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DETERMINANT OF THIN CAPITALIZATION IN MULTINATIONAL COMPANIES IN INDONESIA

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Abstract

Thin capitalization is action of tax avoidance by having total debt more than total capital and that debt obtained from the same group of companies. This research aims to obtain the empirically evidence regarding the influence of multinationalism, tax haven utilization, tax uncertainty, firm size, and audit committee size against thin capitalization. The population in this research is multinational companies listed on the Indonesian Stock Exchange in the year of 2014-2016. The sampling technique was purposive sampling and got an analysis unit of 40 companies. Ordinal Least Square (OLS) with SPSS is used as the analytical technique. The results show that multinationalism, tax haven utilization, tax uncertainty, and firm size have a significant positive effect on thin capitalization. The results also prove that the size of audit committees has significantly negative effect on thin capitalization. This research concludes that thin capitalization is influenced by multinationalism, tax haven utilization, tax uncertainty, firm size, and audit committee size. Suggestions related to this research are for further research to ensure the measurement of tax uncertainty more objectively and to extend sampling time.

***Keywoards:** thin capitalization, multinationalism, tax haven, tax uncertainty*

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INTRODUCTION

Tax revenue targets are strongly influenced by taxpayer awareness. Increasing public awareness in the field of taxation must be supported by an increase in the active role of the community, including foreign entities tax payers and understanding of their rights and obligations in implementing tax laws and regulations (Nursheha, Suryarini, & Kiswanto, 2014). Income from foreign entities in the country can be a source of tax revenue for Indonesia. But for foreign entities, the tax liability is one of the biggest cost that must be encumbrance by the company and efforts to reduce the liability continuously has to be carried out by finding loophole of the tax provisions. Such actions are often called tax planning. In fact, according to the Minister of Finance, there are two thousand foreign companies in Indonesia not paying taxes because they claimed to have lost over the past ten years (www.cnnindonesia.com).

Tax planning when viewed from a government perspective is an act of tax avoidance (Nuraini & Marsono, 2014). Rahayu (2010) explained that the loophole in tax provisions that could be used by foreign entities in Indonesia for tax evasion are Transfer Pricing, State utilization of Tax Haven, Treaty Shopping, Controlled Foreign Corporation (CFC), and Thin Capitalization. The practice of tax avoidance that is difficult to detect and can only be done by foreign entities is thin capitalization practices. Thin capitalization is the formation of capital structure of a company with the contribution of debt as much as possible and capital as little as possible (Nuraini & Marsono,

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2014).

Tax evasion actions by foreign entities through the thin capitalization certainly affect tax revenues in Indonesia. According to Saeroji (2017), the structure and composition of tax receipts have anomalies which are still dominated by corporate taxpayers. This is clearly illustrated in the trend of corporate tax rates over the past five years (table 1).

Table 1. Trends in Corporate Income Tax Rates

Year	Indonesia	Singapore	Malaysia	Thailand
2012	25%*	17%	25%	23%
2013	25%*	17%	25%	20%
2014	25%*	17%	25%	20%
2015	25%*	17%	24%	20%
2016	25%*	17%	24%	20%

*) 1% tax rate for companies with a turnover below 4.8 billion
*) 50% tax reduction for companies with a turnover of 4.8 billion to 50 billion
Source: home.kpmg.com

The corporate tax rate set by Indonesia is high in ASEAN countries, which is a trigger for multinational companies to place their subsidiaries or branches in foreign countries that have smaller tax rates for thin capitalization practices. The practice of thin capitalization is a situation where a company is financed by a higher level of debt compared to capital (Nuraini & Marsono, 2014). Farrar & Mawani (2008) explained that a business is said to practice thin capitalization if it is financed with a relatively higher proportion of debt than equity. The practice of thin capitalization carried out by multinational companies has made developed and developing countries to implement thin-capitalization-rules (Webber, 2010).

Thin capitalization is influenced by several factors including multinationalism, utilization of tax havens, withholding taxes, tax uncertainty, institutional ownership, foreign exposure, company characteristics and Good Corporate Governance (GCG). The characteristics of the company in question are executive character, company size, and company risk. GCG is institutional ownership, the proportion of the board of commissioners, audit quality, and the size of the audit committee.

A 1994 article by Gunadi (as cited in Rahayu 2010), stated that lending in the practice of thin capitalization can be done in several approaches: l) direct loans, 2) back to back loans, and 3) parallel loans. In direct loans, investors (shareholders) of Foreign Taxpayers directly provide loans to subsidiaries. Meanwhile in the back to back loan approach, investors hand over their funds to the mediator as a third party to be directly loaned to the subsidiary by giving them compensation. Finally, in the parallel loan approach, foreign investors are looking for Indonesian company partners who have subsidiaries in investor countries, in return for lending to subsidiaries (Indonesia) in investor countries, then investors ask companies in Indonesia to also provide loans to subsidiaries owned by investors in Indonesia.

This study aims to examine several factors that influence the practice of thin capitalization in Indonesia including multinationalism, utilization of tax havens, tax uncertainty, company size, and the size of the audit committee. Previous research conducted by Christiana (2015), Nuraini & Marsono (2014), and Taylor & Richardson (2013) showed that companies with the multinationalism, utilization of tax havens, and tax uncertainty had a significant positive influence on thin capitalization. Whereas previous studies conducted by Swingly & Sukartha (2015), Dewi & Jati (2014), and Annisa & Kurniasih (2012) show that company size and audit committee size have a significant positive effect on tax avoidance practices.

This study uses control variables with the aim that the influence of the independent variables on the dependent becomes unbiased. The control variables used in this study are return on assets, inventory intensity, and capital intensity. The control variables chosen were the same as those conducted by Taylor & Richardson (2013) and Nuraini & Marsono (2014). The reason for selecting return on assets variable as a control variable is the independent variables, namely the size of the company takes the indicator of total assets as a measurement, the return on assets is expected to be a control of the variable. While the selection of inventory intensity and capital intensity variables as control variables are because these variables can make the influence of the independent variable on the dependent to become unbiased.

The grand theory that underlies this research are agency theory, trade-off theory, and Modigliani-Miller's (MM) capital structure theory. This agency theory arises because in the company there are parties who have their respective interests in achieving company's goals. The focus of agency theory is the assumption that the interests of principles and agents are different (Hill & Jones, 1992). Agency theory in the taxation is the relationship between tax authorities and taxpayers (Nuraini & Marsono, 2014). In this case the principal is the tax authorities and the agents are the taxpayer and both parties have their respective interests. The role of tax authorities in collecting taxes on taxpayers is for state revenues and taxpayers has the role of reporting and paying taxes owed to the government in order to fulfill the compulsory contributions and participating in developing the country where they are located.

The tradeoff theory proposed by Myers (2001) stated that companies will owe up to a certain level of debt, where the tax savings (tax shields) from additional debt is equal to the cost of financial difficulties (financial distress). The trade-off theory has the implication that managers will think in terms of the trade-off between tax savings and financial distress in determining capital structure. Modigliani-miller capital structure theory states that the value of a company's loan is equal to the value of a non-debt company plus tax savings due to debt interest, the implication is that debt financing is very profitable and Modigliani-Miller states that the company's optimal capital structure is one hundred percent debt (Modigliani & Miller, 1963).

Multinational companies that have subsidiaries and branches spread across various countries can be assumed that obtaining foreign income and applying efficient tax planning among their group entities. This makes the possibility of the company's involvement in the practice of tax avoidance greater, especially the practice of thin capitalization. In fact, Desai, Foley, & Hines (2004) show that multinational companies based in the United States that have a tax rate of 10% higher than affiliated countries increase their debt-to-asset ratio by 2.8% on companies in affiliated countries.

H_1: Multinationalism has a positive effect on thin capitalization

The tax haven countries are countries that provide facilities to other countries 'taxpayers. The income from other countries' taxpayers can be directed to countries that are members of tax havens which will benefit those taxpayers because their income will not be tax deductible. Large and multinational companies use tax haven countries as a place to avoid their income or profits from tax liability because tax haven countries will not cut or only deduct a little tax on the company's income. Desai, Foley, & Hines (2006) provide data that American multinational companies make large use of Tax Haven countries, in 1999, 59% of multinational companies in the United States had relations in Tax Haven.

H_2: Tax haven utilization has a positive effect on thin capitalization

Management may face significant uncertainty in determining tax estimates based on differences in interpretation of tax law (Desai & Dharmapala, 2006). Desai & Dharmapala (2006) explained that tax uncertainty can be used by company's management as a tool to cover tax avoidance activities. This certainly includes the practice of thin capitalization. In addition, when a company enters a "gray area" where the boundary between the implementation of tax planning and tax avoidance becomes unclear, there is an accompanying tax uncertainty. Dyreng, Hanlon, & Maydew (2014) explain that tax authorities can challenge company arguments in doing this and can cause companies to suffer losses due to fines imposed by authority on the company.

H_3: Tax uncertainty has a positive effect on thin capitalization

Companies with the characteristics of having subsidiaries and branches spread across various countries certainly had large total assets, this makes the company as a large company. Underlying the relationship between the size of the company and thin capitalization is that large companies will carry out tax efficiency to obtain large revenues with small tax deductions.

H_4: Company size has a positive effect on thin capitalization

According to Dewi & Jati (2014) and Swingly & Sukartha (2015), the greater the number of audit committees owned by the company, the better the implementation of supervision of the company's operations that will minimize the practice of tax avoidance including thin capitalization. The relationship between the audit committee and the thin capitalization tax avoidance practice is that the audit committee overseeing each company's operations, therefore the practice of tax avoidance can be minimized by the strong internal control of the audit committee.

H_5: The size of the audit committee has a negative effect on thin capitalization

RESEARCH METHODS

The type of this research is a quantitative research. The data used in this study are secondary data in the form of financial reports and annual reports of multinational companies listed on the Indonesia Stock Exchange in 2014-2016. The population in this study are multinational companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2016. The technique used in the selection of this research sample is purposive sampling, which is a sampling method that is adjusted to the criteria of the researcher (Wahyudin, 2015).

Table 2. Sampling Criteria

No	Sample Criteria	Amount
1	Multinational company listed on the IDX in the 2014-2016 period	54
2	Companies engaged in finance, insurance and property	(6)
3	Companies that do not publish financial reports and annual reports for the 2014-2016 period	(2)
4	Number of companies that do not have complete information needed related to the variables in this study	(6)
	Number of companies that meet the criteria as sample	40
	Number of Analysis Units (2014-2016 Period)	**120**

Source: Secondary data processed, 2017

Variables in this study are nine variables consisting of one dependent variable, five independent variables, and three control variables. The dependent variable in this study is thin capitalization. The independent variables in this study are multinationalism, utilization of tax havens, tax uncertainty, company size, and the size of the audit committee. The control variables in this study are return on assets, inventory intensity, and capital intensity. Research variables, variable definitions, and measurements are summarized in table 3.

Data collection techniques in this study uses documentation techniques. The data analysis technique used is a multiple regression analysis technique with the help of SPSS version 24 with a significance level of 5% (0.05). This study consist of descriptive statistical analysis and inferential statistical analysis techniques. Hypothesis testing uses multiple regression analysis containing elements of the multiplication of two or more independent variables (Ghozali, 2011).

RESULTS AND DISCUSSION

Descriptive statistics on multinationalism variables show the unit of analysis 0f multinationalism is 21 companies or 52.50% while the non-multinationalism is 19 companies or 47.50%. The variable utilization of tax havens shows a unit of analysis with a tax haven utilization category is 23 companies or 57.50% while the non-utilization tax haven category is 17 companies or 42.50%. Variables of tax uncertainty indicate unit analysis with the uncertainty tax category is 17 companies or 42.50% while the non-uncertainty tax category is 23 companies or 57.50%. Descriptive statistics for all variables are shown in table 4.

The results of descriptive statistics in Table 4 show that company size variables (SIZE) have a value range of 26.90 (minimum) to 33.19 (maximum). The company that has the lowest (minimum) SIZE value is PT Mustika Ratu Tbk in 2016 with its total asset logarithm value of 26.90, indicating that PT Mustika Ratu Tbk has the lowest possibility of doing thin capitalization when viewed from the size his company. Whereas for companies that have the highest value (maximum) is PT Astra International Tbk with its total asset logarithm value of 33.19 in 2016, which indicates that PT Astra International Tbk has the highest possibility of conducting thin capitalization among all existing companies when viewed from the variable size of the company.

Table 3. Operational Definition of Variables

No	Variable	Variable Definition	Measurement
1.	Thin capitalization	The situation where a company is financed by a higher level of debt than capital (OECD, 2012).	DER = Total liabilities / Total equity
2.	Multinationalism	Multinational companies are companies that operate (produce and sell goods or services) in more than one country (Shapiro, 1975).	Dummy Variable, 1 = have five or more companies outside Indonesia, 0 = has fewer than five companies outside Indonesia
3.	The use of tax haven	Tax Haven is a country with low tax jurisdiction or no tax at all which gives investors the opportunity to take tax avoidance actions (Desai et al., 2006).	Dummy Variable, 1 = has one or more companies in a tax haven country, 0 = does not have a company in a tax haven country.
4.	Tax uncertainty	Tax uncertainty is when management faces significant uncertainty in determining tax assessment based on differences in interpretation of tax law (Desai & Dharmapala, 2006)	Dummy Variable, 1 = disclose tax uncertainty at CALK. 0 = does not disclose tax uncertainty at CALK.
5.	Company size	Company size is a description of the size of the company that is determined based on nominal size, for example the amount of assets and total sales of the company in one sales period (Dewi & Jati, 2014)	Company size = Ln (Total Assets)
6.	Audit committee size	Audit Committee in accordance with the Decision of the Chairman of the Capital Market Supervisory Agency Number Kep-634 / BL / 2012 is a committee formed by the board of commissioners to carry out the task of overseeing the management of the company	Audit committee size = number of audit committees
7.	Return on assets	ROA is measured as pre-tax profit divided by total assets, including in the basis of the regression model to control the operating performance or profitability of the company (Gupta & Newberry, 1997)	ROA = Pre-tax income / total assets.
8.	Inventory intensity	Inventory Intensity is the percentage of inventory to total assets (Taylor & Richardson, 2013)	Inventory intensity = inventory / total assets
9.	Capital intensity	Capital Intensity is the net value of property, plant and equipment divided by the total value of assets in the previous period (Taylor & Richardson, 2013)	Capital intensity = total fixed asset / total assets

Source: Author summary, 2017

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

Regression models obtained based on the results of processed data with SPSS are presented as follows:

$$\begin{aligned} THINCAP = {} & -2{,}103 + 0{,}407\ MULTI + 0{,}602\ TAXHAV + 0{,}248\ UNCERT \\ & + 0{,}113\ SIZE - 0{,}249\ KAUDIT + 0{,}186\ ROA - 0{,}336\ INVINT \\ & + 0{,}134\ CINT \end{aligned} \qquad (1)$$

Table 4. Descriptive statistical analysis

	N	Minimum	Maximum	Mean	Std. Deviation
THINCAP	120	,02	3,20	1,19	,80
SIZE	120	26,90	33,19	29,93	1,41
KAUDIT	120	2	4	3,01	,44
ROA	120	-3,81	1,68	,032	,42
INVINT	120	,00	,61	,11	,12
CINT	120	,00	,85	,35	,24
Valid N (listwise)	120				

Source: Output SPSS 24.0 for windows, 2017

The regression equation model shows that every one percent increase in thin capitalization is caused by an increase in multinationalism variable of 0.407, tax haven utilization variable of 0.602, tax uncertainty variable of 0.248, company size variable 0.113, and decrease in audit committee variable of 0.249. Control variables influence each one percent increase in thin capitalization, i.e. an increase of 0.186 on ROA, a decrease of 0.336 in inventory intensity, and an increase of 0.134 on capital intensity.

The results of the t statistical in table 5 indicates the influence of each independent variable individually on the dependent variable. Hypothesis test results can be seen in table 5.

Table 5. Hypothesis Test Results

Hypothesis	Statement	Coefficient	Sig.	Decision
H1	Multinationalism has a positive effect on thin capitalization	0,407	0,005	Accepted
H2	Tax haven utilization has a positive effect on thin capitalization	0,602	0,000	Accepted
H3	Tax uncertainty has a positive effect on thin capitalization	0,248	0,039	Accepted
H4	The size of the company has a positive effect on thin capitalization	0,113	0,002	Accepted
H5	The size of the audit committee has a negative effect on thin capitalization	-0,249	0,038	Accepted

Source: Primary Data processed, 2017

Effect of Multinationalism on Thin Capitalization

This study successfully proved the influence of multinationalism on thin capitalization. The results of this study are in line with agency theory which states that the desire of management to improve their personal interests and management will strive to minimize the company's tax liability in order to avoid a high tax expense. This is because in Indonesia the corporate income tax rate is higher compared to neighbouring countries in ASEAN, which is 25%.

The practice of thin capitalization can only be done by multinational companies because multinational companies have large groups that are not only in Indonesia but also outside Indonesia, so the practice of thin capitalization can be done. This is also in accordance with the trade-off theory proposed by Myers (2001) where the company will owe up to a certain level of debt, where the tax savings (tax shields) from additional debt is equal to the cost of financial difficulties (financial distress). According to Myers (2001), financial distress refers to the cost of bankruptcy or reorganization, and agency costs that arise when the feasibility of a company's debt is in doubt. The debt is played in a group of multinational companies in various ways so that later the corporate income tax becomes to a minimum.

Another reason was supported by the absence of regulations on thin capitalization rules made multinational companies freely play debt among their groups, until 2016 with the Minister of Finance Decree Number 169 / PMK.010 / 2015 rule. With this rule, multinational companies can optimize their interest rates so that the interest expense can be fully deductible for Taxable Income. So that the tax liability of the company will shrink. In the end, PMK No.169 / PMK.010 / 2015 came out and finally set a limit on the ratio of debt and capital of 4: 1. Until 2016, no restriction for the ratio of debt and capital which eventually led multinational companies to practice thin capitalization inside their big group.

Indonesian companies that have a multinationalism character have higher debt to equity values than companies that do not have these characters. This can happen because the character of multinationalism allows them to gain profits that are greater than the value of the deductible interest expense, by utilizing the difference in tax rates between tax jurisdictions. Indonesian companies can benefit when receiving loans from creditors located in locations that charge lower corporate tax rates from Indonesia.

The results of this study are supported by research conducted by Taylor & Richardson (2013) which states that multinationalism has a significant positive effect on the practice of thin capitalization. This study also proves the same results of multinational companies has a significant positive effect on thin capitalization given that multinational companies usually implement efficient tax planning in all of their corporate entities. Since subsidiaries or branches companies obtain foreign income, they will be involved in greater tax avoidance activities. The study by Christiana (2015) also has the same results, Indonesian companies that have the characteristics of multinationalism, tax havens and tax uncertainty, proved to have a higher value of debt to capital ratio than companies that did not have these characteristics.

Effects of Utilizing Tax Haven on Thin Capitalization

This study also succeeded in proving the influence of tax haven utilization on thin capitalization. The results are in line with agency theory which states that the desire of management to improve their personal interests therefore management will strive to minimize the company's tax liability in order to avoid a high tax expense. In order to avoid taxes in Indonesia, multinational companies set up companies in gray countries or tax haven countries. Where in that country does not follow international tax regulations that make the country free to determine taxes and even no tax. Tax haven is used by multinational companies that have a large group network to place one or more companies in the country for investment purposes.

Descriptive analysis of tax haven utilization variables provides evidence that in the analysis unit used there were 57.5% of all analysis units are companies in tax haven countries. This proves that multinational companies place one or more of their subsidiaries in tax haven countries. The utilization of tax haven countries provides a greater opportunity for multinational companies to practice thin capitalization because tax haven countries provide a lot of tax breaks even to the point of not collecting taxes.

The tax haven utilization which significantly influence on thin capitalization indicates that tax haven country is a chance for multinational companies to practice tax avoidance. Indonesian companies that have subsidiaries in tax haven countries have a higher average debt ratio than companies that do not place their subsidiaries in tax haven countries. When Indonesian companies obtain loans from their subsidiaries in tax haven countries, the benefits of using interest loans to minimize group tax liability are maximized. Indonesian companies can reduce the interest expense with a high value, and interest income received by subsidiaries will not be subject to high taxes in tax haven countries.

The very low tax rate or even the absence of taxation in tax haven country invited many multinational companies to invest there and even established branches or subsidiaries, multinational companies in Indonesia are no exception. In this study, many multinational companies set up branches in several tax haven countries, such as the British Virgin Islands, the Netherlands, Cayman Islands, Singapore, Panama, etc.

These results are in line with the research by Taylor & Richardson (2013) which states that companies that have at least one subsidiary placed in a tax haven country have a thin capitalization capital structure. Nuraini & Marsono (2014) also has the same results that multinational companies can use an entity for loan financing in tax havens to make safe tax deductions to pay interest debt by subsidiaries in countries that invest high tax rates. Even Christiana (2015) also stated that the use of tax havens had a significant positive effect on thin capitalization.

Effects of Tax Uncertainty on Thin Capitalization

This study successfully proved the influence of tax uncertainty on thin capitalization. The results are in line with agency theory which states that the desire of management to improve their personal interests and management will strive to minimize the company's tax liability in order to avoid a high tax expense. In order to practice thin capitalization tax avoidance, multinational companies cover it by recognizing that the company cannot definitively determine its income tax due to the interpretation of complex tax regulations. Even Desai & Dharmapala (2006) state that tax uncertainty can be used by company management as a tool to camouflage or cover up tax avoidance practices. Included in the practice of thin capitalization, tax uncertainty can be used for reasons where the company has difficulty in determining taxes due to the capital structure that is so thin capitalized.

This study points that companies who noted information of uncertainty in determining taxes in the financial statements hold a tendency to have a corporate structure with subsidiaries and branches more than five companies outside Indonesia, including placing them in tax haven countries. This result is in accordance with Taylor & Richardson (2013) study that companies with multinationalism, tax haven utilization, and tax uncertainty have a significant positive effect on thin capitalization. On the contrary, Christiana (2015) found that there is a negative correlation between the tax uncertainty and thin capitalization on the grounds that when Indonesian companies face in legal disputes with taxation authorities, they will note uncertainty in determining tax value and eventually will impact negatively on their reputation.

Effect of Company Size on Thin Capitalization

This study successfully proved the influence of company size on thin capitalization. This result shows that companies that have a company size that is increasingly seen from their total assets will be more likely to practice thin capitalization. The results of this study are in line with the MM capital structure theory which states that the value of debt companies equals to the value of non-debt companies plus tax savings due to debt interest. The more companies have a large size of assets, the greater the value of the company and the tax savings and debt interest through the thin capitalization practice.

Descriptive statistical test indicates that there is a significant influence between variable size companies with thin capitalization. The frequency distribution behavior of the two variables show a significant positive effect. Based on the results of the frequency distribution of company sizes, shows that the criteria from very low to the low level experiencing a decrease in frequency, but again increasing in the medium level even though it returns to a low again in the very high level. No different from the results of the frequency distribution of the level of tax aggressiveness that shows a very low level towards very high level are decreased. This proves that companies with very high company sizes also have very high DER ratios and the larger the size of the company the more likely the company is to practice thin capitalization.

The results are supported by research conducted by Swingly & Sukartha (2015), stating that statistically total assets which are proxies of company size have a positive effect on tax avoidance. In contrast to the research results by Dewi & Jati (2014) which states that company size does not affect tax avoidance actions. The tax avoidance in question includes thin capitalization. Taylor & Richardson (2013) also included company size into the regression model as a control variable and proved that firm size had a significant positive effect on thin capitalization.

Effect of Audit Committee Size on Thin Capitalization

This study successfully proved the influence of the size of the audit committee on thin capitalization. The direction of the relationship between the size of the audit committee and thin capitalization has a negative effect. This proves that the more members of the audit committee, the more the practice of thin capitalization can be minimized. The existence of an audit committee greatly affects the company's operations. Supervision of the audit committee in order to assist the board of commissioners is ruled by the Decree of the Chairperson of BAPEPAM and LK Number Kep-643/BL/2012. The decree requires that at least there are three audit committees. Less than three people do not comply with the regulations, so if the number of audit committees in a company is not in accordance with these regulations, it will improve management's actions in carrying out tax avoidance actions through thin capitalization. The audit committee can also be a tool to enhance the integrity and credibility of financial reporting so that the company can run well.

There are some reasons for the company's audit committee are negatively correlated with thin capitalization. First, if fewer audit committees in the companies, the control of financial policies carried out by audit committees is minimal, thus enhancing management actions in tax avoidance through thin capitalization, and vice versa. If the more the number of audit committees in the company, the more control of financial policy will be so tight that it will reduce tax evasion measures through thin capitalization. Second, the credibility of companies that have audit committees that are little or less than those set by the head of BAPEPAM will affect financial integrity and credibility so that the company may practice thin capitalization.

The results are supported by research conducted by Dewi & Jati (2014). They stated that the higher the presence of audit committees in companies will improve the quality of good corporate governance within the company, so that it will minimize the possibility of tax avoidance practices. This shows that companies that have audit committees will be more responsible and open in presenting financial statements because the audit committee will monitor all activities that take place within the company. In contrast to the results of Swingly & Sukartha (2015) which stated that statistically the number of committees did not affect tax avoidance.

CONCLUSIONS

The results of this study indicate that multinationalism, utilization of tax havens, tax uncertainty, and firm size have a significant positive effect on thin capitalization. While the size of the audit committee has a significant negative effect on thin capitalization. For further research, suggestions relating to this research are to ensure the measurement of tax uncertainty and develop the time span of research and add variables that have not been studied in this study.

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