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THE EFFECT OF OF THIN CAPITALIZATION, RELATED PARTY, TAX RISK AND DIRECTOR WITH FOREIGN COUNTRY EXPERIENCE ON THE TAX AVOIDANCE

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Abstrak

Tax avoidance is an effort to control income legally in accordance with tax laws and regulations to reduce the amount of tax to be paid. This study aims to determine the effect of Thin Capitalization, Related Party, Tax Risk and Director with foreign country experience on the tax avoidance. The dependent variable in this study is tax avoidance as measured using the Effective Tax Rate (ETR) ratio. With secondary data obtained from the financial statements and annual reports of multinational manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sampling technique used is the purposive sampling method according to predetermined criteria with a total sample of 206 companies during 2018-2022. The data analysis technique uses multiple linear regression, with the help of the Statistical Program for Social Science (SPSS) 26. The results of this study indicate that the Thin Capitalization variable has a positive and significant effect on tax avoidance. Meanwhile, the variables of Related Party, Tax Risk, and Director with foreign country experience have a negative and significant influence on tax avoidance. The coefficient of determination test results show that tax avoidance is influenced by the Thin Capitalization, Related Party, Tax Risk, Director with foreign country experience variables by 25.6%, while the remaining 74.4% is influenced by other factors not examined in this study.

Keywords: Thin Capitalization, Related Party, Tax Risk, Director with foreign country experience, Tax avoidance.

1. Background of study

In 2019 the Tax Justice Network reported that British American Tobacco (BAT) had committed tax avoidance through PT Bentoel Internasional Investama. BAT has diverted some of its revenues out of Indonesia by means of Intra-Company Loans. Bentoel must pay total loan interest of IDR 2.25 trillion, equivalent to US$ 164 million. This interest will be deducted from taxable income in Indonesia. Because of this, Indonesia experiences losses of US$ 11 million per year. (Kompasiana, 2022). A similar case occurred in 2014, PT RNI with capital included as debt. This company can avoid its tax obligations because the interest on the debt reduces its tax obligations (Kompasiana, 2022). In the same year, PT Garuda Metalindo utilized capital obtained from loans or debt to avoid paying taxes that had to be borne by the company (PPKN.com, 2022). Google in Indonesia also takes advantage of the P3B agreement between Singapore and Indonesia. Google is protected under a P3B agreement where online activities are not included in permanent establishments (BUT) so they cannot be taxed. If it is assumed that state losses seen from the profits received are IDR 1 trillion. So, the income tax (PPh) that must be paid is 25% of profits, namely IDR 250 billion and Value Added Tax (VAT), namely 10% of income, namely IDR 300 billion. So, the assumed tax that should be paid in five years (2011-2016) is IDR 2.75 trillion (detikFinance, 2016).

From the tax avoidance phenomena above, taxpayers are trying to reduce costs to achieve maximum profits by avoiding taxes. This shows the difference in interests between the tax authorities and the company which will lead to non-compliance. The existence of this conflict has an impact on various efforts made by companies to reduce tax costs, even though tax avoidance. One way that companies can avoid taxes is by thin capitalization. Thin capitalization is a procedure that refers to investment decisions made by a company to fund business operations, where the company prioritizes debt funding rather than using equity capital as its funding (Anindita et al., 2022). Companies receive incentives in the form of tax reductions at higher rates due to interest expenses. In previous research conducted by Rachmawati (2019), Salwah and Herianti (2019), and Meiriska (2021) stated that thin capitalization has a negative effect on tax avoidance. Meanwhile, other research shows that thin capitalization has a positive effect on tax avoidance (Tarmizi and Perkasa, 2022).

Another effort is transfer pricing in affiliate transactions (special relationships). Transfer pricing is the transaction of goods and services between several divisions in a business group at unreasonable prices, either by increasing (mark-up) or lowering prices (mark-down), which is mostly done by multinational companies. In research conducted by Panjalusman (2018) and Prambudi (2021) it is stated that transfer pricing has a negative effect on tax avoidance. Other research conducted by Annisa and Dudi (2018) shows that transfer pricing has a positive effect on tax avoidance.

Tax avoidance can also be influenced by tax risk factors. Tax risk is closely related to the uncertainty of the environment surrounding the Company. Uncertaintylooksa rapidly changing environment will affect the tax risks the company accepts, so this makes management look for many ways to minimize company tax payments. Uncertain environmental conditions can influence management decision making and make tax risk prediction difficult. This uncertainty can be in the form of transactions carried out by the company, operational activities, management decision making, and company reputation (Hutchens et al., 2015). Research conducted by Drake (2019) and Sean (2021) states that tax risk does not show a significant influence. Managers do not dare to take risks in tax avoidance because they are afraid of making the wrong decision which will be detrimental to the company (Drake et al., 2019).

Another factor that can influence tax avoidance is directors with foreign country experience. Tax avoidance is carried out with strict supervision so that it does not violate the law and is directly supervised by the company's board of commissioners, which has an important role in the smooth management of the company (Oktaviani, 2023). Directors with foreign experience can influence corporate tax avoidance decisions in two opposite directions. On the one hand, directors can put maximizing shareholder value as their main task and ask the management team to reduce tax payments (Wen et al., 2020). Research conducted by Iliev & Roth (2018) and Nainggolan & Sari (2019) states that there is a positive relationship between foreign directors and tax avoidance. Meanwhile, there is also research which states that there is a negative relationship between the presence of foreign directors and tax avoidance. (Wen et al., 2020; Oktaviani et al., 2023; Setiadi et al., 2023). Therefore, based on the description above, this research is important and still very relevant because the practice of tax avoidance is still widespread in Indonesia. Researchers want to conduct empirical testing regarding the influence of thin capitalization, special relationships, tax risk, and directors with foreign country experience on tax avoidance in the multinational scale manufacturing sector listed on the Indonesia Stock Exchange (BEI) in 2018-2022.

2. Literature Review

a. *Agency theory*

In this research, agency theory explains the differences in interests that arise between the principal who acts as a regulator in tax matters and the company agency who acts as a taxpayer. Managers use avoidance techniques to manage income (Martha & Jati, 2021). The impact of carrying out tax avoidance actions is to reduce the tax burden that must be paid by the company. This results in increased company profits, so managers can obtain higher incentives.

b. *The tradeoff theory*

In this research, the tradeoff theory explains that there are indications of tax avoidance by utilizing debt as an alternative to saving tax expenditure. It was also explained that in the capital structure if you use debt, this can minimize tax expenditure due to the interest costs incurred (Hermuningsih, 2012). If management succeeds in maximizing the company's debt ratio, then the company can maximize company value by covering all costs incurred from the benefits obtained (Uyar & Guzelyurt, 2015).

c. *Tax avoidance*

Tax avoidance is an effort to legally control income that remains in accordance with tax laws and regulations to reduce the amount of tax that must be paid (Dwiyanti & Jati, 2019). Efforts to avoid taxes are carried out by people who truly understand and fully understand tax laws or regulations, because it does not rule out the possibility that tax avoidance tactics are often considered unethical even though tax managers or accountants have a strong foundation regarding tax avoidance.

d. *Thin capitalization*

Thin capitalization is a funding structure that increases the proportion of debt rather than equity to avoid too high a tax burden. The tax treatment for returns from funding through debt is different from returns from funding through capital (equity). If the funding source contains interest costs, then the interest is a deduction from taxable income, while there is no deduction for funding from dividends. This difference encourages companies to plan funding sources from debt that are greater than from capital (thin capitalization).

e. *Transfer Pricing in Affiliate Transactions (Special Relationship)*

This special relationship is usually detected if in the financial report the prices listed between the parent company and the subsidiary include an unreasonable price value, this is evidence that the company is carrying out transfer pricing. Transfer pricing is a strategy for manipulating prices in a structured way to minimize artificial profits, create the view that the company is making a loss, and avoid a country's taxes. Based on this definition, tax avoidance can be carried out using a transfer pricing scheme which can be carried out between divisions in domestic companies and companies located abroad (Suandy, 2016).

f. *Tax risk*

Tax risk is closely related to the uncertainty of the company's surrounding environment. Tax planning carried out by managers will always pay attention to factors in the company's environment so that managers can calculate what tax risks the company will receive in the future. Hutchens (2015) states that tax risk is everything related to corporate taxes which is accompanied by uncertainty around the company's environment. Uncertainty in a rapidly changing environment will affect the tax risks received by the company, so this makes management look for ways to minimize tax payments made by the company.

g. *Director with foreign country experience*

The board of directors is responsible for monitoring and advising management (Fama & Jensen, 1983). Richardson (2013) shows that CEOs and directors are rewarded by gaining an increase in the number of outside board directors for being aggressive on taxes. Through their experience in developed countries, returning directors can observe the costs and benefits of implementing such tax strategies, understand that they are ultimately responsible to shareholders, and embrace the concept of shareholder wealth maximization, thereby becoming aggressive in tax avoidance.

h. *Company size*

Company size (firm size) is a scale on which a company can be classified as large or small according to various ways, including looking at total assets, share market value, etc. (Wulandari & Machfoedz, 1994). A company's operating activities can be assessed from the size of the company. The amount of activity in a company is directly proportional to the size of the company. With this, transactions in the company become significantly more complicated. This is used by companies as a loophole and used to carry out tax avoidance practices in every transaction (Shafira et al., 2022).

Hypothesis development

a. The effect of thin capitalization on tax avoidance

The higher the debt, the higher the interest the company must pay to creditors, so the lower the taxable profit (Salwah and Herianti, 2019. This strategy is then used by companies to avoid taxes by increasing the debt to capital ratio (DER). Activities This is referred to as thin capitalization. Research conducted by (Leony, 2020); (Tarmizi & Perkasa, 2022); Countries regarding thin capitalization definitely differ. With the issuance of the Minister of Finance Regulation Number PMK.010/2015 stating the maximum debt to equity ratio is 4:1. Based on the description above from the results of previous research, the hypothesis of this research can be concluded as follows:

H1: Thin capitalization has a positive effect on tax avoidance

b. The effect of transfer pricing on tax avoidance

Cases of tax avoidance by utilizing transfer pricing are proven by the shift in profits by multinational companies. Cristea & Nguyen (2016) provide significant empirical evidence that Danish multinational companies use transfer pricing to shift income to countries with lower tax rates. It found that a 10 percentage point reduction in the tax rate in a country with a low tax rate results in a 5.7 percent decrease in the export unit value of MNCs that have affiliates in that country compared to unaffiliated exporters. Research conducted by (Annisa & Dudi, 2018); (Barker & Brickman, 2017); (Cristea & Nguyen, 2016) states that transfer pricing has a positive effect on tax avoidance. As businesses develop, more and more complex business transactions are created, and the current lack of legislation to prevent these transactions, creates opportunities for overly aggressive tax avoidance. Based on the description above from the results of previous research, it can be concluded that the hypothesis of this research is as follows:

H2: Transfer pricing has a positive effect on tax avoidance

c. The influence of tax risk on tax avoidance

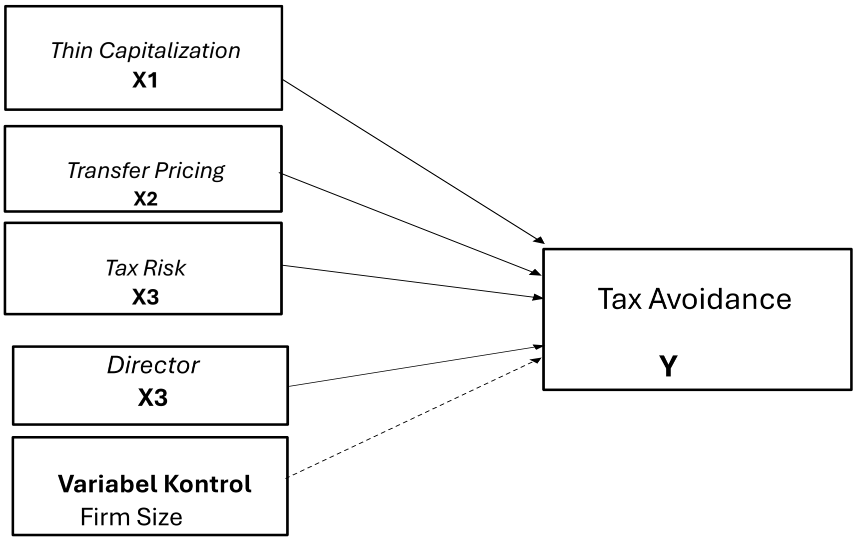
Uncertainty in the company environment will cause managers to have difficulty planning. Environmental uncertainty makes companies vulnerable to financial difficulties while companies must continue to fulfill their tax obligations to the state. Research by Januardi (2022) states that there is a positive and significant influence of tax risk on tax avoidance. Based on this explanation, the hypothesis of this research can be concluded as follows:

H3: Tax risk has a positive effect on tax avoidance

d. The Influence of Directors with foreign country experience and Tax Avoidance

Through the experience of directors in developed countries, returning directors can observe the costs and benefits of implementing such tax strategies, understand that they are ultimately responsible to shareholders, and embrace the concept of shareholder wealth maximization, thereby becoming aggressive in tax avoidance. Directors with foreign experience help facilitate a company's access to foreign resources and improve the company's performance in emerging markets. Research conducted by (Oktaviani, 2023); (Setiadi, 2023); (Wen, 2023). Directors with overseas experience will try to implement good corporate governance because they want long-term profits, so they tend to act in compliance with tax

provisions. Based on the results of previous research, the hypothesis of this research can be concluded as follows:
H4: Directors with foreign country experience have a negative effect on tax avoidance.



3. Methodology

This type of research is descriptive statistics. Descriptive statistics is a statistical analysis process that focuses on structuring, presenting and summarizing data. Descriptive research aims to present a structured, factual and accurate picture of the influence of thin capitalization, special relationships, tax risk and directors with foreign country experience on tax avoidance. This research uses data processing tools, namely SPSS version 26 software tools. This research method was carried out using multiple regression analysis. Test Hypothesis testing, partial or concurrent, is carried out when the regression model does not violate classical assumptions. To measure this research variable, researchers identified indicators built from previous research and theoretical studies. The variables in this research are:

A. Dependent Variable

Tax avoidance

The dependent variable in this research is tax avoidance as proxied by ETR. The higher the ETR value indicates the lower the company's level of tax avoidance. The avoidance formula using ETR is formulated as follows: (Dyreng et al., 2010)

$$ETR = \frac{Income\ Tax\ Expense}{Profit\ before\ tax}$$

B. Independent Variable

1) Thin capitalization

In this study, thin capitalization is proxied based on MAD (*Maximum Amount Debt*) *Ratio* which is used to measure thin capitalization, compiled by Taylor and Richardson (2013).

$$MAD = \frac{Average\ debt}{SHDA}$$

Where:

Average Debt = total interest – bearing liabilities (IBL) of the firm
SHDA = (average total assets – non-IBL) x 80%
A high mad ratio exceeding 1 indicates that the company uses a debt structure that exceeds regulatory limits. A high MAD ratio is an indication of a violation of thin capitalization rules which leads to tax avoidance practices

2) Special relationship

Transfer pricing is measured using a dichotomy approach, namely looking at the existence of sales to parties who have a special relationship.
Sales to related parties or special relationships indicate transfer pricing practices. The formula used to measure the size of the special relationship is as follows: (Gitting & Machdar, 2023)

$$RPT = \frac{Total\ Receivables\ from\ Related\ Parties}{Total\ Receivables}$$

3) Tax Risk

In his research, Neuman (2013) uses the term "tax risk" as an equivalent of uncertainty in the business environment. External uncertainty is measured using competitive uncertainty, where this competitive uncertainty will indicate the level of business in the same industry to determine a higher degree of competitive intensity. Environmental competitive uncertainty is calculated using the formula below. In research conducted by Wardhana (2021), external uncertainty is calculated using the Herfindahl Index with the formula:

$$Hi = \sum \left(\frac{Company\ Sales\ I}{Sales\ of\ the\ manufacturing\ industry\ sector}\right) 2$$

4) Director with foreign country experience

In this study, directors with foreign country experience is proxied by the director's overseas experience by collecting personal information including, foreign education and work experience abroad. This variable is measured using the following criteria:
1) Grade 1: Main director with at least 1-5 years of overseas experience.
2) Grade 2: Main director with at least 5-10 years of overseas experience.
3) Score 3: Main director with at least more than 10 years of overseas experience and/or director from outside Indonesia.

C. Variable Control

Company size The larger a company tends to have superior quality human resources, so they can make good plans to reduce the taxes paid in a company or tax planning with tax avoidance. Nuringsih (2005) formulates company size using a formula

$$SIZE = Ln\ (total\ units)$$

Research Model
The multiple linear regression formula is described by the following equation:
ANDit = α + β1MAD + β2TP + β3EU+β4FD + β5SIZE + e
Information:
α = Constant
β = Regression coefficient of each independent variable
ANDit = Tax Avoidance of company i in year t
MAD = Maximum Amount Debt (Thin Capitalization)
City = Transfer Pricing
EU = Environmental Uncertainty (Tax Risk)
FD = Foreign Director

SIZE = Size (company size)

4. Results and Discussion

In this research, the sample determination method uses a purposive sampling method, namely a sample determination technique based on criteria with the aim that the sample used can represent the research carried out. The analytical method used in this research is a quantitative method using software, namely SPSS version 26, to test the data. The data used in this research is secondary data from financial reports and annual reports of multinational manufacturing companies listed on the Indonesia Stock Exchange (BEI). This research took samples for five years, namely 2018 to 2022 which were accessed via the official website of the Indonesia Stock Exchange at the website address www.idx.co.id. The variable data used are thin capitalization, special relationships, tax risk, and directors with foreign country experience on tax avoidance. The purpose of this analysis is to obtain appropriate information on the data. The following table 1 presents the sample acquisition based on criteria determined according to research needs.

No	Information	Amount
1	Manufacturing company listed on the IDX	328
2	Non-multinational manufacturing companies listed successively on the IDX in 2018-2022	(259)
3	Multinational manufacturing companies that do not report financial reports and annual reports for the 2018-2022 period	(5)
	Research sample	64
	Research sample for 5 years (64 x 5)	320
	Sample with outlier data	(114)
	Total research sample	206

The hypothesis in this research was tested using a panel data regression model. The aim of this research is to obtain an overview of the influence of independent variables, namely thin capitalization, special relationships, tax risk, and directors with foreign country experience.

A. Descriptive statistical analysis test

Descriptive statistics provide an overview or description of data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum and range (Gozali)

No				Information	Amount
	N	Minimum	Maximum	Mean	Std. Deviation
ETR	206	-0,209	0,461	0,190	0,116
MAD	206	0,088	2,743	0,617	0,399
City	206	0,000	1,000	0,285	0,320

The

EU	206	0,071	0,993	0,358	0,241
DFC	206	1	3	1,730	0,875
Size	206	16,581	25,141	21,130	2,039
Valid N Listwise	206				

following table 2 is a descriptive analysis for the variables used in this research.

1) *Dependent variable (Tax Avoidance)*

The results of statistical analysis tests in Table 2 show that tax avoidance with a sample size (N) of 206 has a minimum value of -0.209 and a maximum value of 0.461. The average value (mean) of tax avoidance of 0.190 describes the average tax avoidance in multinational manufacturing companies and the standard deviation of 0.116 indicates that the data deviation is relatively smaller because the value is smaller than the average value.

2) *Independent Variable*

a) Thin Capitalization

The results of the statistical analysis test in table 2 show that thin capitalization with a sample size (N) of 206 has a minimum value of 0.088 and a maximum value of 2,743. The average value (mean) which illustrates that the average thin capitalization in multinational manufacturing companies is 0.617 and the standard deviation is 0.399 which shows a relatively smaller data deviation because the value is smaller than the average value.

b) Special Relationship (Transfer Pricing)

The results of the statistical analysis test in table 2 show that the special relationship with a sample size (N) of 206 has a minimum value of 0.000 and a maximum value of 1.000. The average (mean) value of special relationships in multinational manufacturing companies is 0.285 and the standard deviation is 0.320, indicating a relatively larger data deviation because the value is greater than the average value.

c) Tax risk

The results of the statistical analysis test in table 2 show that tax risk with a sample size (N) of 206 has a minimum value of 0.071 and a maximum value of 0.993. The average (mean) value of special relationships in multinational manufacturing companies is 0.358 and the standard deviation is 0.241 indicating a deviation from relatively smaller data because the value is smaller than the average value.

d) Director with foreign country experience

The results of the statistical analysis test in table 2 show that DFC with a sample size (N) of 206 has a minimum value of 1 and a maximum value of 3. The average value (mean) illustrates that the average thin capitalization in multinational manufacturing companies is 1,730 and The standard deviation is 0.875 which shows a relatively smaller data deviation because the value is smaller than the average value.

B. Classic assumption test

The classical assumption test is carried out to determine and test the feasibility of the regression model used. The normality test is used to test whether in the regression model the residual values are normally distributed. The data normality test in this study used statistical analysis. All data has met 4 classical assumption tests (normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test). The following are the results of the classical assumption test and their explanations:

1. Statistic test

The next normality test uses the nonparametric Kolmogorov-Smirnov (K-S) statistical test. Determining whether a data distribution is normal or not in the Kolmogrov-Smirnov statistical test is determined based on the significance level of the calculated results.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		206
Normal Parameters[a,b]	Mean	0,000
	Std. Deviation	0,103
Most Extreme Differences	Absolute	0,061
	Positive	0,051
	Negative	-0,061
Test Statistic		0,061
Asymp. Sig. (2-tailed)		0,064[c]

Based on the results of the Kolmogorov-Smirnov nonparametric statistical normality test in table 4.3, it shows that the value of Asymp. sig. (2-tailed) has a normal distribution of 0.064, where the value is greater than the significance level of 0.05. So, it can be concluded that the normality test has been fulfilled and the variables are normally distributed.

2. Multicollinearity test

The multicollinearity test aims to determine whether the regression model found any correlation between independent variables. The following are the results of the multicollinearity test:

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	MAD	0,961	1,041
	City	0,987	1,013
	EU	0,977	1,024
	DFC	0,982	1,018
	SIZE	0,941	1,063

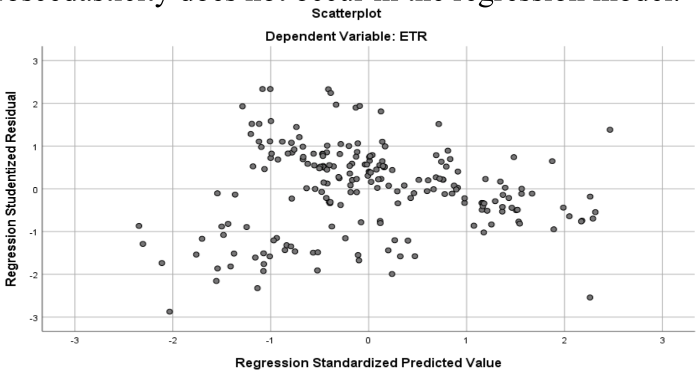
a. Dependent Variable: ETR

Each independent variable has a VIF value < 10 and a tolerance value > 0.10. So, it can be concluded that there is no multicollinearity problem between the independent variables in the regression model.

3. Heteroscedasticity test

The heteroscedasticity test in this research uses a scatter plot diagram. The results of the heteroscedasticity test can be seen in the image below:

Based on the output results in Figure 4.3 above, the points that appear on the scatterplot diagram are spread randomly both above and below the number 0 on the Y axis. This can be concluded that heteroscedasticity does not occur in the regression model.



4. Autocorrelation test

The autocorrelation test in this study used the Durbin-Watson test (DW test). The autocorrelation results can be seen in the table as follows:

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,524[a]	0,274	0,256	0,09695	1,882

The Durbin-Watson (DW) value is 1.882. From the Durbin-Watson table it is known that the value of n = 206 and k = 4, the dL value is 1.7279 and the dU value is 1.809. So, the result is 1.809 < 1.882 < 2.1906, that is, it meets the requirements for the value dU < dW < (4-dU). So, it can be concluded that in the regression equation model used there is no autocorrelation problem.

C. Multiple Linear Regression Testing

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Say.
		B	Std Error	Beta		
1	(Constant)	0,429	0,032		13,283	0,000

MAD	-0,154	0,007	-0,826	-21,057	0,000
City	0,029	0,009	0,123	3,187	0,002
EU	0,033	0,012	0,108	2,765	0,006
DFC	0,018	0,003	0,210	5,406	0,000
SIZE	-0,009	0,001	-0,252	-6,354	0,000

a. Dependent Variable: ETR

Based on Table 4, the following regression model is obtained:

ETR = 0,429 – 0,154MAD + 0,029TP + 0,033EU + 0,018DFC – 0,009SIZE + e

D. Hypothesis testing

1. Test the coefficient of determination R^2

The coefficient of determination is carried out with the aim of finding out the percentage influence of the independent variable on the dependent variable (tax avoidance).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,524[a]	0,274	0,256	0,09695

a. Predictors: (Constant), SIZE, DFC, TP, EU, MAD

b. Dependent Variable: ETR

The coefficient of determination value is 0.256 or 25.6%. So, 25.6% of the dependent variable tax avoidance is influenced by the four independent variables (thin capitalization, special relationships, tax risk, director with foreign country experience). Meanwhile, the remainder, namely 74.4%, is influenced by other variables not included in this study.

2. Partial Regression Coefficient Test (t Test)

a. Thin Capitalization

The results of testing the Thin Capitalization variable on tax avoidance obtained a t value of -21.057 and the significance value showed 0.000. So H1 is supported. Thin Capitalization has a significant effect on tax avoidance in a positive direction.

b. Special Relationship

The results of testing the special relationship variable on tax avoidance obtained a t value of 3.187 and the significance value showed 0.002. So H2 is not supported by the results which show that special relationships have a negative and significant effect on tax avoidance. Special relationships influence tax avoidance in a negative direction.

c. Tax Risk

The results of testing the Tax Risk variable on tax avoidance obtained a t value of 2.765 and the significance value showed 0.006. So statistically H3 is not supported with results showing that tax risk has a negative and significant effect on tax avoidance.

d. Director with foreign country experience

The results of testing the variable Director with foreign country experience on tax avoidance obtained a t value of 0.018 and the significance value showed 0.000. So statistically H4 is supported, with results showing that directors with foreign country experience have a negative and significant effect on tax avoidance.

E. Discussion of Hypothesis Testing

1. The Effect of Thin Capitalization on Tax Avoidance

The results of the hypothesis test show that thin capitalization has a positive effect on tax avoidance. The thin capitalization variable obtained a significance value of 0.000, which is smaller than 0.05. This shows that the results of the regression analysis accept the hypothesis H1, while these results also show that the higher the thin capitalization value, the lower the ETR value, where if the ETR value is low it is suspected that there is high tax avoidance. This is because companies increase the proportion of debt rather than equity to avoid excessively high tax burdens by taking advantage of the difference in treatment between interest as a return on debt and dividends as a return on stock investments in tax regulations. The higher the debt, the higher the interest the company must pay to creditors, so the lower the taxable profit. The results of this research are not in line with research conducted by Okesola (2018), Salwah (2019) and Faturahman (2021) which states that thin capitalization has a significant negative effect on tax avoidance. However, the results of this research are in line with research conducted by Falbo & Firmansyah (2018) and Tarmizi (2022) which states that thin capitalization has a positive effect on tax avoidance.

2. The Effect of Special Relationships on Tax Avoidance

The results of the second hypothesis test in this study show that special relationships have a negative effect on tax avoidance. Based on the results of the analysis of the special relationship variable, a significance value of 0.002 was obtained, which is smaller than 0.05. This shows that the results of the regression analysis reject hypothesis H2, the results of the analysis show that the higher the special relationship value, the higher the ETR value, where if the ETR value is high this shows that the taxes paid are also high and the potential for tax avoidance decreases. It can be said that the higher the value of the special relationship, the level of potential tax avoidance decreases. Thus, special relationships influence tax avoidance in a negative direction. The results of this research are not in line with research conducted by Annisa & Dudi (2018) and Yohana (2022) which states that transfer pricing has a significant positive effect on tax avoidance. However, the results of this research are in line with research conducted by Dharmawan (2017) and Melisa & Muslim (2021) which states that transfer pricing has a significant negative effect on tax avoidance.

3. The Influence of Tax Risk on Tax Avoidance

The results of the third hypothesis test of this study state that tax risk has a negative effect on tax avoidance. Based on the results of the analysis of the tax risk variable, a significance value of 0.006 is obtained, which is smaller than 0.05. This shows that the results of the regression analysis do not accept hypothesis H3, the results of the analysis show that the higher the tax risk value, the higher the ETR value, where if the ETR value is high this shows that the tax paid is also high and the potential for tax avoidance decreases. Tax risk has a negative effect on tax avoidance because environmental uncertainty makes companies vulnerable to financial difficulties while companies must continue to fulfill their tax obligations to the state. Environmental situations full of uncertainty Environmental situations full of uncertainty will allow managers to carry out good tax planning practices.

The results of this research are not in line with research conducted by Arieftiara (2020) and Januardi (2022) which states that tax risk has a significant positive effect on tax avoidance. However, the results of this research are in line with research conducted by Drake (2019) and Choi & Park (2022) which states that tax risk has a significant negative effect on tax avoidance.

4. The Influence of Directors with foreign country experience on Tax Avoidance

The results of the fourth hypothesis test of this research show that directors with foreign country experience have a negative effect on tax avoidance. Based on the results of the analysis of the director with foreign country experience variable, a significant value of 0.000 was obtained, which is smaller than 0.05. This shows that the results of the regression analysis support hypothesis H4, from the results of the analysis which shows that the higher the value of a director with foreign country experience, the higher the ETR value, where if the ETR value is high this shows that the tax paid is also high and the potential for tax avoidance decrease. The reduced potential for tax avoidance was caused by the main director returning from abroad bringing a lot of idealistic thoughts and applying them to his company so that the company's value would be good. This has triggered an increase in good tax planning. The results of this research are not in line with research conducted by Chen (2023) which states that directors with foreign country experience have a significant positive effect on tax avoidance. However, the results of this research are in line with research conducted by Wen (2020) and Oktaviani (2023) which states that directors with foreign country experience have a significant negative effect on tax avoidance.

5. Conclusions and recommendations

A. Conclusion

Based on the research results, it can be concluded that:

1) Thin Capitalization has a significant positive effect on tax avoidance in multinational manufacturing sector companies listed on the Indonesia Stock Exchange in 2018-2022 as proven through significance testing with a significance value of 0.000 > 0.05. This means that the hypothesis in this research is supported.
2) Special Relationships have a significant negative effect on tax avoidance in multinational manufacturing sector companies listed on the Indonesia Stock Exchange in 2018-2022 as proven through significance testing with a significance value of 0.002 < 0.05. This means that the hypothesis in this study is not supported.
3) Tax Risk has a significant negative effect on tax avoidance in multinational manufacturing sector companies listed on the Indonesia Stock Exchange in 2018-2022 as proven through significance testing with a significance value of 0.006 < 0.05. This means that the hypothesis in this study is not supported.
4) Director with foreign country experience has a significant negative effect on tax avoidance in multinational manufacturing sector companies listed on the Indonesia Stock Exchange in 2018-2022 as proven through significance testing with a significance value of 0.000 < 0.05. This means that the hypothesis in this study is not supported.

B. Suggestion

In future research, it would be better if the level of tax avoidance with ETR can also be calculated by dividing it by the ETR of the multinational manufacturing industry as a whole. As for proxies for special relationship variables, you can use other proxies such as debts with related parties, or sales with related parties so that the research results can explain the relationship between special relationships and tax avoidance more clearly.

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