition implies that agents will often engage in tax avoidance operations. A company with significant institutional ownership demonstrates its capacity to oversee management. Institutional ownership, as a component of corporate governance, can deter agents from making aggressive efforts to reduce corporate tax burdens.

Profitability is a factor in determining the tax burden because businesses that earn large profits can pay taxes consistently, while businesses that earn little profits and suffer losses pay minimal taxes (Fernández-Rodríguez & Martínez-Arias, 2012). According to agency theory, the agent will try to manage his tax burden in such a way that it does not reduce the compensation for the agent's performance due to reduced corporate profits due to the tax burden. Thus, agents will use company resources to maximize agent performance compensation, particularly by reducing the tax burden to maximize company profits. As profits grow, the amount of income tax payable increases proportionally. A profitable business may pay a higher tax rate than an unprofitable business. Thus, it can be stated that companies with large profit margins will often do tax avoidance to reduce their tax liability.

Return On Assets (ROA) is another element that impacts tax avoidance. ROA is a metric that measures a company's financial success; the higher the ROA value that can be achieved by a company, the better the company's financial performance. ROA is a measure of business profitability that informs outsiders about the efficacy of business operations. The company's net profit increased in proportion to its profitability. ROA is one of the profitability measures studied in this study because it is associated with net income and income tax levies. The higher the ROA number or value, the more effectively the business uses its assets to create enormous profits. An increase in profit results in an increase in ROA. Profit growth contributes to the accumulation of tax debt. The company will make every effort to pay as little tax as possible. As a result, tax avoidance is a possibility in this business. Profitability seems to positively influence avoidance (Darsani & Sukartha, 2021; Sonia & Suparmun, 2019). However, even so, profitability negatively influences tax avoidance (Iwanty & Surjandari, 2022). However, the evidence of a significant influence of Return on Assets on tax avoidance was also discovered (Andika et al., 2021; Harahap, 2021).

Based on the current phenomenon and the differences in the findings of previous studies, the authors are encouraged to conduct research with the addition of a moderating variable, namely institutional ownership. Institutional ownership as a watchdog over the choices of company executives. Institutional ownership, as a component of sound corporate governance, may deter management from aggressively reducing corporate tax liability. This condition shows that the more effective corporate governance is implemented, the less corporate tax avoidance actions will occur by management.

This research relates to Taylor & Richardson (2013), which looked at thin capitalization practices of Australian registered companies using the Income Tax Assessment Act 97 (ITAA 97), which regulates thin capitalization, and discovered that thin capitalization had an impact on tax avoidance. This study differs from earlier studies in that it includes profitability as a dependent variable and institutional ownership as a moderating variable.

A significant negative correlation was found between the average number of shares held by institutional investors and the average number of individual shares (Tong & Ning, 2014). Furthermore, the positive and significant impact of institutional ownership, hence high institutional ownership, reduces the probability of tax avoidance in the business (Gugong et al., 2014; Eskandar & Ebrahimi, 2020; Hasan et al., 2017; Jiang et al., 2021; Kholbadalov, 2012; Khurana & Moser, 2013; Oktaviyani & Munandar, 2017). Meanwhile, no influence of institutional ownership on tax avoidance was also discovered (Khani et al., 2013; Mehrani & Seyedi, 2014; Mehrani et al., 2017; Sari et al., 2020).

The current study is focused on manufacturing companies in the food and beverage sub-sector of the product and consumer sub-sector. This study uses the product and consumption sectors of the food and beverage sub-sector because manufacturing companies in the food and beverage industry sub-sector make a significant contribution to national economic growth and tax revenue. The food and beverage industry is a significant source of national investment. This condition can be seen from the results of its performance and changes in share prices, which are continuously reported in terms of increasing productivity, investment, exports, and employment. This study aims to determine the

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impact of thin capitalization, profitability, and return on assets (ROA) on tax avoidance, as well as the role of institutional ownership.

METHODS

The sample of this study was selected by purposive sampling with the following criteria; first, Manufacturing companies in the industrial and consumer goods sectors listed on the Indonesia Stock Exchange from 2014-to 2020. Second, Manufacturing Companies in the food and beverage subsector. The food and beverage sector was not delisted on the IDX during the 2014-2020 period. Third, Manufacturing Companies in the food and beverage sub-sector of the goods and consumption industry that did not suffer losses during the 2014-2020 period and Manufacturing Companies in the food and beverage sub-sector of consumer goods and consumption industries that had complete data needed during the 2014 – 2020. Based on the sample selection. We obtained a sample of 77 companies (details see Table 1).

Table 1. Research Sample Criteria

Company Criteria	Total
Manufacturing companies in the consumer and goods industry sectors were listed consecutively on the Indonesia Stock Exchange in 2014 - 2020.	32
Manufacturing companies in the goods and consumption industry sector of food and beverage sub sector were delisted on the IDX during the 2014-2020 period	(3)
Manufacturing companies in the goods and consumption industry sector of the food and beverage sub sector that moved sectors on the IDX during the 2014 - 2020 period	(2)
Manufacturing companies in the goods and consumption industry sector of the food and beverage sub-sector that experienced losses during the 2014 - 2020 period	(5)
Manufacturing companies in the goods and consumption industry sector of the food and beverage sub sector that did not have the complete data needed during 2014 – 2020 period	(11)
Total sample	11
Observation year	7
The total sample was multiplied by six years of observation	77

Some factors in this study will eventually be employed as dependent, independent, and moderating variables. Tax avoidance is the only dependent variable in this research, while thin capitalization, profitability, and ROA are the independent variables. At the same time, this study's moderating variable is institutional ownership. Tax avoidance is a lawful action that involves decreasing one's tax liability without violating any tax regulations. Tax avoidance is quantified in this research as the CASH ETR (cash effective tax rate), which is the difference between cash spent on tax expenses and profit before tax (Dyreng et al., 2010). Thin capitalization refers to companies prioritizing debt financing above equity in their capital structure to fund corporate operations (Taylor & Richardson, 2013).

Profitability is determined by the return on investment ratio, which indicates a business's success. Profitability is a metric used to evaluate a business's performance. It is calculated using a variety of financial measures, one of which is the return on investment (ROI). This formula calculates the owner's return on investment. Specific analyses utilize this ratio as a final criterion for making investment choices in a business.

Return on assets (ROA) is a ratio that measures the relationship between the outcomes (return) and the number of assets utilized by a firm (assets utilized). This ratio compares earnings after interest and taxes to total assets and indicates how efficiently a firm can generate profits from current economic resources.

External parties that also hold shares in the corporation are referred to as institutional owners. Institutional ownership refers to the ownership of business shares by institutions such as insurance companies, banks, investment companies, and other institutions. In general, institutional ownership has a high share of ownership, which improves the monitoring process for management. A high degree of institutional ownership will lead to increased oversight efforts by institutional investors, which will help prevent managers from acting opportunistically. In this research, institutional ownership is defined as immediate ownership. Direct ownership in a public firm is known as immediate ownership. The chain of ownership is not tracked under this ownership idea, and the quantity of ownership a shareholder has is defined by the proportion of shares inscribed in his name.

Structural Equation Modeling with Partial Least Squares (SEM-PLS) algorithm was used to analyze this study. The SEM-PLS approach is used in data analysis to answer the research objectives, which aim to analyze the factors that influence tax avoidance with institutional ownership as a moderating variable (Hair et al., 2017). The approach of CB-SEM analysis using software such as AMOS and LISREL is not advised for predictive analysis, as the objectives of CB-SEM are quite demanding regarding theory confirmation and parameter accuracy (Davcik, 2014). Since there are several independent variables in this study, using PLS-SEM analysis is more relevant than using CB-SEM analysis because it can analyze multiple independent variables simultaneously (Hair et al., 2017). SmartPLS 3.2 software processes the accumulated data obtained (annual reports). The data analysis process begins with the development of a structural model, followed by validation and reliability testing of the measurement model (outer model), significance testing of the relationships between variables (inner model), and a categorical moderation test (PLS-MGA).

There are various criteria for determining the validity of a research instrument, including Convergent Validity, determined by the loading factor and Average Variance Extracted-AVE, and Discriminant Validity, determined by the Fornell-Larcker and Cross-loading criterion. The reliability test was conducted using the composite reliability and Cronbach's alpha coefficients. The formative indicator's weight concerning its construction must be considerable. To determine if the outer weight value is significant, it is compared to the standard Z-score value for $\alpha = 0.05$, which is 1.96. If the outer weight value of the t-statistic is more than 1.96 or the p-value is more significant, the weight value of

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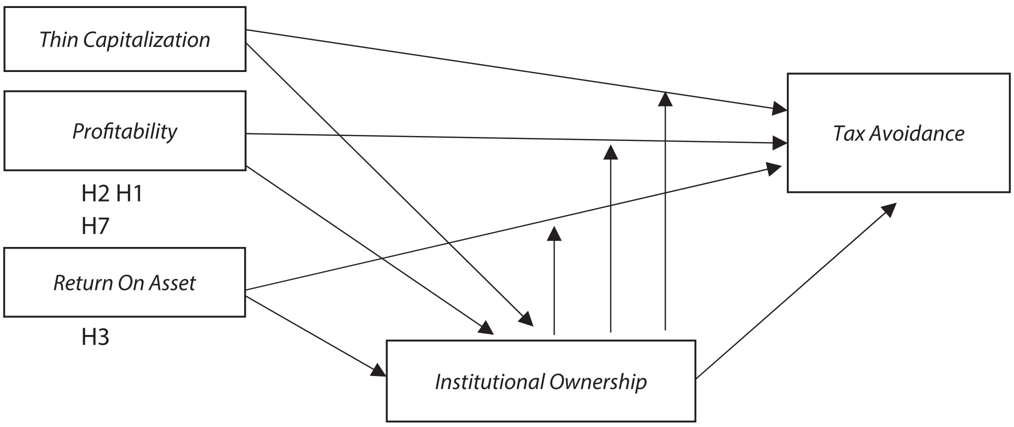
the formative indicator with the concept is significant. We ran tests on the structural model to determine the link between latent components. Various structural model tests are available, including R-Square (R^2), Effect Size (f Square), Q2, and GoF. The following sections provide a more in-depth examination of each inner model test.

In hypothesis testing, we will look at estimates of the path coefficient (original sample O) and t-statistics or p-values showing endogenous constructs' significant influence on exogenous constructs. The indicators have a major contribution to reflecting or reforming latent constructs. The model's internal measurements also include a step for testing this hypothesis. The Bootstrapping approach is used to calculate the route coefficients estimated above. A positive value implies positive effect and a negative value indicates negative influence, according to the original reading of sample O. For t-statistics and significance threshold (α = 0.05): If the t-statistics > 1.96 (normal Z score value) and the p-value is 0.05, the effect is considered to be significant.

Figure 1. Research Conceptual Framework



RESULTS AND DISCUSSION

Each latent construct must have an AVE value > 0.5 to reflect a good Tax Avoidance measurement model. The AVE value for the variables in this study can be seen in Table 2. As shown in Table 2, it is known that each indicator of the latent construct can explain 50% or more of the variance (Wong, 2013).

Table 2. Average Variant Extracted (AVE) Value

Variable	AVE Value
Thin Capitalization	0,686
Profitability	0,718
Institutional Ownership	0,773
ROA	0,653
Tax Avoidance	0,770

In the SEM-PLS analysis, a construct is declared reliable if it has a composite reliability value > 0,6 and is strengthened by Cronbach's Alpha value > 0,7. The results of the composite reliability test are shown in Table 3. Composite reliability values of 0.6 – 0.7 and Cronbach's alpha values of > 0.7 are considered good reliability (Sarstedt et al., 2011). According to Table 3, all constructs have composite reliability values and Cronbach's alpha >0.7, so it can be concluded that they are reliable.

Table 3. Value of Composite Reliability and Cronbach's Alpha

Variable	Cronbach's Alpha	Composite Reliability
Thin Capitalization	0.849	0.897
Profitability	0.799	0.883
Institutional Ownership	0.857	0.911
Roa	0.867	0.903
Tax avoidance	0.849	0.909

The evaluation stage of the structural model (inner model) consists of testing the goodness of the model (model fit) and the hypothesis. The model's goodness was tested by taking into account the R-square (R2) and Q-square (Q2) values. Partial hypothesis testing was carried out by paying attention to the significant value of the relationship between variables (direct and indirect effects).

The value of R-square (R2) is used to determine the predictive power of the structural model in the SEM-PLS analysis. The criteria for R-square values close to 0.67 are considered vital, while 0.33 is moderate and 0.19 is weak (Chin & Newsted, 2012). The R-square value shows in Table 4.

Table 4. R-Square Value

Endogenous Variables	R-Square	Criteria
Institutional Ownership	0.509	Strong
Tax avoidance	0.583	Strong

Based on Table 4, it can be seen that the R-square value of the endogenous variable of institutional ownership is 0.509. This value explains that the strength of the thin capitalization and profitability variables in predicting institutional ownership is 50.9%. Furthermore, the r-square value for the tax avoidance variable is 0.583. This value explains that the strength of the variable capitalization thin, profitability, institutional ownership, ROA, and ROA*institutional ownership in predicting tax avoidance is 58.3%. In addition to the R-Square value, the Q-square value is also used to determine the model's goodness, where the higher the Q-Square value indicates that the structural model is more suitable (fit) with the data (Sarstedt et al., 2011). The Q-square test in this study can show in Table 5.

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As shown in Table 5, it is known that the sum of the Q-Square values in the two endogenous variables is 0.798. These results mean that the amount of data diversity described by this research model is 79.8%. At the same time, the remaining percentage of 20.2% is explained by other factors outside the research model. Thus, this research model is declared to meet the requirements of goodness (model fit).

Table 5. Q-square Test Result

Variable	SSO	SSE	Q^2 (=1-SSE/SSO)
Institutional Ownership	600,000	383,713	0.360
Tax avoidance	600,000	337,286	0.438

Hypothesis testing was carried out by observing the original sample estimates (O) to determine the direction of the relationship between variables, t-statistics (T), and p-values (P) to determine the level of significance of the relationship. The original sample value close to +1 indicates a positive relationship, while a value close to -1 indicates a negative relationship (Sarstedt et al., 2011). A t-statistics value of more than 1.96 or a p-value smaller than the significance level (<0.05) indicates that a relationship between variables is significant—the results of testing the research hypothesis are shown in Table 6.

Table 6. Value of Relationship Between Variables (Direct and Indirect Effects)

Variable Relationship	O	T	P	Information
Thin Capitalization -> Institutional Ownership	0.294	2,701	0.007	Significant Positive
Profitability -> Institutional Ownership	0.337	3,200	0.001	Significant Positive
ROA -> Institutional Ownership	0.261	3,859	0.041	Significant Positive
Institutional Ownership -> Tax Avoidance	0.291	4,779	0.001	Significant Positive
Thin Capitalization -> Institutional Ownership -> Tax Avoidance	0.086	2,299	0.022	Significant Positive
Profitability -> Institutional Ownership -> Tax Avoidance	0.098	2,477	0.014	Significant Positive
ROA-> Thin Capitalization -> Institutional Ownership	-0.170	2,484	0.013	Significant Negative
Thin Capitalization -> Tax Avoidance	-0.053	0.771	0.441	Negative Not Significant
Profitability -> Tax Avoidance	0.230	2,919	0.004	Significant Positive
ROA -> Tax Avoidance	-0.028	0.732	0.465	Negative Not Significant

Table 6 shows that thin capitalization, profitability, return on assets (ROA), and institutional ownership all impact tax avoidance. The findings also revealed that institutional ownership significantly impacted the relationship between thin capitalization, profitability, and return on assets (ROA) concerning institution ownership. However, Thin Capitalization and ROA do not affect tax avoidance.

This study aims to determine how thin capitalization, profitability, and return on assets (ROA) affect tax avoidance and the involvement of institutional ownership in this impact. The results of this study illustrate that institutional ownership impacts thin capitalization, profitability, and ROA on tax avoidance, which is one of the challenging questions that must be addressed in business operations. The first result of the current study is that thin capitalization affects tax avoidance. These results support previous research on the effect of thin capitalization on tax avoidance (Altounjy et al., 2020; Çakmak & Taşkiran, 2020; Cómbita Mora, 2020; Meyer & Hassan, 2020; Minnick & Noga, 2012; Taylor & Richardson, 2012). The findings of this study confirm the premise of the trade-off theory that financial support by companies through the use of debt can result in a reduction in the tax burden. The thinner the capitalization, the greater the interest expense that must be paid, which of course, will reduce income and ultimately reduce the amount of income tax payable (Taylor & Richardson, 2012). Because capital gains in the form of dividends are taxed, this distinction between interest and dividend classifications can provide opportunities for tax avoidance tactics. Thin capitalization is often utilized in combination with the use of tax havens to increase the complexity of transactions with tax haven countries.

The second result of the study reveals that profitability has a positive effect on institutional ownership. According to agency theory, the agent will seek to lower his tax burden in a manner that does not jeopardize his performance reward due to decreased company revenue. Thus, company resources are allocated to maximize agent performance awards while reducing the tax burden on the firm, thus maximizing company performance. Capital owners (principals) do not wish to sacrifice a portion of the profits generated by their business activities to the state in the form of tax payments following their duties and hence undertake measures to lower the amount of tax paid without resulting in tax refunds or underpayments. As a consequence, the agent (business management) conducts tax planning attempts to reduce tax payments and tax avoidance activity.

Profitable businesses have the chance to place themselves in tax planning strategies that minimize their tax payment burden. If the profitability ratio is high, it indicates that the management is efficient. Profitability rose as a consequence of the higher profit, and hence the amount of tax to be paid increased. Alternatively, one may assert that there is a chance of corporate tax avoidance tactics. In the same line, institutional investors favor successful businesses (Barucci & Falini, 2015; Tong & Ning, 2014)

The third study result reveals that ROA has a beneficial influence on institutional ownership. Institutional investors may aid in resolving agency conflicts, namely those that emerge between management and shareholders. Gugong et al. (2014) supported this study by confirming that ROA has a positive and significant impact. Institutional monitoring may assist managers in reining in their opportunistic behavior and enhancing their organizations' overall performance. Institutional ownership lowers the cost of capital, making debt and equity financing simpler, reducing share price volatility, and allowing long-term relationships with financial institutions. The advantage of this procedure is most likely the reason for the anomalous returns shown in the fama-macbeth regression,

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which indicates that institutional ownership is increasing. A high adjusted R-square value results from accounting for the firm's fixed assets. This impact is particularly prominent in the explanation of Tobin's Q regression, which involves a higher degree of variance across enterprises. Meanwhile, non-institutional demand is static or has no balancing impact. Changes in institutional investor demand have a ripple effect on non-institutional investors since institutional investors hold one share for every one owned by individual investors (Gompers & Metrik, 2012; Striewe et al. (2013).

The study's fourth result reveals a positive influence between thin capitalization and tax avoidance. Institutional ownership has a positive and significant effect on tax avoidance. This finding indicates that the institutional ownership structure within the organization is inextricably linked to the level of supervision. The greater the institutional ownership, the stricter the level of supervision; conversely, the lesser the institutional ownership, the laxer the level of supervision, making the organization more susceptible to fraud. The more the institutional ownership, the greater the tax burden the business must bear. This condition is because the less likely the corporation is to engage in evading taxes. Depending on their size and voting power, institutional owners can compel management to prioritize economic performance and avoid self-serving behavior. These findings are consistent with previous research (Eskandar & Ebrahimi, 2020; Hasan et al., 2017; Jiang et al., 2021; Kholbadalov, 2012; Khani et al., 2013; Mehrani et al., 2017). After breaking total institutional ownership into active and passive, it is clear that active institutional owners have a favorable influence on tax avoidance and stimulate enterprises to avoid paying taxes. However, passive owners have a negative effect on tax avoidance.

As noted by Darsani & Sukartha (2021), institutional ownership has a negative influence on tax avoidance. The findings of this study disprove agency theory, which asserts that institutional ownership may resolve agency conflicts. This case may arise as a result of the fact that institutional ownership is required to supervise the operations of firm management. Institutional investors come from outside the company and are not linked with it; thus, institutional investors are more likely to follow government regulations. Furthermore, institutional investors will operate as external supervisors over the company's tax management, as institutional investors often seek to reduce the danger of tax avoidance actions that could jeopardize the company's reputation. Consequently, a high percentage of institutional ownership increases control over firm management's compliance with tax legislation, and thus institutional ownership can help limit company management's tax avoidance activities.

Institutional investors, as supervisors from the outside, will supervise the company's management to ensure that profits are made following applicable rules because institutional investors essentially monitor the extent to which management adheres to applicable rules to maximize profits. Institutional investors generally comply with existing legislation, recognizing that if there is an issue, their good reputation may be dragged into it. Thus, the greater the company's institutional ownership, the more aggressive tax policy moves can be suppressed, as institutional owners are highly concerned about the long-term impact of aggressive tax policies (Zemzem & Ftouhi, 2013; Pattiasina et al., 2019).

The fifth study result reveals that Institutional ownership significantly moderates the relationship between thin capitalization and tax avoidance. The findings of this study reflect previous research (Oktaviyani & Munandar, 2017), which indicates that a high institutional ownership level reduces the probability of tax avoidance in businesses. This condition is because the institution's owner monitors the manager's effectiveness in managing revenue and making choices, ensuring that the manager does not jeopardize the interests of shareholders. Profitability ratios demonstrate operational excellence. The company's high profitability suggests that it enables efficient earnings management. This condition enables businesses to engage in tax planning to minimize their tax liability.

To put it another way, the degree of institutional ownership impacts the company's thin capitalization practice. That is because the company's management may be able to claim interest charges as a deduction from its taxable income under the company's thin capitalization policy, which favors debt funding over equity financing in the company's capital structure. As a result of this study, institutional ownership seems to be essential in resolving conflicts of interest between principals and agents. Due to Indonesia's family-based ownership structure, the link between thin capitalization and tax avoidance cannot be influenced by the number of high and low institutional ownership of food and beverage manufacturing firms in Indonesia since ownership and control are less noticeable. To minimize internal conflicts of interest and improve financial management performance, organizations that employ debt to lower their tax burdens have to implement a supervision role that is less than optimum.

Institutional investors in Indonesia cannot adequately oversee management actions affecting the company's performance. They can also not prevent conflicts of interest between management and tax authorities, as institutional investors pay little attention to these issues (Kholbadalov, 2012). Therefore, current research cannot address the idea since it demonstrates that institutional ownership cannot moderate the effect of thin capitalization on tax avoidance.

The sixth result of the study noted that profitability and tax avoidance is significantly moderated by institutional ownership (Oktaviyani & Munandar, 2017). Since the institution's owner oversees managers' performance in managing revenue and making decisions, it will ensure they do not hurt shareholders' interests. The profitability ratio implies a competitive advantage in terms of operations. Because of the company's significant profitability, it can handle revenue well. This condition enables companies to engage in tax planning to reduce their tax liabilities.

Institutional ownership as an element of corporate governance can prevent agents from making aggressive efforts to manage the company's tax burden. Managers, as opportunistic agents, will try to maintain company profits, so they tend to minimize the tax burden. This finding supports agency theory, stating that institutional ownership plays a vital role in minimizing agency conflicts between shareholders and managers. Institutional investors with considerable shareholdings and voting rights can force managers to focus on the company's performance and avoid opportunities for their benefit.

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Profit maximization is the primary objective of the company. Most companies engage in tax avoidance to manage earned income and taxes. This condition indicates that the more profitable the business, the more tax avoidance methods the business will engage in because profitable businesses will be less reliant on tax loopholes for tax burden management. Tax rebates and other tax benefits are available to businesses that manage their assets effectively. These companies may be considered tax avoidance.

This study revealed that return on assets (ROA) positively affects tax avoidance since companies must maintain positive public perceptions of their worth to maintain profitability. When a company's profitability increases, the chance to reduce the amount of tax it owes becomes even more appealing through tax avoidance strategies. The amount of dividends that will be paid from the company's profits are directly tied to the degree of institutional ownership involved in this scenario. Amounts of dividends paid to institutional shareholders will increase in direct proportion to the size of the tax avoidance action taken by the company.

With respect to the results obtained, investors and tax authorities in the country can observe institutional ownership and active institutional ownership as a signal of the company's willingness to further tax avoidance. From these findings, companies that are active institutional owners have a good chance of avoiding paying taxes on their earnings. Except for such businesses, those whose institutional owners are more passive may be able to avoid paying taxes since the owners may not place a strong priority on profitable initiatives and improved future performance, which is also in line with prior studies (Khurana & Moser, 2012, 2013).

This study reveals that the interaction of variables has a negative but not significant effect on tax avoidance. The findings of this study contrast prior research (Sari et al., 2020) that concluded institutional ownership did not affect tax avoidance. Institutional ownership does not affect a company's decision to evade taxes. Institutional shareholders, by their size and voting rights, have an incentive to guarantee that management makes decisions that maximize their welfare to concentrate on earnings management.

According to research conducted by Khurana & Moser (2012), the size of the concentration of institutional ownership will affect the policy of minimizing the tax burden by the company. Therefore, the existence of an institutional ownership structure as one of the elements of corporate governance is a means to oversee the management of opportunistic actions that can be taken by managers, such as conducting tax avoidance activities.

Thin capitalization prioritizes debt funding in its capital structure, which can lead to tax incentives in the form of interest expense which can be treated as a deduction from taxable income. While on capital investment, the return of capital in the form of dividends will be taxed. This difference in the treatment of interest and dividends can be a gap for tax avoidance strategies. The higher the Thin Capitalization, the higher the interest expense that must be paid, which leads to eroding the company's profits and ultimately reducing the income tax payable.

Institutional ownership is a critical component of corporate governance because it acts as a moderating variable against tax avoidance on companies that adversely influence their worth. Increased institutional ownership tends to diminish tax avoidance strategies, as agency owners are responsible for monitoring and ensuring management complies with tax laws. Control and a high level of institutional oversight of ownership result in beneficial tax avoidance elements.

The ninth result of the study reveals that the profitability variable affects tax avoidance. The more efficient the company, the less tax will be paid so that the company's effective tax rate will be lower (Derashid & Zhang, 2013). A low effective corporate tax rate is a proxy for a high level of tax avoidance. This condition means that the greater the profitability, the greater the company's tax avoidance. These findings are in line with Darsani & Sukartha (2021) that profitability benefits tax avoidance. Additionally, this research supports agency theory, asserting that businesses (agents) and governments have divergent goals (principals). The government intends to increase tax revenue, whereas the manager or company aims to maximize profits and hence will seek to minimize the tax burden. The more the business profitability, the bigger the profit made, and thus the more significant the tax imposed on the profit business. Under these circumstances, businesses are unlikely to want to pay significant taxes and employ tax avoidance strategies to maximize their revenues. In relation to the agency theory, when a company seeks to maximize its earnings, there will be a conflict of interest between the tax authorities (primary) and the company or taxpayer (agent). Tax authorities seek to collect as much money as feasible, but companies want to earn significant profits while paying as little tax as possible.

Therefore, the modest quantity of profit earned by the business will influence the steps taken to maximize the amount of net profit earned by the business. The more profitable a business is, the more profit it may make; consequently, the tax on the profit generated will be even more significant. Naturally, with such a considerable profit margin, businesses do not want to pay significant taxes and frequently avoid them (Wiratmoko, 2018). Thus, the greater the profit of a business, the greater its proclivity to engage in tax avoidance methods to decrease its tax burden. This is corroborated by Sonia & Suparmun (2019), indicating that profitability positively influences tax avoidance. Based on theory and prior study, it may be deduced that the more profitable a company is, the more tax avoidance efforts are made by management.

However, these findings contrast with the study carried out by Iwanty & Surjandari (2022). Profitability has a significant negative effect on tax avoidance. This result implies that profitable businesses are more likely to comply with tax filing and payment. Each year, an increasing number of corporate profits in this research sample orient their tax policy toward compliance, owing to the company's tax compliance. The outcomes of this study are consistent with agency theory, which states that the agent generates profits for the organization and is capable of meeting its commitments to shareholders. High profitability indicates that the business is operating profitably, which can encourage outside investors to invest in the business and avoid tax avoidance behavior, which raises negative

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signals that can harm the company's reputation, causing investors to avoid investing in companies with a poor reputation.

The last finding shows that the interaction of variables has a negative but not significant effect on tax avoidance. In conclusion, Return On Assets variable has a significant effect on the Tax Avoidance variable, which also means that the lower the profit generated on the use of the company's assets will affect tax avoidance activities. Nevertheless, the results of this study contradict research conducted by (Andika et al., 2021; Harahap, 2021), which proves that Return On Assets has a significant effect on tax avoidance. The findings indicate that as asset returns increase, the value of tax avoidance declines, and so as asset returns decrease, the value of tax avoidance increases. The findings of this study also corroborate previous research (Aminah et al., 2018; Anouar & Houria, 2017; Napitupulu et al., 2019), which concluded that asset returns affect tax avoidance and that increasing or decreasing the return value of a company's assets increases or decreases the company's tax avoidance.

Return on assets is one element that determines tax avoidance (ROA). Return on Assets (ROA) is one indicator that represents a business's profitability. The ROA technique demonstrates the profit generated by a company concerning its total assets. Moreover, ROA determines the company's potential to create profits regardless of the funding source. The higher the ratio, the more efficiently the business will utilize its assets to generate net revenue. The firm's profitability has a detrimental effect on the effective tax rate. This condition occurs because the more efficient a business is, the fewer taxes it pays, so the business's effective tax rate decreases (Derashid & Zhang, 2013). These findings are also identical to Sari et al. (2020), which indicate that return on assets (ROA) positively influences tax avoidance.

Ten research hypotheses were generated based on the theoretical ideas described earlier. Seven of these hypotheses were found to be validated by the data. It is necessary to conduct a review of existing tax regulations in order to close the loophole for taxpayers' tax avoidance and to serve as a basis for evaluating regulations with comprehensive capital structure limits for all types of businesses, especially manufacturing companies in the goods and consumption sectors of the beverage food sub-sector, and for providing solutions to the rampant thin capitalization practices in Indonesia through the evaluation process. This regulation is essential to deter tax avoidance and give legal clarity for taxpayers and tax officials when enforcing existing standards.

The research findings into thin capitalization, profitability, and return on assets (ROA) on tax avoidance moderated by institutional ownership provide theoretical implications for trade-off theory and agency theory. Since the return on capital in the form of dividends is taxed on capital investment, the theoretical application of the trade-off theory indicates that financial support by companies that comes through the use of debt can give benefits such as a reduction in the tax burden. According to agency theory, the disparity in interests between tax authorities and businesses would result in noncompliance by taxpayers or corporate management, which will impact the company's efforts to avoid paying taxes.

CONCLUSION

The analysis results conclude that thin capitalization, profitability, return on assets (ROA), and institutional ownership influence tax avoidance. The findings also reveal that institutional ownership significantly affects the relationship between thin capitalization, profitability, and return on assets (ROA) concerning institutional ownership. However, thin capitalization and ROA do not affect tax avoidance. Researchers have difficulty collecting data samples because companies experience losses and provide inaccurate or missing financial report submission data. A further limitation of this study is that it does not consider the development of factors that have a macroeconomic effect. The implications of this research are expected to provide broader insight by examining the factors that influence tax avoidance, especially in food and beverage manufacturing companies listed on the Indonesia Stock Exchange.

This study has several limitations. First, data is collected from businesses that experience losses, and data on the submission of financial reports are incomplete. For further research, data can be collected from other businesses with complete annual reports and constant profits. This condition cannot be done in this study because the authors lack access to data, so the institutional ownership factor cannot be discussed in more detail. As noted in the findings, institutional ownership has not been decomposed into pressure-sensitive investors. The investors who have business relations with the companies in which they invest, and pressure-resistant investors, as well as investors who do not have business relations with the companies in which they invest.

The following researchers can add or replace independent and moderating variables in this study to detect tax avoidance. The researchers also suggest that future research will use new sampling procedures, using simple random sampling that is designed to represent an impartial population. For example, researchers may include a sample of loss-making firms to calculate profitability ratios. It is considered a suitable technique for sampling from a broader population as every member of the population has an equal chance of being selected.

This research is expected to be the basis or reference for the Directorate General of Taxes to periodically review existing tax regulations to close tax avoidance gaps by taxpayers and as material for evaluating regulations governing capital structure limits on debt and borrowing costs. Following the principles of fairness and comprehensive business practices that apply to all types of businesses, especially manufacturing companies in the food and beverage sub-sector. It will provide solutions to the practice of thin capitalization prevalent in Indonesia through evaluating various instruments to prevent tax avoidance practices, including interest expense arrangements. This provision is needed not only to prevent tax avoidance but also to provide legal certainty for taxpayers and tax authorities and enforce regulations in the field.

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