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Thin Capitalization, Financial Distress, and Corporate Governance Impact on Tax Avoidance

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ABSTRACT: Tax avoidance is a problem many countries face that can disrupt the optimization of tax revenues and economic development. Tax avoidance is a strategy commonly used by taxpayers to avoid tax burdens by exploiting legal loopholes. This study investigates the factors affecting tax avoidance in Indonesia. Specifically, this research explores whether tax avoidance is affected by thin capitalization and the financial distress faced by companies. Besides that, this study is also intended to investigate the influence of governance mechanism proxied by independent commissioners, institutional ownership, and audit quality on tax avoidance. Data was obtained from companies listed on the Indonesia Stock Exchange, i.e., manufacturing firms from 2012-2018. There are 573 observation data from 132 manufacturing companies in Indonesia. This study employed multiple linear regression analysis as a preferred research method to test the proposed hypotheses. This research finds that tax avoidance is significantly affected by thin capitalization, financial distress, and audit quality. However, this research did not find any influence of independent commissioners and institutional ownership on tax avoidance.

Keywords: Tax Avoidance, Thin Capitalization, Financial Distress, Audit Quality.

INTRODUCTION

Tax receipts are the largest source of the Indonesian government's revenue. The contribution of tax receipts to the state's total revenue reached 77-80%, while the rest came from non-tax revenue (PNBP) and grants. In 2019, the Indonesian government's tax ratio was 11.6%, the lowest in Asia-Pacific (21.0%) and lower than the average of the OECD countries (33.8%), Africa (16.6%), and even among the lowest among ASEAN countries (OECD, 2021).

One obstacle the government faces in maximizing tax receipts is the presence of tax avoidance activities conducted by taxpayers. The Washington Post reports that many governments worldwide suffer $427 billion in losses yearly due to tax avoidance and tax evasion activities (Whalen, 2020).

Several governments in various countries are trying to reduce tax avoidance by initiating regulations, including thin capitalization regulations and anti-tax avoidance rules (Beer et al., 2018).

Although some regulations have been made, tax avoidance remains a problem that has not yet been comprehensively resolved, leaving many blind spots untouched by regulations. Therefore, further research is needed in the area of tax avoidance. This research investigates the factors affecting tax avoidance practice among public companies in Indonesia. Previous studies found that thin capitalization rules can reduce debt shifting for multinational corporations in Germany (Beer et al., 2018). Thin capitalization variable needs to be tested in the context of a public enterprise in Indonesia that has not been much studied. One of the studies conducted by (Mahardika & Irawan, 2022) which tested the effect of thin capitalization regulation on tax avoidance in Indonesia using data from companies listed on the Indonesian Stock Exchange in 2014-2017 provided results that the existence of government regulations regarding thin capitalization provisions could significantly reduce tax avoidance.

Financial distress factors might also influence tax avoidance. Studies by (Maulana et al., 2018) and (Jaffar et al., 2021) showed that financial distress significantly influenced tax evasion. (Dang & Tran, 2021) investigated the impact of financial distress on tax avoidance of Vietnamese public companies. Their study found that tax avoidance was positively affected by financial distress. However, a study by (Tilehnouei et al., 2018) found that financial distress has no significant effect on tax avoidance for public companies in Tehran.

The level of tax avoidance can also be influenced by the quality of corporate governance (Mahdi et al., 2024). Previous studies have tested the influence of independent commissioners on tax avoidance, but these research results are not yet conclusive. Research conducted by (Wiratmoko, 2018) showed that independent commissioners' impact on tax avoidance occurred for manufacturing companies in Indonesia but did not in Malaysian manufacturing firms. Institutional ownership also provided inconclusive results, as (Jiang et al., 2021) pointed out that institutional ownership of companies in China had a significant positive impact on tax avoidance. The level of tax avoidance increases as the level of institutional ownership increases. But (Hasan et al., 2022) found different results. Their study documented evidence that institutional ownership by foreign investors affects tax avoidance negatively. Audit quality also shows inconsistent results. (Rizqia & Lastiati, 2021) found that the quality of audit, proxied by the Big Four – Non-Big Four Accounting Firm, negatively affects tax evasion. However, some studies do not find any influence of audit quality on tax aggressiveness, such as research by (Pratiwi et al., 2019).

This study examines factors that influence tax avoidance of public firms in Indonesia. It provides a theoretical contribution by providing new empirical evidence about the determinants of tax avoidance. The results of this research could be an input for policymakers to make regulations in the field of taxation related to thin capitalization regulations and the improvement of governance systems to minimize the opportunity to conduct tax avoidance.

Literature Review

Agency Theory

The agency theory explains the contractual bond between the principal and agent in a company (Jensen & Meckling, 1976). The principal is the owner of the company and contracts management as the agent. Agents are the corporate management assigned the task of managing the company's resources and given several decision-making authorities. Agents will run the company's operation and get compensation and facilities provided by the principal. In such agency relations, there are often differences of interest between the principal and the management, resulting in agency problems, such as conflicts of interest, moral hazard, and information asymmetry. Agency problem arises because the principal wants the management to pay the firm's taxes based on the provisions of the tax law. Still, management wants to reduce the tax burden to make a profit by avoiding taxes to achieve the profit target, and management gets a bonus. (Wongsinhirun et al., 2024) found that tax avoidance is primarily motivated by agency conflict between management and shareholders.

Trade-Off Theory

Trade-off theory explains the balance between the benefits gained by the company in the form of tax protection and sacrifices in the form of interest payments due to the use of debt. Trade-off theory is defined as sacrificing a benefit to enhance one aspect of the benefit of the other. It can be understood that companies sacrifice income to pay interest, but on the other hand, debt interest is profitable for companies to ease the tax burden. Management compensates tax benefits from debt financing due to problems caused by potential insolvency and bankruptcies (Brigham et al., 2023).

The trade-off theory assumes that debt has tax benefits, so the firm may use debt to maximize its value. The trade-off theory also considers corporate tax, bankruptcy costs, and personal taxes to explain why a company chooses a particular capital structure (Matemilola et al., 2013). Based on this theory, increasing the debt-to-capital ratio can increase the firm's value. Based on the book-tax trade-off theory, there is a trade-off between financial reporting incentive and tax incentive (Chan et al., 2024).

Tax Avoidance

Until now, there has been no single definition of tax avoidance. However, in general, researchers differentiate tax avoidance from tax evasion. Tax avoidance is an effort to save the tax burden by exploiting legal loopholes so that it is still categorized as legal. Meanwhile, tax evasion is an act that violates the law (Duhoon & Singh, 2023). Taxpayers often have efforts to decrease or remove their tax due but do not violate the applicable laws' provisions. Research by (Hoque et al., 2011) shows that some companies avoid tax by reducing net profits and corporate tax liabilities, displaying profit from operational activity as profit from capital, recognizing capital expenditure as operational spending and charging the same on net profit so that it can be a deduction of corporate taxes. Another way is to record personal expenses charged as business expenses that affect the decline

in net profits, the burden of excessive depression of production that can affect the decrease in taxable profits, and the recording of the dumping of surplus residues on raw materials in the manufacturing industry, thereby reducing taxable profit.

Thin Capitalization Effect on Tax Avoidance

Thin capitalization is defined as an investment decision by a company to finance its business operations to give greater priority to debt financing on its modal structure when compared to its capital use (Taylor & Richardson, 2013). In a company whose business funding uses debt, debt can be profitable from the tax side because debt leads to an interest burden that is not taxable but must be considered in light of the solvency problems that may arise.

(Buettner et al., 2012) explained the difference in tax treatment for interest, compensation for debt, and dividends. Interest burden arising from debt cannot be taxed as a tax-deductible expense, but dividends can be taxable as a return of profits to the owner. The Thin Capitalization regulation in Indonesia is based on the Income Tax Act No. 7 of 1983 section 18, paragraph 1, which contains the rules on the authority of the Minister of Finance in issuing large-scale decisions on the comparison between corporate debt and capital for tax purposes. Regulation released by the Minister of Finance Republic of Indonesia No. 169/PMK.010/2015 provides the limit of debt ratio toward capital for corporate income tax computation that is 4:1 and is valid since 2016. (Taylor & Richardson, 2013) showed that thin capitalization positively affects tax avoidance. Hypothesis 1 is stated as follows:

H1: Thin capitalization has a positive effect on tax avoidance.

Financial Distress Effect on Tax Avoidance

Financial distress is a decline in the company's financial condition that occurred before bankruptcy or liquidation. (Brigham & Gapenski, 2006) explained that several types of financial distress indicate the occurrence of bankruptcy: economic failure, business default, technical insolvency, insolvency in bankruptcy, and legal bankruptcy. Business failure is the termination of the company's operational activities as a result of the failure of the business and the loss of creditors. Technical insolvency is a state of bankruptcy when it can't deal with its due liabilities, indicating a temporary lack of liquidity. Insolvency in bankruptcy occurs because the book value of the total liability exceeds the market value of the company's assets. This condition is more serious than technical insolvency and is permanent. Legal bankruptcy, that is, a company is legally declared to be bankrupted based on jurisdictional conditions or applicable regulations.

The situation of a company that is in financial difficulties and has the potential for bankruptcy due to various factors can encourage the management of the company to adopt policies to address the problem. One attempt to address such financial problems is implementing tax avoidance practices to sustain the company's operations (Wahyuni et al., 2017). Studies by (Richardson et al., 2015), (Feizi et al., 2016), and (Jaffar et al., 2021) show that tax avoidance is positively affected by financial distress. Hypothesis 2 is expressed as follows:

H2: Financial distress has a positive effect on tax avoidance.

Independent Commissioner Effect on Tax Avoidance

The Independent Commissioner is a member of the Board of that has no affiliation with other parties, such as the major stockholders, BOD, or any other member of BOC. Based on the Indonesia Financial Services Authority (OJK) Regulation No. 33/2014, it is stated that if the company has board members more than two people, then the number of independent commissioners in a company is mandatory at least 30 percent of the total members of the BOC. The responsibility of the Independent Commissioner is to ensure that corporate governance principles run well. The independent commissioner is expected to conduct effective supervision of management performance, which can encourage management's caution in decision-making, as it has more transparency and accountability. (Wiratmoko, 2018) shows that the avoidance of tax is negatively affected by independent commissioners. Hypothesis 3 is stated as follows:

H3: Independent Commissioner hurts tax avoidance.

Institutional Ownership Effect on Tax Avoidance

Institutional ownership is the composition of corporate shares owned by institutional investors such as government, banks, insurance companies, investment firms, foreign institutions, trust funds and other institutional entities. High institutional ownership is expected to reduce tax avoidance. This is because institutional investors are interested in the security of their investments in the long term. They don't want companies to commit tax fraud that could put their future investments at risk. Previous research documented evidence that foreign institutional ownership negatively affects tax avoidance strategies ((Hasan et al., 2022); (Pujiningsih & Salsabyla, 2022)). However, (Jiang et al., 2021) found different result that the avoidance of tax is positively affected by institutional ownership. Hypothesis 4 is formulated as follows:

H4: Institutional ownership hurts tax avoidance.

Audit Quality Effect on Tax Avoidance

The quality of the audit will affect the accuracy of the auditor's opinion on the financial information presented by management to shareholders, investors, and other parties interested in the company. Auditors with good skills and competence will conduct audits carefully so that the opinions given are not biased or misleading. Auditors are interested in improving the audit quality because errors in providing the auditor's opinion will damage the reputation of the profession and the institution and potentially get legal action. Auditors need to examine the tendency of a client to conduct tax evasion practices. According to (Rizqia & Lastiati, 2021), firms audited by the Big Four audit firms have a lower fraud rate than non-Big Four firms. (Tandean & Winnie, 2016) showed that audit quality decreases tax evasion. Hypothesis 5 is formulated as follows:

H5: Audit quality hurts tax avoidance.

METHOD

The data for this study are manufacturing companies listed on BEI (the Indonesian Stock Exchange). A purposive sampling method was used to select research samples. The criteria for the sample selected are companies listed on the Indonesian Stock Exchange from 2012 to 2018 that were not delisted during the research period. The data is obtained from the annual reports and financial statements published on www.idx.co.id.

Previous studies used different methods to measure tax avoidance, e.g. effective tax rate (ETR), cash effective Tax rate (CETR) and book-tax difference (BTD). We use Cash ETR with the formula:

$$Cash\ ETR = 1 - \frac{\text{Tax Paid}}{\text{Earning Before Tax}}$$

This formula means that the lower the cash-effective tax rate, the higher the tax avoidance. In other words, the higher the CETR value, the higher the level of tax compliance

Thin capitalization is measured by calculating the Maximum Amount of Debt (Taylor & Richardson, 2013). The larger the Maximum Amount of Debt ratio, the more the company relies on debt for its financing.

$$Maximum\ Amount\ Debt\ Ratio = \frac{Average\ Interest\ Bearing\ Debt}{SHDA}$$

Average Interest-Bearing Debt = Average of Interest-Bearing Liabilities.

Safe Harbor Debt Amounts = Average of total asset – nonIBL x 80% (Based on PMK 169/PMK.010/2015)

This study uses Altman Z-score (Altman, 1968) to measure the variable of financial distress, which is formulated as follows:

$$Z = 1.2\ A + 1.4B + 3.3C + 0.6D + 0.999E$$

A= Current Liability/Total Asset

B= Retained Earnings/Total Asset

C= EBIT/Total Asset

D= Total Share x Price per Share/Total Liability

E= Sale/Total Asset

The Z value can be used as an indication of a potential bankruptcy. If a firm has a Z value more than or equal to 2.99, then the firm is categorized in a safe and problem-free zone. Then if the Z rating is < 2.99 up to 1.81 then the company is classified in the grey zone. The company will fall into distress if the Z value is less than 1.81.

Independent Commissioner

Independent commissioner is measured based on this formulation:

$$Independent\ Commissioner = \frac{Number\ of\ Independent\ Commissioner}{Total\ Number\ of\ Board\ of\ Commissioner} x\ 100\%$$

Institutional Ownership

Institutional ownership is measured based on this formulation:

$$Institutional\ Ownership = \frac{Number\ of\ Shares\ Owned\ by\ Institution}{Total\ Shares}$$

Audit Quality

We measure audit quality by employing a dummy variable, i.e., 1 when the Big Four audit the financial statements and zero if Non-Big Four audit the company. Including the Big Four are KPMG, PricewaterhouseCoopers, Deloitte Touche Tohmatsu, and Ernst & Young.

Research Model

This research employed regression analysis for hypotheses testing. The regression model is formulated as follows:

$TAV = \alpha + \beta_1 TC + \beta_2 FD + \beta_3 COM\_Ind + \beta_4 OWN\_Ins + \beta_5 AUD\_Q + e$

TAV = Tax Avoidance

TC = Thin Capitalization

FD = Financial Distress

COM_Ind = Independent Commissioner

OWN_Ins = Institutional Ownership

AUD_Q = Audit Quality

RESULT AND DISCUSSION

Based on the purposive sampling criteria, we obtained 132 companies that met the criteria. The observation period is seven years, i.e. 2012-2018. The company was subsequently selected based on the sampling criteria established. The final research data that met the requirements were 573 samples.

Descriptive Statistics

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Thin Capitalization	573	-1.3556	5.8295	.271056	.4568817
Financial Distress	573	-16.9169	791.9312	9.823032	47.1263148
Independent Commissioner	573	.0000	1.0000	.408169	.1192943
Institutional Ownership	573	.0000	.9943	.175106	.2521157
Audit Quality	573	0	1	.39	.489
Tax Avoidance	573	.3035	1.3842	.778502	.1797408
Valid N (listwise)	573				

Source: author's data processed with SPSS (2025)

Based on the results of the descriptive analysis, it can be shown that the mean value of the tax avoidance variable (TAV) is 0.7785 (SD = 0.1797). These results mean manufacturing companies in Indonesia have a low tendency to manipulate taxes. The result of the descriptive analysis for the thin capitalization (TC) variable has a mean of 0.2710 (SD 0.4568). It can be inferred that an Indonesian manufacturing company uses low debt to fund its business operations, i.e. approximately 27.10%. However, this value is higher than the provisions in PMK No. 169/2015, which requires a maximum proportion of debt to capital of 20%. Financial distress (FD) has a mean value of 9.8230 (SD = 47.1263). This result can be interpreted as on average, manufacturing companies in Indonesia are in a safe zone and free from distress or show good health for these companies because the value is greater than 2.99.

Independent commissioner variable has a mean value of 0.4081 (SD = 0.1193). This means that manufacturing companies in Indonesia, on average, have 40.81% independent commissioners from the entire existing BOC. This follows OJK provisions No. 33/2018 which requires a minimum number of independent commissioners of 30% of the total BOC. Institutional ownership variable has an average value of 0.1751 (SD = 0.2521). For the average Indonesian manufacturing company, institutional ownership is 17.51%, and the remainder is owned by management, the community, government, or the family. Audit quality variable shows an average value of 0.3926 (SD = 0.4887). This shows that most manufacturing companies in Indonesia do not use Big Four auditors. Only 39% of Indonesian manufacturing companies use audit services from the Big Four.

Correlation Analysis

Before the regression test, we carried out a correlation test to determine the strength of the relationship between the independent and dependent variables. Correlation testing in this research uses the Kendall's tau correlation value. The correlation test results are shown in the following table:

Table 2. Correlations

		Thin Capital	Financial Distress	Indep Comm	Institutional Ownership	Audit Quality	Tax Avoidance
Thin Capitalization	Correlation Coefficient	1.000	-.423**	.107**	.071*	-.091**	.097**
	Sig. (2-tailed)	.	.000	.001	.018	.008	.001
	N	573	573	573	573	573	573
Financial Distress	Correlation Coefficient	-.423**	1.000	-.058	-.070*	.198**	-.128**
	Sig. (2-tailed)	.000	.	.062	.018	.000	.000
	N	573	573	573	573	573	573
Independent Commissioner	Correlation Coefficient	.107**	-.058	1.000	.001	.043	.001
	Sig. (2-tailed)	.001	.062	.	.974	.253	.966
	N	573	573	573	573	573	573
Institutional Ownership	Correlation Coefficient	.071*	-.070*	.001	1.000	.116**	.031
	Sig. (2-tailed)	.018	.018	.974	.	.001	.298
	N	573	573	573	573	573	573
Audit Quality	Correlation Coefficient	-.091**	.198**	.043	.116**	1.000	-.089**
	Sig. (2-tailed)	.008	.000	.253	.001	.	.009
	N	573	573	573	573	573	573
Tax Avoidance	Correlation Coefficient	.097**	-.128**	.001	.031	-.089**	1.000
	Sig. (2-tailed)	.001	.000	.966	.298	.009	.
	N	573	573	573	573	573	573

Correlation is significant at the 0.05 level (2-tailed); **. Correlation is significant at the 0.01 level (2-tailed).

Source: author's data processed with SPSS (2025)

Regression Analysis

Before conducting a multiple regression test, a classical assumption test is conducted to ensure that the regression model proposed meets the BLUE (Best Linear Unbiased Estimate) criteria. The classical assumption tests performed include normality, multicollinearity, autocorrelation, and heteroscedasticity tests.

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		573
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.17067886
Most Extreme Differences	Absolute	.052
	Positive	.052
	Negative	-.040
Kolmogorov-Smirnov Z		1.242
Asymp. Sig. (2-tailed)		.091

Source: author's data processed with SPSS (2025)

Based on the Kolmogorov-Smirnov statistical test, the Kolmogorov-Smirnov Z value was 1.242, with a significance value of 0.091. Thus, it can be concluded that the data residual is distributed normally.

Table 4. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
TC	.953	1.049
FD	.984	1.017
COM_IND	.994	1.006
INS_OWN	.959	1.043
AUD_Q	.979	1.022

Source: author's data processed with SPSS (2025)

The multicollinearity test showed that all independent variables had a tolerance value of more than 0.10 and a Variance Inflation Factor (VIF) of less than 10. Thus, this research model does not show symptoms of multicollinearity.

Table 5. Autocorrelation Test

Model Summary

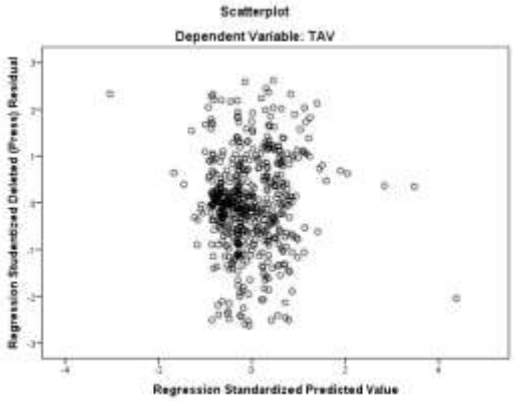
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.314[a]	.098	.090	.1714298	2.090

a. Predictors: (Constant), Aud_Q, FD, Com_Ind, INS_Own, TC; b. Dependent Variable: TAV

Source: author's data processed with SPSS (2025)

The Durbin-Watson value was 2,090, based on the autocorrelation test. These results indicate that there is no autocorrelation in the research model.

Table 6. Heteroscedasticity Test



Heteroscedasticity testing is carried out through scatterplot images. Based on the picture, the scatterplot points spread above and below point 0 and do not form a particular pattern, so the conclusion is drawn that the regression model does not contain heteroscedasticity. Thus, the regression model of this research has fulfilled the required classical assumptions.

Table 7 Regression Test

ANOVA[a]

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.816	5	.363	12.361	.000[b]
	Residual	16.663	567	.029		
	Total	18.479	572			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), Audit Quality, Financial Distress, Independent Commissioner, Institutional Ownership, Thin Capitalization

Source: author's data processed (2025)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.762	.027		28.414	.000
Thin Capitalization	.115	.016	.292	7.153	.000
Financial Distress	.000	.000	.098	2.437	.015
Independent Commissioner	-.004	.060	-.003	-.074	.941
Institutional Ownership	-.023	.029	-.033	-.805	.421
Audit Quality	-.031	.015	-.086	-2.125	.034

Source: author's data processed (2025)

Table 7 shows that the thin capitalization variable positively and significantly impacts tax avoidance ($\beta = 0.115$; $t = 7.153$; $p = 0.000$). It can be concluded that H1 of this research is supported. The higher the use of debt to fund business operations, the greater the level of tax avoidance. The use

of greater debt in the capital structure will create tax incentives. Tax incentives that arise from the use of debt, namely interest expenses that are not subject to tax, can be a way to reduce the tax burden while also maximizing company profits. This research finding aligns with (Taylor & Richardson, 2013), which also obtained that thin capitalization positively affected tax avoidance

Financial distress significantly affected tax avoidance ($\beta = 0.000374$); $t = 2.437$; $p = 0.015$). Based on the test results, H2 is supported. This means that financial problems (financial distress) occurring in a company will pressure the management to carry out tax avoidance practices to ensure that the company can continue operating and reduce financial problems. The management took this risky policy to avoid financial problems while reducing the possibility of bankruptcy by continuing to operate and solving financial problems in the future. The results of this study confirm the findings of research conducted by (Richardson et al., 2015) and (Feizi et al., 2016). However, this study's findings contradict (Maulana et al., 2018), which shows financial distress's negative and significant influence on tax avoidance.

This research does not find a significant association between tax avoidance and the amount of independent commissioners. Based on the regression results as shown in Table 2, the independent commissioner has a negative regression coefficient, that is in line with the hypothesized direction, but not significant ($\beta = -0.004$; $t = -0.074$; $p = 0.941$). Thus, H3 is not supported. The lack of influence of independent commissioners on tax avoidance is possible due to the limitations of independent commissioners as supervisors and performance controllers, so the implementation of good corporate governance cannot play a good role. Apart from that, independent commissioners are likely only a formality because they must comply with applicable laws and regulations.

This study does not find evidence of the influence of institutional ownership on tax avoidance. The regression test results in Table 2 show that the institutional ownership variable has a negative direction as predicted but is not significant ($\beta = -0.023$; $t = -0.805$; $p = 0.421$). Based on these results, H4 is not supported. This research results differ from (Hasan et al., 2022) study, which found that foreign institutional ownership negatively affects tax avoidance. It can be interpreted that investors prefer to pressure management to increase company profits through efforts to maximize income rather than avoiding taxes, which endangers the company's long-term sustainability.

This study found evidence of a negative influence of audit quality on tax avoidance. The higher the audit quality, the smaller tax avoidance conducted ($\beta = -0.031$; $t = -2.125$; $p = 0.034$). Based on these results, H5 is supported. This result confirms the study conducted by (Pratama, 2017) that finds tax avoidance is significantly affected by audit quality. These results indicate that the role of auditors is very important in reducing tax avoidance practices. The quality audit provided by the auditor is the key to preventing tax avoidance. This is because an audit quality will maintain the reputation they already have and will maintain integrity, professionalism, and a code of ethics. A qualified auditor is aware of the possibility of losing reputation and trust by the public if it is revealed that he has participated in tax evasion (Tandean & Winnie, 2016).

CONCLUSION

This research provides empirical evidence that Thin Capitalization and Financial Distress significantly influence tax avoidance. The higher the level of financing originating from debt and the higher the level of financial difficulties the company faces, the higher the company's tendency to avoid taxes. This research also provides evidence that audit quality has a significant role in reducing tax avoidance. The higher the quality of the auditor's audit, the smaller the company's tendency to take tax avoidance actions. Meanwhile, independent commissioners and institutional ownership have not been able to play a significant role in reducing tax avoidance. This research suggests that future researchers should explore further the effectiveness of government regulations regarding thin capitalization to control tax avoidance. Strengthening the corporate governance system must be prioritized to ensure companies comply with the rules and carry out healthy business practices.

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