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FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 2nd International Conference on Business and Banking Innovations (ICOBBI) with the topic "*Nurturing Business and Banking Sustainability*". This proceeding contains several researches articles from many fields in Marketing, Management Technology, Finance, Banking, Human Resources Management, Information System Management, and Islamic Economics.

The 2nd International Conference on Business and Banking Innovations was held on 14th – 15th August 2020 by virtual (online) meeting and organized by the Master Management Study Program of STIE PERBANAS Surabaya in Collaboration with six Higher Education Institutions in Indonesia and five Universities from Asia countries. Keynote speakers in this conference were: Prof. Angelica M..Baylon, Ph.D (Director of the Maritime Academy of Asia and the Pacific, Philippines), Chonlatis Darawong, Ph.D. (Head of the Master of Business Program Sripatum Chonburi University - SPU Graduate School Bangkok, Thailand), Prof. Madya Dr. Reevany Bustami (Director of Centre for Policy Research and International Studies Universiti Sains Malaysia), Associate Prof. Dr. Ellisha Nasruddin (Graduate School of Business Universiti Sains Malaysia), Associate Prof. Pallavi Pathak Ph.D. (School of Management Sciences, Varanasi, India) and Prof. Dr. Tatik Suryani (Head of the Master of Management Study Program of STIE Perbanas Surabaya, Indonesia).

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Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website https://pascasarjana.perbanas.ac.id.

Chair of the Master Management Study Program
STIE Perbanas Surabaya

Prof. Dr. Tatik Suryani, M.M.

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Determining Factors of Thin Capitalization Practices in Indonesia

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A R T I C L E   I N F O

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A B S T R A C T

This study aims to obtain empirical evidence of the influence of multinationality, tax haven utilization, tax uncertainty, executive character, institutional Ownership, independent commissioners, audit committees, and audit quality on thin capitalization. The population in this study is multinational companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2018. Sample selection using purpoive sampling and obtained a sample of 63 companies. Data analysis techniques are multiple linear regression. The results showed that multinationality, utilization of tax havens, tax uncertainty, independent commissioners, and audit quality influenced thin capitalization. Meanwhile, the executive character, institutional Ownership, and audit committee do not affect thin capitalization. The implication is to tighten the supervision of corporate debt by the Government and maximize the implementation of good corporate governance by companies to prevent the practice of thin capitalization.

1. INTRODUCTION

Tax avoidance is a deliberate action by reducing tax liabilities from the amount that must be paid to tax authorities through efficient planning by utilizing loopholes in taxation provisions (Jacob, 2014). The amount of expenditure on taxes is the reason why companies avoid tax. Cases of tax avoidance in Indonesia itself have occurred in many forms. One form of tax avoidance cases that occurred in Indonesia is the practice of thin capitalization.

The OECD (2012) states that thin capitalization is a financing strategy undertaken by companies using debt that is relatively high compared to capital owned or often referred to as "highly leveraged." The practice of thin capitalization arises due to differences in tax regulations related to treating debt and equity (Prastiwi & Ratnasari, 2019). Modigliani & Miller (1963), in their capital structure theory, states that debt can benefit companies because debt can create interest costs that can reduce taxable income. Based on the trade-off theory put forward by Myers (2001), companies will owe to the point where the tax savings (tax shields) from additional debt equals the cost of financial difficulties. This point shows that financing companies with debt are sufficient in reducing corporate taxes.

An article by Gunadi (1994), as quoted by Rahayu (2010), states that loans in the practice of thin capitalization can be done in three approaches. First, direct investments, namely foreign investors, directly pro-vide loans to subsidiaries. Second, back to back loans, namely, foreign investors, submit funds to the mediator as a third party to direct the subsidiary directly to give them compensation. Third, parallel loans, namely foreign investors looking for local company partners who have subsidiaries in the foreign investor country. Where foreign investors will provide loans to partner subsidiaries on condition that foreign investors also ask partner companies to offer loans to their subsidiaries located in partner countries.

Efforts to prevent the practice of thin capitalization by the Indonesian Government are to limit the company's debt to equity ratio (DER). This ratio is written in the Minister of Finance Regulation Number 169/ PMK.010/2015 concerning determining the magnitude of the ratio between debt and company capital to calculate income tax. Where the significance of the ratio between debt and equity as article 2, paragraph 1 is set at the highest is 4: 1. When a company uses debt that exceeds a predetermined limit, the

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loan costs that can be calculated in calculating taxable income are as stipulated in the PMK.

The case of the practice of thin capitalization itself occurred in Indonesia in 2015. Where the Directorate General of Taxes (DGT) noted that almost 2000 foreign companies deliberately increased debt to be free of income tax, even there was one company having a debt to equity ratio (DER) of 800: 1 (Supriadi, 2015). Be-sides, the Tax Justice Network reported that a tobacco company owned by British American Tobacco (BAT) had avoided tax in Indonesia through PT Bentoel Internasional Investama Tbk through intra-company loans. Where Bentoel took many loans in 2013 and 2015 from related companies in the Netherlands, namely Rothmans Far East BV. For this loan, Bentoel must pay the total interest of the credit of Rp 2.25 trillion, equivalent to the US $ 164 million. This interest will be deducted from taxable income in Indonesia. From this strategy, Indonesia loses the US $ 11 million in annual revenues (Prima, 2019).

Based on the case, it shows the problem that the use of very high debt through the practice of thin capi-talization can lead to high debt interest. Where the existence of high debt interest can be utilized by compa-nies to reduce taxable income so that the tax burden borne by the company to a minimum. The result is reducing state revenues and certainly harming the state.

This study aims to empirically prove the factors that influence thin capitalization, including multina-tionality, tax haven utilization, tax uncertainty, executive character, and good corporate governance. Previ-ous research by Nugroho & Suryarini (2018), Nuraini & Marsono (2014), dan Taylor & Richardson (2013) shows that multinationality, tax haven utilization, and tax uncertainty have a positive effect on thin capital-ization. The study also uses control variables, including company size, return on assets, inventory intensity, and capital intensity. Another study by Prastiwi & Ratnasari (2019), Bandiyono & Murwaningsari (2019), and Pitaloka & Merkusiwati (2019) state that executive character has a positive effect on tax avoidance. Meanwhile, the results of research by Amin & Suyono (2020), Oliviana & Muid (2019), Mulyani et al. (2018), Saputra & Asyik (2017), Tandean & Winnie (2016), dan Ismi & Linda (2016) show different results on the effect of good corporate governance on tax avoidance which is proxied by institutional ownership, inde-pendent commissioners, audit committees, and audit quality.

2. THEORETICAL FRAMEWORK AND HYPOTHESES Thin Capitalization

According to OECD (2012), thin capitalization is a financing strategy carried out by companies using debt that is relatively high compared to the capital they have or is often referred to as "highly leveraged." Thin capitalization is a tax avoidance that can be done by foreign companies (Jatmiko & Husodo, 2018). The debt is obtained from the same group of companies. Because with high-interest debt can reduce corporate tax obligations. Thin capitalization develops within the context of the parent company's funding for its subsidiary. Parent firms continually like the funding theme within which loans are provided for their subsidiaries, which can pay back the loans with interest. If the country within which a subsidiary is established applies a high taxation rate, an endeavor is created by the subsidiary to chop down its taxation by increasing income tax-deductible expenses. The interest owed to the loaner who isn't a resident of the country wherever the recipient lives is typically deductible from the borrower's taxable financial gain. At the same time, contrarily, dividends aren't deductible.

There are two approaches to thin capitalization rule, particularly debt limitation and interest limitation. If this rule is implemented stiffly, it will impede the interest of taxpayers who haven't any slight intention to engage in minimization. This rigid implementation can also be seemed to interfere with taxpayers' businesses. This rule should be enforced whereas still keeping in line with the substance over the kind and, therefore, the arm's length principles. Compared to alternative countries, the debt-to-equity magnitude relation (DER) applied inland is deemed to be lax, necessitating a review of the skinny capitalization rule used inland for the DER still as alternative provisions, akin to ones relating to the definition and scope of debt. With a programmed that's non-disincentive to business activities further as lessons learned from the rules prevailing in China in mind, variety of suggestions for a more practical thin capitalization rule out the country are offered, as well as DER review, application of the arm's length principle as another, revision of the definition and scope of debt, and regulations improvement by providing clarity on the time basis of interest funding, treatment of the penalty obligatory on late debt payment, treatment of interest financial gain not thought of as associate degree expense to the recipient, and treatment of expenditure that can't be carried forward to the subsequent amount (Susilawati, 2019).

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The effect of multinationality on thin capitalization

Multinationality refers to the term multinational company. Multinational companies are companies that are in one country but have subsidiary activities or branches of production and marketing in various countries. According to Shapiro (1975), Multinational companies are companies that operate (produce and sell goods or services) in more than one country. Multinational companies, as the parent company, control the shares of the subsidiary companies and have a full policy over the subsidiary companies. The characteristics of a multinational company (W3Cargo, 2018) includes income-generating activities exceed national borders, having global management in coordinating children or branches in various countries, having control over technology and capital, having a venture capital system, licensing and franchise with a management sys-tem that goes beyond national borders, usually has subcontractors for production activities, placing affiliates in developed countries, and Global-based vision and strategy.

Nugroho & Suryarini (2018) argues that debt will be played by groups of multinational companies in various ways so that corporate income tax is a minimum. Different income tax rates in each country can be utilized by multinational companies to reduce the tax burden (Nuraini & Marsono, 2014).

According to Myers (2001), the trade-off theory is a theory that explains that companies will owe to a certain level, where the tax savings (tax shields) from additional debt equals the cost of financial distress. The cost of financial difficulties is the cost of bankruptcy or reorganization and agency costs that increase as a result of the decline in the credibility of a company. The theory of trade-off implies that managers will think in terms of a trade-off between tax savings and financial difficulties in determining capital structure.

According to the trade-off theory, the manager will try to use the loan interest as much as possible to minimize the company's tax obligations. When companies have large groups in various countries, it can make it easy for managers to obtain large loans to practice thin capitalization. The special relationship between groups will also encourage managers to work together in playing debt or even manipulating debt.

H1: Multinationality influences thin capitalization

The effect of the use of tax havens on thin capitalization

A tax haven is a country or region that imposes low tax rates or does not tax at all and provides a guarantee of confidentiality for the assets it holds (DDTCNews, Apa itu Tax Haven?, 2019a). The tax haven country was blamed as a safe location to avoid taxes. OECD (2009) identified there are four criteria for a country classified as a tax haven, namely, do not collect taxes or collect fees in certain nominal, there is no exchange of information mechanism, lack of transparency in tax collection, and the absence of requirements must have substantial activity.

Indonesian companies that have subsidiaries in tax haven countries have an average debt ratio higher than companies that do not have subsidiaries in tax haven countries (Nugroho & Suryarini, 2018). Desai & Hines (2002), as quoted by Nuraini & Marsono (2014), also believes that companies incorporated in tax havens can shift income from high tax jurisdictions to low tax jurisdictions through inter-company debt.

In theory, the agent's manager will try to increase his interests in attempting to minimize the company's tax obligations through the practice of thin capitalization, where a multinational company Indonesia will establish a subsidiary or branch company in a tax haven country for investment purposes. The amount of income from the investment can be shifted to Indonesian companies under the pretext of inter-company debt. Income received can be played as high-interest debt that can reduce corporate tax liabilities.

H2: The use of tax havens influences thin capitalization

The effect of tax uncertainty on thin capitalization

When practicing thin capitalization, the company covers it by recognizing that the company cannot be sure or experience difficulties in determining its income tax due to the sophisticated interpretation of tax regula-tions (Nugroho & Suryarini, 2018). Desai & Dharmapala (2006) also states that tax uncertainty can be used by management as a tool to disguise or cover tax avoidance. According to Desai & Dharmapala (2006), tax uncertainty is a situation where the administration faces significant uncertainty in determining tax esti-mates based on different interpretations of tax laws. There are three sources of tax uncertainty in Asia (DDTCNews, Simak, Ini Sumber Ketidakpastian Pajak Bagi Pelaku Bisnis Versi

OECD, 2019b), including tax authority policies that are unpredictable or out of line, many bureaucracies in taxation regulations, in-cluding documentation requirements, and imperfection or conflict between tax authorities in the interpreta-tion of international tax standards.

Agency theory is a theory that explains the contract between principal and agent (Jensen & Meckling, 1976). The agreement reveals that the principal gives authority to the agent to manage the company and make the best decision for the principal. The separation between the principal and agent in managing the company causes differences in interests called agency conflicts. The implication for resolving agency conflicts is agency costs.

In agency theory, the agent's manager will try to increase his interests in attempting to minimize the company's tax obligations through the practice of thin capitalization. The manager recognizes that the company cannot be specific or experience difficulties in determining its income tax because of the sophisti-cated interpretation of tax regulations. Tax uncertainty can be used as an umbrella of protection by manag-ers in dealing with legal disputes with the regulatory authority. The manager argued that his party found it difficult to determine the amount of the tax burden.

H3: Tax uncertainty influences thin capitalization

The effect of executive character on thin capitalization

Executives are individuals who have an interest in a leadership system in a company or an organization and have a significant influence on all aspects of the company, as well as playing an essential role in decision making. The executive character shows the characteristics or characteristics of a company leader in making decisions on whether the executive is a person who is a risk-taker or risk-averse (Lewellen, 2003). According to Low (2009), the character of an executive is divided into two, namely risk-takers and risk-averse. Risk takers are executives who are brave in making high-risk business decisions. In contrast, risk-averse are executives who tend to dislike risk, so they are less courageous in making business decisions.

According to Prastiwi & Ratnasari (2019), the executive has a crucial role in the tax avoidance scheme. Research results by Oliviana & Muid (2019), Bandiyono & Murwaningsari (2019), and Pitaloka & Merkusiwati (2019) also stated that the more executives are risk-takers, the higher the level of tax avoidance such as the practice of thin capitalization.

In agency theory, the agent's manager will try to increase his interests in attempting to minimize the company's tax obligations through the practice of thin capitalization. The higher the risk, the greater the profit. The practice of thin capitalization is a risky decision, and only the risk-taker manager dares to do it.

H4: Executive character influences thin capitalization

Good Corporate Governance

Based on the Minister of State-Owned Enterprises Regulation Number: PER-01/MBU/2011 states that good corporate governance is the principles that underlie a process and mechanism of corporate management based on legislation and business ethics. There are five principles of good corporate governance, including transparency, accountability, responsibility, independence, and fairness. Every company must ensure that the laws of good corporate governance are applied to every aspect of the business and all levels of the company. Good corporate governance in this research is proxied by institutional Ownership, independent commissioners, audit committees, and audit quality. The following is an explanation of each of these as-pects:

1. Institutional Ownership. Institutional ownership is ownership of shares of a company by institutional investors (Mulyani et al., 2018). Jensen & Meckling (1976) states that institutional ownership has an essential role in minimizing agency conflict. Institutional investors play an important role in monitoring, influencing, and disciplining managers (Shleifer & Vishny, 1986). The higher the insti-tutional ownership, the greater the supervision of management performance.
2. Independent Commissioner. Based on the Decree of the Chairman of BAPEPAM and Financial Institution Number: Kep-643/BL/2012, it states that an independent commissioner is a member of the board of commissioners from outside the issuer. An independent commissioner as a corporate organ has a collective duty and responsibility to supervise and provide advice to directors and en-sure that the company implements good corporate governance (KNKG, 2006). Based on the Finan-cial Services Authority Regulation No. 57 /POJK.04/2017 the percentage of independent commissioners must be at least 30% of the entire board of commissioners so that the supervision mecha-nism works effectively.

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3. Audit Committee. Based on the Decree of the Chairman of BAPEPAM and Financial Institution Number: Kep-643/BL/2012 states that the audit committee is a committee formed by and responsible to the board of commissioners in helping to carry out the duties and functions of the board of commissioners. The audit committee assists the board of commissioners in ensuring the effective-ness of the internal control system, the quality of financial reports, and the efficiency of the internal audit function, including reviewing the risks faced by the company, and compliance with regulations and the implementation of good corporate governance. The most audit committee members consist of less than three members from independent commissioners and parties from outside the issuer or public company.
4. Audit Quality. According to Mulyani et al. (2018), audit quality shows the results of an audit by an auditor in auditing a company's financial statements under auditing standards and the public accountant's code of ethics. Audit quality reflects transparency rather than the fairness of financial statements where the integrity of an auditor is the principal value.

The effect of institutional ownership on thin capitalization

The existence of institutional investors is considered to be an effective monitoring mechanism in every decision taken by the manager (Mulyani et al., 2018). So is the opinion of Yuni & Setiawan (2019), Dewi (2019), dan Ismi & Linda (2016) that the higher the percentage of share ownership by institutional investors will increase supervision of management performance making it difficult for companies to avoid tax.

In theory, the agent's manager will try to increase his interests even by making decisions that contradict the laws and regulations through the practice of thin capitalization. The presence of institutional inves-tors is expected to supervise and control opportunistic management actions to overcome agency conflicts within the company.

H5: Institutional ownership influences thin capitalization

The effect of independent commissioners on thin capitalization

According to Ariawan & Setiawan (2017), independent commissioners will encourage management to comply with tax legislation by reporting the company's tax burden fairly and minimizing tax avoidance, such as the practice of thin capitalization. Diantari & Ulupui (2016) also stated that the more the number of independent commissioners, the higher the supervision so that management would be careful and trans-parent in managing the company.

In theory, the agent's manager will try to increase his interests even by making decisions that contradict the laws and regulations through the practice of thin capitalization. The existence of an independent commissioner can oversee and control the opportunistic actions of managers, such as the practice of thin capitalization, to overcome agency conflicts within the company. Also, the independent commissioner can ensure that the company implements good corporate governance and always complies with applicable tax laws.

H6: Independent commissioners influence thin capitalization

The effect of the audit committee on thin capitalization

Research result from Pitaloka & Merkusiwati (2019) and Diantari & Ulupui (2016) states that the higher the number of audit committees in a company, the better the quality of good corporate governance to minimize the occurrence of tax avoidance. The audit committee can also be a tool to improve the integrity and credi-bility of financial reporting (Nugroho & Suryarini, 2018). Tandean & Winnie (2016) also believe that the higher the number of audit committees involved in controlling policy, the more difficult management is to avoid tax.

In agency theory, the agent's manager will try to increase his interests even by making decisions that contradict the laws and regulations through the practice of thin capitalization. The presence of the audit committee is expected to assist the board of commissioners in overseeing and controlling management's opportunistic actions to overcome agency conflicts in the company. Having an audit committee can also increase the integrity and credibility of financial statements.

H7: Audit committee influences thin capitalization

The effect of audit quality on thin capitalization

According to Mulyani et al. (2018), audits conducted by KAP The Big Four are considered to be able to maintain an independent and professional attitude. They can maintain public confidence as users of finan-cial statements. Ismi & Linda (2016) also stated that a qualified auditor would give an excellent signal to investors about the financial statements. Likewise, opinion Oliviana & Muid (2019) that the Big Four KAP auditors are considered to have a broader knowledge in detecting fraud on financial statements of the company so that it is difficult for companies to avoid tax as the practice of thin capitalization.

In agency theory, the agent's manager will try to increase his interests even by making decisions that contradict the laws and regulations through the practice of thin capitalization. The existence of the Big Four KAP can control opportunistic management actions that can harm shareholders to overcome agency con-flicts within the company, where the audit results by KAP The Big Four are more reliable and trustworthy.

H8: Audit quality affects thin capitalization

3. RESEARCH METHOD

Operational Definition and Variable Measurement

This study consisted of one dependent variable, eight independent variables, and four control variables. The dependent variable is thin capitalization. The independent variables are multinationality, tax haven utilization, tax uncertainty, executive character, institutional ownership, independent commissioners, audit committees, and audit quality. The operational definitions and measurement of variables are summarized in table 1.

Control variables are variables that are controlled or made constant so that the influence of independ-ent variables on the dependent is not influenced by other factors not examined (unbiased). The control var-iable is called a neutral variable. The number of different variables (factors) that might affect the dependent variable that is not tested, so it needs to be limited by control variables so that the strength of statistical analysis influences the independent variable on the dependent variable to be more accurate (Sugiyono, 2018). In this study, the control variables used include company size, return on assets (ROA), inventory intensity, and capital intensity.

Table 1. Operational Definition and Variable Measurement

No.	Variable	Operational Definition	Variable Measurement
1.	Thin Capitalization	Thin capitalization is a financing strategy undertaken by a company using debt that is relatively high compared to the capital owned or often referred to as "highly lever-aged"(OECD, 2012).	DER = Total Liability / Total Equity
2.	Multinationality	Multinational companies (multina-tionality) are companies that operate (produce and sell goods or services) in more than one country. The com-pany has subsidiaries that are scat-tered in various countries (Shapiro, 1975).	Dummy Variable, 1 = The company has five or more sub-sidiaries or branches outside Indone-sia 0 = The company has a subsidiary of five subsidiaries or branches outside In-donesia
3.	Utilization of Tax Ha-ven	A tax haven is a country or region that imposes a low tax rate or does not charge any tax at all and provides a guaranteed of the assets being stored. (DDTCNews, 2019).	Dummy Variable, 1 = The company has one or more sub-sidiaries or branches in the tax haven country 0 = The company does not have subsidi-aries or companies in the tax haven country
4.	Tax Uncertainty	Tax uncertainty is a situation where management faces significant uncer-tainty in determining tax estimates based on different interpretations of tax laws (Desai & Dharmapala, 2006).	Dummy Variable, 1 = The company revealed the existence of tax uncertainty in CALK 0 = The company does not show any tax uncertainty in CALK
5.	Executive Character	The executive character shows the characteristics of a company leader in	Company Risk =

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		executive is a person who has a risk-taker or risk-averse (Lewellen, 2003).	$\sqrt{\sum(E - 1/T \sum E)^2/(T - 1)}$ T=1 T=1 Note: E = EBITDA/Total Asset T = Total Sample
6.	Institutional Ownership	Institutional ownership is ownership of shares by institutional investors (Mulyani et al., 2018).	Institutional Ownership = Institutional Share / Outstanding Shares
7.	Independent Commissioner	Based on the Decree of the Chairman of BAPEPAM and Financial Institution No.64 Kep643 / BL / 2012 independent commissioners are members of the board of commissioners who come from outside the issuer that has a collective duty and responsibility to supervise and provide advice to directors and ensure that the company carries out good corporate governance.	Independent Commissioner = Independent Commissioner / Total Board of Commissioners
8.	Audit Committee	Based on the Decree of the Chairman of BAPEPAM and Financial Institution No-more: Kep643/BL/2012, the audit committee is a committee formed by and responsible to the board of commissioners in helping carry out the duties and functions of the board of commissioners.	Audit Committee = Number of Company Audit Committees
9.	Audit Quality	Audit quality shows the results of audits by auditors in auditing the company'sfinancialstatements, wherein carrying out their duties, the auditor is guided by audit standards and the public accountant's code of ethics (Mulyani et al., 2018).	Dummy Variable, 1 = The company was audited by The Big Four's Public Accounting Firm (KAP) 0 = The company is not audited by The Big Four Public Accountants Office
10.	Company Size	Company size is a scale that can classify the size of the company through total assets, stock market value, an average level of sales, and total sales (Dewanti & Sujana, 2019).	Company size = Ln (Total Assets)
11.	Return on Assets (ROA)	ROA shows the company's founding by using all assets owned to generate profits (Sudana, 2015).	ROA = Profit Before Tax / Total Assets
12.	Inventory Intensity	The intensity of inventory shows the amount of company investment in inventory (Dwiyanti & Jati, 2019).	Inventory Intensity = Inventory / Total Assets
13.	Capital Intensity	The capital intensity or fixed asset intensity shows the amount of company investment in fixed assets (Dwiyanti & Jati, 2019).	Capital Intensity = Fixed Assets / Total Assets

Source: Summary of Prior Research (2020)

Population and Sample

The population in this study is multinational companies listed on the Indonesia Stock Exchange in the period 2016-2018. The reason for the research for three years is because this study aims to examine the factors that affect thin capitalization after the issuance of the Minister of Finance Regulation Number 169/ PMK.010/2015, namely in 2016 and this research was conducted in 2018. The sample selection uses a purposive sampling technique, which is the technique of determining the sample with specific criteria (Sugiyono, 2018).

Table 2. Sample Selection Criteria

No.	Sample Criteria	Total
1.	Multinational companies listed on the Indonesia Stock Exchange 2016-2018	154
2.	Companies excluded from the Minister of Finance Regulation Number 169/PMK.010/2015, namely finance, mining, infrastructure, and companies whose entire income is subject to final income	(72)
3.	Companies that have a negative debt to equity ratio (DER)	(6)
4.	Companies that do not publish financial reports or annual reports for the 2016-2018 period	(7)
5.	Companies that do not have complete information related to the measurement of research variables	(6)
	Number of companies as samples	63
	Number of analysis units for the period 2016-2018	189

Source: Data Processed (2020)

Data Collection and Data Analysis Techniques

The type of data is secondary data in the form of financial reports or annual reports. Data sources are from the Indonesia Stock Exchange website (www.idx.co.id) and the company's official website. Data collection uses the documentation method.

The data analysis technique used is multiple linear regression with the help of SPSS version 23. Data analysis consists of descriptive statistics, classic assumption tests (normality test, multicollinearity test, het-eroscedasticity test, and autocorrelation test), regression analysis, and hypothesis testing (F test, coefficient of determination, and t-test) with a significance level of 0.05 (Ghozali, 2018). Following is the model of mul-tiple linear regression equations for this study:

THINCAP = α + 1MULTI + 2TAXHAV + 3UNCERT + 4RISK + 5INST + 6INDP + 7KOMIT +
8KAUDIT + 9SIZE + 10ROA + 11INVINT + 12CINT + ε

4. DATA ANALYSIS AND DISCUSSION

Data Analysis

Descriptive statistics

Descriptive statistics function to provide an overview of research variables as seen from the minimum val-ue, maximum value, average, and standard deviation. Table 3 is the result of descriptive statistical analysis.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
THINCAP	189	.08	3.49	1.0949	.69715
MULTI	189	0	1	.27	.445
TAXHAV	189	0	1	.79	.406
UNCERT	189	0	1	.62	.487
RISK	189	.000	.040	.00479	.005510
INST	189	.18	1.00	.7808	.18883
INDP	189	.20	.75	.3920	.09936
KOMIT	189	2	4	3.04	.339
KAUDIT	189	0	1	.58	.495
SIZE	189	26.70	33.47	29.8413	1.38689
ROA	189	-.24	.62	.0718	.10378
INVINT	189	.01	.60	.1816	.11546
CINT	189	.02	.70	.3542	.17027
Valid N (listwise)	189				

Source: Data Processed (2020)

Variable of multinationality show the unit of analysis with multinationality category is 18 companies or 28.57% while the non-multinationality category is 45 companies or 71.43%. Variable of utilization of tax havens show unit of analysis with tax haven utilization category is 51 companies or 80.95% while the non-utilization tax haven category is 12 companies or 19.05%. Variable of tax uncertainty show unit analysis with the tax uncertainty category is 39 companies or 61.90% while the non-tax uncertainty category is 24 companies or 38.10%. Variable of audit quality show unit analysis with audit quality category is 36 companies or 57.14% and non-audit quality category is 27 companies or 42.86%.

Classic Assumption Tests

The classic assumption test is a statistical requirement that must be met in multiple linear regression analy-sis. The classic assumption test used in this study is the normality test, multicollinearity test, heteroscedas-ticity test, and autocorrelation test. This research has fulfilled the requirements of all classic assumption tests.

Results of Multiple Linear Regression Analysis

Based on the results of the multiple linear regression analysis test in table 4, we get the multiple linear re-gression equation models as follows:

LnTHINCAP = –9,220 + 0,342 MULTI + 0,615 TAXHAV + 0,307 UNCERT – 0,050 LnRISK + 0,004 LnINST – 0,495 LnINDP – 0,127 LnKOMIT – 0,271 KAUDIT + 2,155 LnSIZE + 1,540 LnROA + 0,021 LnINVINT + 0,088 LnCINT

Table 4. Results of Multiple Linear Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients
Model	B	Std. Error	Beta
(Constant)	-9,220	4,339	
MULTI	,342	,112	,207
TAXHAV	,615	,118	,340
UNCERT	,307	,101	,204
LnRISK	-,050	,042	-,080
LnINST	,004	,150	,002
LnINDP	-,495	,211	-,158
LnKOMIT	-,127	,452	-,019
KAUDIT	-,271	,101	-,183
LnSIZE	2,155	1,316	,137
LnROA	1,540	,749	,153
LnINVINT	,021	,069	,021
LnCINT	,088	,072	,081

Source: Data Processed (2020)

Hypothesis Testing Results

Based on the results of the model fit test (F test) in table 5, information is obtained that the Sig. of 0,000 smaller than α = 0.05 (<0.05), meaning that this research model is suitable for research.

Table 5. The goodness of Fit Test Results (F Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	37,776	12	3,148	8,723	,000b
Residual	63,519	176	,361		
Total	101,295	188			

Source: Data Processed (2020)

Based on the test results of the coefficient of determination (R2) in table 6, obtained information that the value of Adjusted R Square is 0.330 or 33%. That is, all independent variables and control variables can only explain the factors that influence thin capitalization by 33%; other variables explain the remaining 67%.

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Table 6. Determination Coefficient Test Results (R2)

R Square	Adjusted R Square	Std. Error of the Estimate
0,373	0,330	0,60075

Source: Data Processed (2020)

The following is a summary of the results of the partial test (t-test) on the effect of the independent variables on the dependent variable summarized in table 7.

Table 7. Partial Test Results (t-test)

Hypothesis	Description	Sig.	Standard	Conclusion
H_1	Multinationality influences thin capitalization	0,003	< 0,05	accepted
H_2	The use of tax haven influences thin capitalization	0,000	< 0,05	accepted
H_3	Tax uncertainty influences thin capitalization	0,003	< 0,05	accepted
H_4	Executive character influences thin capitalization	0,233	< 0,05	rejected
H_5	Institutional ownership influences thin capitalization	0,980	< 0,05	rejected
H_6	Independent commissioners influence thin capitalization	0,020	< 0,05	accepted
H_7	The audit committee influences thin capitalization	0,779	< 0,05	rejected
H_8	Audit quality affects thin capitalization	0,008	< 0,05	accepted

Source: Data Processed (2020)

Discussion

The Effect of Multinationality on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that multinationality influences thin capitalization. The regression coefficient of 0.342 indicates the direction of a positive relationship between multinationality and thin capitalization. That is, the more subsidiaries or branches of multinational companies, the higher the practice of thin capitalization that can be played. According to the trade-off theory, the manager will try to use the loan interest as much as possible to minimize the company's tax obligations. When companies have large groups in various countries, it can make it easy for managers to obtain large loans to practice thin capitalization. The special relationship between groups will also encourage managers to work together in playing debt or even manipulating debt.

Multinational companies have a safe opportunity to practice thin capitalization. This is because their group can work together in implementing a thin capitalization scheme which is so complex that it makes government oversight weak. This is also supported by the remote locations of the subsidiaries in various countries so that investigations are limited and the lack of transparency in conveying information.

Analysis of the description of multinationality variables shows that the sample in the category of mul-tinationality was 18 companies or 28.57% of the total sample. These results provide evidence that although the percentage of multinationality is less than non-multinationality, it still has a positive effect on the prac-tice of thin capitalization. Therefore, it is hoped that the Government will continue to increase the tight su-pervision of debt owned by multinational companies. Given the increasingly advanced economic develop-ment in the era of globalization as it is today, encouraging multinational companies to continue to expand by establishing subsidiaries or branches in various countries. This expansion will provide an excellent op-portunity for multinational companies to play the practice of thin capitalization.

The results of this study are in line with research by Nugroho & Suryarini (2018), which states that debt will be played by groups of multinational companies in various ways so that corporate income tax is the minimum. Nuraini & Marsono (2014) also stated that different income tax rates in each country could be used by multinational companies to reduce the tax burden by giving large loans to subsidiaries or branches located in countries with high-income tax rates including Indonesia. The same result was also stated by Taylor & Richardson (2013) that multinationality has a positive effect on thin capitalization.

The Effect of Utilization of Tax Haven on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that the use of tax havens influences thin capitalization. The regression coefficient of 0.615 indicates the direction of a positive relationship between tax haven utilization and thin capitalization. This value means that the more subsidiaries or branches of multinational companies located in tax haven countries, the higher the practice of thin capitalization that can be played. In theory, the agent's manager will try to increase his interests in attempting to minimize

corporate tax obligations through the practice of thin capitalization where Indonesian multinational companies will establish subsidiaries or branch companies in tax haven countries for investment purposes. The amount of income from the investment can be shifted to Indonesian companies under the pretext of inter-company debt. Income received can be played as high-interest debt that can reduce corporate tax liabilities.

Tax havens are also considered as an effective place to carry out operational activities because they provide great benefits for companies, such as investment diversification opportunities, strategies to reduce tax burdens, asset protection, offshore freedom and privacy, large investment returns, avoiding eye restrictions. money, and great business development potential. In this study, the average sample of multinational companies set up branches in several tax haven countries, such as Singapore, British Virgin Islands, Cayman Islands, etc

Analysis of the description of the variable tax haven utilization shows that the sample with the category of tax haven utilization was 51 companies or 80.95% of the total sample. These results provide evidence that almost all multinational companies place their subsidiaries or branches in tax haven countries. State tax havens have proven effective as a safe place to carry out thin capitalization practices. Because the country applies a meager tax rate, and there is no tax at all. Therefore, it is hoped that the Government will continue to intensify the supervision of multinational companies' debts, especially those that place their subsidiaries or branches in the tax haven.

The results of this study are in line with research by Nugroho & Suryarini (2018), which states that Indonesian companies that have subsidiaries or branch companies in tax haven countries have an average debt ratio higher than companies that do not have subsidiaries or branch companies in tax haven countries. Desai & Hines (2002), as quoted by Nuraini & Marsono (2014), also states that companies incorporated in tax haven countries can shift income from high tax jurisdictions to low tax jurisdictions through inter-company debt. The same result was also declared by Taylor & Richardson (2013) that the use of tax haven has a positive effect on thin capitalization.

The Effect of Tax Uncertainty on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that tax uncertainty affects thin capitalization. The regression coefficient of 0.307 indicates the direction of a positive relationship between tax uncertainty and thin capitalization. That is, the more multinational companies reveal the tax uncertainty in the financial statements, the higher the practice of thin capitalization that can be played. In theory, the agent's manager will try to increase his interests in attempting to minimize corporate tax obligations through the practice of thin capitalization. The manager recognizes that the company cannot be specific or experience difficulties in determining its income tax due to the interpretation of complex tax regulations. Tax uncertainty can be used as an umbrella of protection by managers in dealing with legal disputes with taxation authorities. The manager argued that his party found it difficult to determine the amount of the tax burden.

Analysis of the description of the variable tax uncertainty shows that the sample with the category of tax uncertainty is 39 companies or 61.90% of the total sample. These results provide evidence that, on average multinational companies disclose tax uncertainty in financial statements. Tax uncertainty will continue to be utilized by multinational companies to cover tax avoidance through thin capitalization practices. Therefore, the Government is expected to overcome the tax uncertainty immediately.

The results of this study are in line with research by Nugroho & Suryarini (2018), which states that in practicing thin capitalization, the company covers it by recognizing that the company cannot be guaranteed or experience difficulties in determining its income tax due to the interpretation of complex tax regulations. Desai & Dharmapala (2006) also states that tax uncertainty can be used by management as a tool to disguise or cover tax avoidance. The same result was also reported by Taylor & Richardson (2013) that tax uncertainty has a positive effect on thin capitalization.

The Effect of Executive Character on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that the executive character does not affect thin capitalization. These results indicate that, however, the type of character possessed by an executive will not influence the practice of thin capitalization in a company. The lack of influence of executive character on the practice of thin capitalization is caused by the owner of the company (the principal) having a substantial role in controlling executive opportunities, whether the executive is risk-taker or risk-averse. Also, the supervision carried out by the board of commissioners, and the audit committee can also

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minimize the existence of high risks that can harm the owner of the company, one of which is the practice of thin capitalization.

An analysis of the description of executive character variables shows that the average risk of multinational companies is 0.005. These results provide evidence that the average risk of multinational companies is classified as low, which means that executives at multinational companies are on average risk-averse. Risk-averse leaders tend to avoid high-risk decisions such as thin capitalization.

The results of this study are in line with research by Kartana & Wulandari (2018), which states that the existence of the principal still has a significant influence on the executive in avoiding taxes such as the practice of thin capitalization. The executive will be demanded by the principal always to fulfill his wishes. Fitria (2018) also stated that more executives are risk-takers, not necessarily doing tax avoidance like the practice of thin capitalization. However, the results of this study are different from research by Prastiwi & Ratnasari (2019), Bandiyono & Murwaningsari (2019), Pitaloka & Merkusiwati (2019), Oliviana & Muid (2019), and Tandean & Winnie (2016) which states that executive character influences tax avoidance.

The Effect of Institutional Ownership on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that institutional ownership does not affect thin capitalization. These results indicate that no matter how large the percentage of share ownership owned by institutional investors will not change the practice of thin capitalization in a company. The absence of influence of share ownership by institutional investors on the practice of thin capitalization is due to institutional investors lacking an active role in influencing every manager's decision. This result is likely due to a lack of knowledge and critical attitude from institutional investors so that they do not respond to managerial decisions unless they agree. Besides, the existence of a special relationship such as a family business causes the supervisory function not to function correctly. High share ownership should motivate institutional investors always to monitor the performance of managers, so there are no irregularities so that their presence cannot overcome agency conflicts within the company.

Analysis of the description of institutional ownership variables shows that the average percentage of institutional Ownership in multinational companies is 0.78. These results provide evidence that although the average institutional shareholding in multinational companies is relatively high, it does not necessarily affect the manager's performance. Where institutional investors have not been able to supervise opportunistic management actions such as the practice of thin capitalization, this result means that the existence of institutional investors does not yet support the implementation of good corporate governance. Therefore, the company is expected to ensure that institutional investors can carry out their duties and responsibilities properly.

The results of this study are in line with research by Arianandini & Ramantha (2018), which states that the lack of quality resources from institutional investors causes oversight and control functions are not optimal. Tandean & Winnie (2016) also says that the owner of the institution does not participate in the monitoring, discipline, and influence of the manager's actions. Likewise, opinion Diantari & Ulupui (2016) that institutional investors only entrust supervision to the board of commissioners so that tax avoidance, such as thin capitalization practices still occur. The same result was also stated by Fitria (2018) that institutional Ownership does not affect tax avoidance. However, the results of this study are different from research by Yuni & Setiawan (2019), Dewi (2019), Mulyani et al. (2018), Ismi & Linda (2016), and Nuraini & Marsono (2014) which states that institutional ownership influences tax avoidance.

The Effect of the Independent Commissioner on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that the independent commissioner affects thin capitalization. The regression coefficient of -0.495 indicates the direction of a negative relationship between independent commissioners and thin capitalization. That is, the more the percentage of independent directors in a company can reduce the practice of thin capitalization. In theory, the agent's manager will try to increase his interests even by making decisions that contradict the laws and regulations through the practice of thin capitalization. The existence of an independent commissioner can oversee and control the opportunistic actions of managers, such as the practice of thin capitalization, to overcome agency conflicts within the company. Besides, the existence of an independent commissioner can also ensure that good corporate governance has gone well. Actively the independent commissioner will encourage management to always comply with applicable tax laws and regulations.

Analysis of the description of the independent commissioner variable shows that the average percentage of independent commissioners in multinational companies is 0.39. These results provide

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evidence that the average rate of independent commissioners in multinational companies is high above 30%, which is the minimum percentage of independent commissioners following OJK Regulation Number 57/POJK.04/2017. Where supervision by an independent commissioner of management performance has been going well, that is, its existence has supported the implementation of good corporate governance.

The results of this study are in line with research by Ariawan & Setiawan (2017) which states that an independent commissioner will encourage management to comply with tax legislation by reporting the company's tax burden fairly and minimizing tax avoidance such as the practice of thin capitalization. Diantari & Ulupui (2016) also stated that the more the number of independent commissioners, the higher the supervision so that management would be careful and transparent in managing the company. The same result was also stated by Amin & Suyono (2020) and Saputra & Asyik (2017) that the independent commissioner has a negative effect on tax avoidance.

The Effect of the Audit Committee on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that the audit committee does not affect thin capitalization. These results indicate that any number of audit committees in a company will not influence the practice of thin capitalization in a company. The lack of influence of the audit committee on the practice of thin capitalization is caused because the audit committee cannot carry out the duties and responsibilities that have been given by the board of commissioners properly. The lack of professionalism and independence that the audit committee has in detecting fraud committed by managers causes tax avoidance through thin capitalization practices to continue. The existence of the audit committee should be able to help the board of commissioners in strengthening supervision and control of the manager's performance turned out to be the opposite so that it has not been able to resolve agency conflicts within the company.

An analysis of the description of audit committee variables shows that the average number of audit committees in multinational companies is 3. This result provides evidence that although the average number of audit committees in multinational companies is per the Decree of the Chairman of BAPEPAM and Financial Institution Number: Kep-643/BL/2012 which requires a minimum of 3 members, apparently has not been able to assist the board of commissioners in improving the oversight function of opportunistic management actions such as the practice of thin capitalization. This action means that the existence of the audit committee does not yet support the implementation of good corporate governance. Therefore, the company is expected to ensure that the audit committee can carry out its duties and responsibilities properly.

The results of this study are in line with research by Ardianti (2019), which states that tax avoidance such as thin capitalization practices is not caused by the number of audit committees but rather from the quality of the work of the audit committee. Dewi (2019) also stated that tax avoidance occurs because of the lack of quality and independence of the audit committee in detecting tax avoidance. Likewise, Ismi & Linda (2016) stated that the audit committee did not play an active role in the mechanism of good corporate governance and tended to be neutral in all company rules. The same result was also stated by Amin & Suyono (2020), Saputra & Asyik (2017), and Oktamawati (2017) that the audit committee does not affect tax avoidance. However, the results of this study are different from research by Mulyani et al. (2018), Oliviana & Muid (2019), Pitaloka & Merkusiwati (2019), Nugroho & Suryarini (2018), Diantari & Ulupui (2016), and Tandean & Winnie (2016) which states that the audit committee influences tax avoidance.

The Effect of Audit Quality on Thin Capitalization

Based on the results of hypothesis testing, it can be seen that audit quality affects thin capitalization. The regression coefficient of -0.271 indicates the direction of a negative relationship between audit quality and thin capitalization. That is, companies audited by KAP The Big Four can reduce the practice of thin capitalization. In theory, the agent's manager will try to increase his interests even by making decisions that contradict the laws and regulations through the practice of thin capitalization. The existence of the Big Four KAP can control opportunistic management actions that can be detrimental to shareholders to overcome agency conflicts within the company. The audit results by KAP The Big Four are more reliable and trustworthy. Because KAP The Big Four is trusted by the tax authorities and the public as auditors with high independence and professionalism in examining financial statements based on auditing standards and the public accountant's code of ethics.

The use of high debt will increase the suspicion of auditors from KAP The Big Four that there may be irregularities in the company so that it will provide a narrow space for managers to avoid taxes such as the

practice of thin capitalization. Because all the reasons for each manager's policy are very easily detected and known by auditors from KAP The Big Four. The consequence is the imposition of sanctions from the taxing authority as well as a fair audit opinion with the exception (WDP). If there are exceptions to the opinion, it will have an impact on the company's reputation and decline in the value of shares.

Analysis of the description of audit quality variables shows that the sample with the category of audit quality is 36 companies or 57.14% of the total sample. These results provide evidence that half of the example of multinational companies was audited by KAP The Big Four. Where KAP The Big Four is proven to reduce the practice of thin capitalization because it is considered to have a broader knowledge in detecting fraud in the company. That is, an audit conducted by KAP The Big Four has supported the implementation of good corporate governance.

The results of this study are in line with research by Mulyani et al. (2018), which states that the audit conducted by KAP The Big Four is considered to be able to maintain an independent and professional attitude and can maintain public confidence as users of financial statements. Ismi & Linda (2016) also stated that qualified auditors would give the right signals to investors about the reliability of financial statements. Likewise, Oliviana & Muid (2019) suggests that the Big Four KAP auditors are considered to have a broader knowledge in detecting fraudulent financial statements of the company, so that it is difficult for companies to avoid tax, such as the practice of thin capitalization.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Conclusion

The test results show that multinationality, tax haven utilization, tax uncertainty, independent commissions, and audit quality affect thin capitalization. Meanwhile, the executive character, institutional ownership, and audit committee do not affect thin capitalization.

Implication

Some of the implications of this research include: (1) the Government must tighten the supervision of debt owned by multinational companies to narrow the practice of thin capitalization. (2) Companies are expected to be able to maximize the implementation of good corporate governance well. By upholding the principles of good corporate governance, such as transparency, accountability, responsibility, independence, and fairness in all aspects of the company, it can be ensured that the practice of thin capitalization can be prevented.

Suggestion

Suggestions for further research are expected to add new independent variables such as managerial Ownership. Adjusted R Square value shows that all independent variables and control variables in this study can only explain the factors that influence the practice of thin capitalization by 33%, the remaining 67% is explained by other variables not included in this study, as well as increasing the term research time.

Limitation

Even though the empirical result of this study supports some of the hypotheses, at least two limitations should be carefully considered. First, the data were collected only in Indonesia that may have different capital market characteristics with other countries. These differences may include the capital market regulation, economics condition, tax law, or investment opportunity. Hence, the present result should not be assumed to represent the general case in the world. However, this study may provide a primary reference for other countries whose environment and type of industries are similar to those in Indonesia. Second, even though this study controls the hypothesis testing with four control variables, the result indicates that these control variables may not influence the relationship among variables. Only one control variables (ROA) can change the effect.

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