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# Executive Characteristics, Thin Capitalization, and Tax Avoidance after the Pandemic: Implications for SDG 16

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## ABSTRACT

**Objective:** To examine the effect of thin capitalization on tax avoidance and investigates whether executive characteristics moderate this relationship in multinational companies after the COVID-19 pandemic. The study is motivated by concerns regarding tax avoidance practices and the need to strengthen corporate tax compliance in support of Sustainable Development Goal 16, which promotes effective, accountable, and transparent institutions. **Method:** Employing a quantitative approach using secondary data obtained from annual reports and financial statements of multinational consumer non-cyclical companies listed on the Indonesia Stock Exchange (IDX) during 2021–2022. Using purposive sampling, 41 companies were selected, resulting in 82 firm-year observations. The hypotheses were tested using panel data regression and moderated regression analysis (MRA). **Results:** The findings indicate that thin capitalization significantly affects tax avoidance. The relationship is negative, suggesting that companies tend to utilize debt financing within regulatory limits rather than aggressively using debt to reduce tax obligations. Furthermore, executive characteristics, proxied by corporate risk, significantly moderate the relationship between thin capitalization and tax avoidance by weakening its effect. This finding suggests that executives tend to exercise caution in implementing debt-based tax strategies after the pandemic. **Novelty:** Extending the tax accounting literature by demonstrating the moderating role of executive characteristics in the relationship between thin capitalization and tax avoidance in the post-pandemic period. The findings also provide empirical evidence supporting the Theory of Reasoned Action (TRA) and offer policy insights regarding the implementation of interest expense-to-EBITDA limitations to strengthen tax compliance and support SDG 16.

## INTRODUCTION

COVID-19 attacked Indonesia in early 2020 and had Influence on the economic situation in Indonesia (Alam et al., 2022; Djalante et al., 2020; Gandasari & Dwidienawati, 2020; Pitoyo et al., 2020). The entry of COVID-19 has hampered people's economic activities (Clemente-Suárez et al., 2021; Panda et al., 2021; Rasul et al., 2021). The Indonesian economy has experienced a decline in growth of 2.07% in 2020 but the Indonesian economy began to improve with economic growth increasing by 3.69% in 2021, and in 2022 it will again increase by 5.31% (Ariyani et al., 2025; Sapiri et al., 2026; Wahyudi et al., 2025). Various regulations were issued by the government to stabilize the country's economy, including tax regulations. The Ministry of Finance is responsible for formulating and executing tax policies aimed at achieving a balance between the collection of taxes, which serves as the primary source of revenue for ABPN, and the provision of tax benefits designed to mitigate the economic and social consequences of the pandemic.

The OECD states that Indonesia's tax ratio in the Asia Pacific region is among the lowest, which is 10.1% in 2020 and 10.9% in 2021 (Chakraborty, 2022; Chongvilaivan & Chooi, 2021). Indonesia's tax ratio is the lowest due to the influence of tax avoidance. Tax avoidance occurs because corporate or corporate taxpayers view taxes as a cost that can reduce the net profit of a business, so this may lead taxpayers to seek ways to reduce their tax payment. Tax avoidance is a legal action but it can reduce inland revenue because there is still a potential

tax that might be obtained through the practice of tax avoidance. Tax avoidance refers to the deliberate reduction of a taxpayer's legal expense to pay taxes, achieved by exploiting loopholes or deficiencies in the tax legislation, while remaining within the boundaries of the law (Bird & Davis-Nozemack, 2018; Braithwaite, 2017).

The issue of tax avoidance is closely related to Sustainable Development Goal (SDG) 16, particularly the objective of building effective, accountable, and transparent institutions. Tax revenue serves as a critical source of public financing for economic development, infrastructure, education, healthcare, and social welfare programs. Therefore, reducing tax avoidance practices and strengthening corporate tax compliance are essential to enhancing domestic resource mobilization and institutional effectiveness. Understanding how corporate financing decisions, such as thin capitalization, and executive characteristics influence tax avoidance behavior is important for developing policies that support transparent corporate governance and sustainable fiscal systems. Consequently, this study contributes to SDG 16 by providing empirical evidence on factors affecting corporate tax compliance in the post-pandemic period.

The Indonesian government issued Government Regulation Number 55 of 2022, often known as PP 55/2022, which pertains to the adjustment of regulations in the domain of income tax. The precise preventative measures for some tax avoidance schemes, as outlined in a news release by the Ministry of Finance, are governed by this rule. It emphasizes the acknowledgment of economic content above formal form, with one notable provision being the restriction on loan costs. This regulation pertains to the utilization of debt expenses by establishing the degree of comparison between debt and equity when computing taxable earnings and determining a specific proportion of the debt cost in relation to business income prior to deducting loan expenses, income tax, depreciation, and amortization (EBITDA). The debt-to-equity ratio (DER), is commonly employed to assess the relative proportion of debt and equity (Nukala & Prasada Rao, 2021). Conversely, the Earning Stripping Rules (ESR) are utilized to evaluate the relationship between the cost of debt and EBITDA. Nevertheless, a comprehensive discussion of the entire extent of ratio values achievable with the ESR technique, including the DER ratio, has not been undertaken.

Tax avoidance measures are implemented through optimal use of regulations in the tax field, such as the use of permissible tax exemptions and deductions, existing possibilities, incentives, types of tax rates, and others that are still unclear (gray area) ramifications from weaknesses or imperfections (loopholes) in tax laws and regulations that are intended to reduce the tax expense. The principle of tax avoidance is delaying tax payments, choosing to use low tax rates and manipulating income while still paying attention to applicable tax regulations in order to achieve tax expense efficiency and optimal profits so that the company's financial performance has a positive impact on business development and investment in the future. During the pandemic, many companies have avoided taxes (Abumere, 2023; Hapsari, 2021; Kobbi-Fakhfakh & Bougacha, 2023). Tax avoidance is executed by companies to minimize the tax burden so that company profits can be maximized (Hajerina et al., 2025). Company profits can be used again for company operations. During the pandemic, many companies experienced losses, making it difficult to find funding sources. This makes companies look for indispensable functional conditioning by exercising thin capitalization regulations as a tax avoidance activity.

Firms with high amounts of debt frequently adopt measures to reduce their tax bills. These businesses specifically seek to lower the amount of taxes they must pay by raising their interest expenses. An observable phenomenon, the escalation of tax avoidance through the

upward adjustment of loan charges. In Indonesia, the notion of thin capitalization has been confirmed in Indonesia reaffirmed 55 of 2022, namely in the paragraph addressing the use of instruments to prevent tax avoidance. The Director General of Taxes is responsible for recalculating the loan amount as capital when computing taxable income in line with fairness and business standards (Slemrod & Bakija, 2017). This allegation is supported further by Regulation 169/PMK.010/2015, which states that the income tax computation must incorporate a debt-to-equity ratio of no more than 4:1.

According to the Organization for Economic Cooperation and Development, thin capitalization, also known as high leverage or high gearing, refers to a scenario where a company relies significantly more on debt as opposed to equity for its funding (Blouin et al., 2014; Gajewski, 2020; Khan et al., 2021). The thin capitalization rule outlines how a company calculates the maximum amount of interest-bearing debt that can be used to reduce taxable income in a given year, known as the "maximum debt-to-equity ratio." This ratio is designed to make the company's tax liability more efficient, with a higher debt-to-equity ratio generally resulting in lower group income tax burdens.

The use of debt as capital is closely related to thin capitalization (Buettner et al., 2012; Jatmiko & Husodo, 2019). Debt is usually used to shift profits between countries by Multinational Corporations (MNC) to keep taxes paid to a minimum, the internal capital structure of MNC responds strongly to differences in CIT rates, both in developed and developing countries. Several studies on the impact of thin capitalization on tax avoidance have been done. Some researchers reveal that thin capitalization has a positive effect on tax avoidance but another state that thin capitalization does not affect tax avoidance. Thin capitalization has a positive impact in manufacturing firms but a negative one in retail companies (Buettner et al., 2012). Thin capitalization can have a negative effect on tax avoidance (Fahmi & Yanti, 2024). Company managers will try to comply with applicable tax regulations to maintain the company's reputation and the trust of creditors so that the company will use its debt for things that are still reasonable and do not violate the rules in order to avoid the high risk of tax violations. Tax avoidance can result the company's reputation is bad, the value of the company decreases, the risk of inspection increases, and economic losses due to tax sanctions.

Taxpayers who do tax avoidance as a form of carrying out their tax liability by using loopholes in tax regulations. Carrying out tax liability is a form of tax compliance and tax compliance depends on a person's attitude as in the theory of reasoned action. This viewpoint holds that the objective of a person's action is a decisive factor in that conduct. Tax avoidance for corporate taxpayers may be performed by the selection of the leader or person in charge of administering the organization, particularly the CEO, who has been carefully vetted. Corporate executives' characteristics also impact tax avoidance behaviors. The theory of reasoned action (TRA) was proposed by Fishbein and Ajzen in 1975. TRA consists of determinants of attitudes, which are the results of behavior evaluations that are suggested as positive things, and subjective norms, which are the intentions (motivations) of a person tending to do the behavior because of the assumption that other people want the behavior to be carried out. TRA's focus is on behavioral intention as an antecedent to actual behavior. Intention indicates how hard the individual is willing to try or how much effort they will put into performing the behavior. Ajzen and Fishbein define attitude as the extent to which an individual has a good or bad evaluation of certain behaviors. This means that an individual tries to perform an action when he or she believes that others deem it important for them to perform that action.

Executive as Leaders are corporate leaders who have direct or indirect control over company decisions, including tax avoidance acts. Moreover, leaders have two characteristics: risk-taking and risk-aversion. Leaders who take risks have the fortitude to make commercial judgments (Dotlich et al., 2006; Hisrich & Al-Dabbagh, 2012). This personality type is driven by a desire for increased prestige, riches, authority, and profit and is prepared to endure the repercussions of greater risk. Risk-averse executives, as opposed to risk-taking executives, seek to avoid all types of chances that may include risk, such as uncertainty in the amount of return, and the majority of assets should be retained in reasonably secure investments. Several studies have found that executive characteristics impact tax avoidance.

Leaders have different personalities and decision-making styles; for example, some leaders may avoid risks while others may dread them. The executive is responsible for managing the firm, including managing the company to make decisions that allow the executive to be a risk-taker or risk-averse. The more executive committees act as risk takers, the more tax avoidance can increase and executive characteristics affect tax avoidance. This finding is consistent with the belief that corporations raise loan interest by taking on more debt rather than expanding equity (thin capitalization) in order to reduce tax payments and that leadership skills are key to tax avoidance. Companies undertake tax avoidance on the basis of executive choices that dare to take risks for the profit of the firm, even if they indirectly disserve the state but do not break existing legislation. Excessive leadership power encourages managerial risk-averse thereby limiting tax avoidance. These studies show that that high levels of corporate risk exacerbate executive's risk-taking attitudes, resulting in higher levels of tax avoidance. Even so, executive risk-taking decisions as a characteristic has no influence over tax avoidance.

According to the background provided, the researcher is interested in performing a study on the relationship between executive character, thin capitalization, and tax avoidance in MNCs listed on the Indonesia Stock Exchange (BEI) in the consumer non-cyclical sector. According to the BEI, this sector was chosen because it comprises enterprises whose development is in accordance with population growth and income increases; therefore, a pandemic should have no effect on company operations. This study aims to identify whether thin capitalization affects tax avoidance and executive characteristics can moderate this influence in Indonesia after pandemic.

## **METHOD**

This research is quantitative research with secondary data. Secondary data was gathered from annual reports or financial reports of sample companies. Data analysis was carried out using a descriptive approach. This research uses panel data. The population in this study are companies listed on the Indonesia Stock Exchange (BEI) in the primary consumer goods sector or consumer non-cyclicals according to BEI Yearly Statistics for 2021-2022. That year is a post-pandemic. There will be 113 companies in the consumer non-cyclical sector in 2022. This sampling design uses purposive sampling based on consideration of the researchers' criteria. The sample are MNC listed on the BEI in the consumer non-cyclicals sector before 2021, Companies with financial statements or annual reports in rupiah currency and it is published from 2021 to 2022. Multinational companies can unimpededly shift profits by looking at taxes between countries. Therefore, companies that meet the criteria are 41, and the sample used is 82.

The dependent variable in this research is tax avoidance. measurement of this variable using Book-tax Difference (BTD). BTD can describe income that escapes tax, taxable income

is not publicly observable. Researchers measured tax avoidance using BTD to determine the influence of tax avoidance factors. The BTD formula used is comparison between reduction of accounting profit and profit fiscal to total assets (Anaïke et al., 2026; Martinez et al., 2013). Thin Capitalization in this study is the independent variable. thin capitalization is measured using the Maximum Allowable Debt Ratio (MAD) by dividing average debt by SHDA. SHDA is reduction of the average total assets and debt without interest (non-IBL), then it is multiplied by DER maximum. The DER maximum in Indonesia is regulated in Minister of Finance Regulation (PMK) number 169/PMK.010/2015, which is 4:1 or 80%. Therefore, Thin Capitalization can be formulated as follows:

$$\text{Thin} = \text{MAD Ratio} = \frac{\text{Average Debt}}{\text{SHDA}} \quad (1)$$

Information:

$$\text{SHDA} = (\text{Average Total Assets} - \text{Average non-IBL}) \times 80\%$$

Executive Characteristics this study as the moderating variable. In the research, Executive Characteristics is proxied by Company Risk. The company's risk formula is based on the standard deviation of earnings before interest, tax and depreciation divided by asset.

This research incorporates four independent variables for control purposes, namely, profitability, leverage, sales growth, and firm size. Profitability represents a key financial metric, with Return on Assets (ROA) being one of its specific components. ROA is computed by assessing the relationship between net income and total assets. Leverage, on the other hand, reflects the extent to which a company relies on debt financing and can be measured by comparing total debt to total assets. The level of a corporation's dependence on debt financing tends to increase as its leverage ratio rises. Sales growth (SGt) plays a significant role in influencing a company's future financial and investment decisions. The formula for calculating sales growth, involves comparing the current year's sales to the previous year's sales and assessing the change. Finally, firm size categorizes companies based on factors such as total asset ownership and total income. In this study, firm size is quantified using the common logarithm of a company's total assets. These control variables have been sourced from previous research on tax avoidance. These control variables are included to ensure that the analytical findings are not influenced by the unique financial performance of each company.

The present study employed a statistical analysis technique known as moderated regression analysis (MRA) to examine the data. This involved doing regression tests and incorporating an interaction test. The purpose of this analysis is to investigate the impact of independent variables on the dependent variable while considering executive character as a moderating variable. The application of MRA is required to examine three regressions for the similarity of the regression coefficients, including the independent variable's linear regression equation on the dependent variable, the independent variable's equation with moderating variable, and the interaction equation between the independent variable. In this study, two models are used to test the hypothesis according to the hypothesis determined. Therefore, the regression model in this study are:

$$TA_{it} = \alpha + \beta_1 \text{Thin}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{Lev}_{it} + \beta_4 \text{SZE}_{it} + \beta_5 \text{SGt}_{it} + \varepsilon_1 \quad (2)$$

$$TA_{it} = \alpha + \beta_1 Thin_{it} + \beta_2 Risk_{it} + \beta_3 Thin * Risk_{it} + \beta_4 ROA_{it} + \beta_5 Lev_{it} + \beta_6 SZE_{it} + \beta_7 SGt_{it} + \varepsilon \quad (3)$$

Description:

- TA = Tax Avoidance  
 THIN = Thin Capitalization  
 RISK = Company Risk (Executive Characteristics)  
 ROA = Profitability  
 Lev = Leverage  
 SZE = Company Size (firm size)  
 SGt = Sales Growth  
 $\alpha$  = Constant  
 $\beta_1 - \beta_7$  = Regression coefficient  
 $\varepsilon$  = Standard error

## RESULTS AND DISCUSSION

### Results

Table 1 provides an overview of the descriptive statistical analysis. It outlines the average tax avoidance (TA), represented by BTD, which is -0.015101. Notably, this figure is significantly far from the minimum value, and the maximum value is close to zero. This indicates that the majority of multinational consumer non-cyclicals diligently fulfill their tax expense. This compliance stems from their commercial profit before taxes being smaller than their tax profit, as evidenced by the negative median value, which is greater than the average of -0.005953. Additionally, the standard deviation of BTD is 0.068262. The average thin capitalization value is 0.758473, surpassing the median value. The range between the highest and lowest values is substantial at 8.118917. Executive characteristics, proxied by risk, have an average value of 0.041598. The median value for risk is smaller than the average, although the disparity between the two values is relatively modest. Further insight into the company's other activities can be gleaned from descriptive statistics for four control variables. The highest means, medians, maximums, and standard deviations are observed in company size (SZE), while the lowest values are associated with profitability (ROA). Nonetheless, the smallest minimum value corresponds to sales growth (SGt). This suggests that the studied companies vary in terms of size, but their sales growth, leverage, and profitability do not significantly differ within this sector.

The hypothesis testing in this study comprises two models: M1 examines the influence of thin capitalization on tax avoidance, and M2 explores executive characteristics as moderators affecting the impact of thin capitalization on tax avoidance. The results of hypothesis testing are summarized in Table 1, with a significance level set at 5% (0.05), implying a 5% risk of error in decision-making.

**Table 1.** Descriptive statistics on research data

Variables	Means	Median	Maximum	Minimum	Std. Dev
TA	-0.015101	-0.005953	0.302313	-0.290486	0.068262
THIN	0.758473	0.715276	2.451283	-5.667634	1.003253
RISK	0.041598	0.022769	0.719520	0.000279	0.083032
ROA	0.065254	0.067353	0.342825	-0.315804	0.098908
LEV	0.541891	0.488528	2.311944	0.097914	0.340638
SGt	0.134078	0.127678	0.997964	-0.854947	0.228906
SZE	29.61899	29.65247	32.82638	26.80199	1.435551

The T-test indicates that the probability value for thin capitalization (Thin) is 0.0014 in M1 and 0.0929 in M2. This suggests that thin capitalization exerts an impact on tax avoidance in M1 but not in M2. Regarding executive characteristics (Risk), the probability value in M2 is 0.0087, which is below the 5% significance level. The interaction test between thin capitalization and executive characteristics, assessed through the MRA test, yields a probability value of 0.0076. This signifies that executive characteristics also influence tax avoidance, especially when interacting with thin capitalization.

The F-test demonstrates a probability of 0.000001 in M1 and 0.000043 in M2, both of which are lower than the 5% significance level. Consequently, thin capitalization, risk, the interaction between thin capitalization and risk, and the control variables collectively impact tax avoidance. The adjusted R-squared value in this study is 0.331806 in M1 and 0.623715 in M2, indicating that all variables collectively explain 33.18% of the variation in tax avoidance in M1 and 62.37% in M2, with the remaining variation attributable to other factors.

**Table 2.** Results of hypothesis testing

Variables	M1		M2	
	Coef	Prob	Coef	Prob
C	-0.082538	0.5732	0.607464	0.8368
Thin	-0.023755	0.0014	0.108958	0.0929
Risk			1.733154	0.0087
Thin*Risk			-1.595229	0.0076
ROA	0.318794	0.0000	0.259246	0.0640
Lev	-0.009825	0.6456	-0.708632	0.0016
SGt	0.024942	0.3487	0.106238	0.0069
Sze	0.002250	0.6474	-0.012891	0.8963
Adj R-Squared		0.331806		0.623715
Prob (F-Statistic)		0.000001		0.000043

## Discussion

### *Effect of thin capitalization on tax avoidance*

Based on the test findings from M1, signifying that there is an influence of thin capitalization on tax avoidance. This aligns with the assertions which reveal that companies tend to engage in tax avoidance by manipulating their debt expenses. Notably, in this study, the coefficient value for thin capitalization is negative (-0.023755), indicating that thin capitalization exerts a negative impact on tax avoidance. In practical terms, this implies that companies employing thin capitalization strategies are less likely to engage in tax avoidance, and vice versa. In essence, many companies appear to be optimizing their financial structure by favoring debt over equity while still adhering to tax regulations, resulting in reduced tax avoidance following the pandemic.

During the pandemic, the government provided many tax incentives for corporate taxpayers. Providing this incentive is a form of government backing to not burden taxpayers too much. The lowered corporate taxpayer rates that are still being used post-pandemic make companies slightly lighter in their tax burden so that they do not use too much debt for tax avoidance purposes. In addition, the emergence of new regulations stating that they will use a new method to determine limits on the use of debt in company operations after the pandemic has made the application of thin capitalization rules generally influence companies to change their capital structure by reducing the ratio of debt outstanding. This is evident in

Table 1, which displays a negative average value, suggesting that tax profits exceed accounting profits. Consumer non-cyclicals companies, on average, exhibit a low level of thin capitalization at 0.758473, which indicates compliance with the allowable interest-bearing debt limits within the framework of thin capitalization was uttered by Fasita Although the average thin capitalization in this study falls below 1, it remains close to 1, suggesting that consumer non-cyclicals companies are still in compliance with thin capitalization rules, even as they continue to use thin capitalization as a means to reduce their taxable profits.

The conditions leading to these findings can be traced back to the long-standing implementation of debt cost restrictions by the government, with the recent reaffirmation of PP 55 of 2022, which took effect in early 2022. Additionally, the Indonesian government has introduced regulations offering tax incentives during the pandemic, which have yet to be amended. The presence of these thin capitalization regulations appears to incentivize Multinational Corporations (MNCs) to invest in affiliated companies with less stringent policies, while the tax rates at MNC companies negatively impact the funding costs. This is not in accordance with research which states that there is no effect of thin capitalization on tax avoidance. These findings contrast to the views expressed that thin capitalization having a positive effect on tax avoidance. These disparities can be attributed to variations in sample composition, measurement proxies, the study year, and the incorporation of control variables.

Indonesia continues to define its permissible debt limits using the debt-to-equity ratio, with a maximum debt-to-equity ratio (DER) of 4:1 established by Minister of Finance Regulation No. 169/PMK.010/2015. Additionally, the government is actively monitoring debt utilization using the cost of debt and EBITDA comparison method, though it has not explicitly outlined any limitations on this ratio. It's worth noting that the anti-tax avoidance rule pertaining to restricting the use of debt for computing debt-related costs as deductions from taxable income through the DER method is not entirely endorsed by the OECD. Consequently, the OECD recommends employing the ratio of interest expenses to income. Some countries have implemented tests that assess the interest-to-earnings ratios of entities using EBITDA, finding this method to be more effective in combating profit shifting and base erosion.

#### ***Executive characteristics as moderating variables on thin capitalization on tax avoidance***

Based on the findings of M2 test results signifying that the executive's character plays a moderating role in the impact of thin capitalization on tax avoidance. Executive characteristics can be gauged by the company's risk level. This study is indirectly corroborated by prior research that delves into the influence of executive characteristics on tax avoidance. A greater corporate risk inclination reflects the executive's penchant for risk-taking.

The results of this investigation indicate that executive characteristics mitigate the impact of thin capitalization on tax avoidance, as evidenced by the negative coefficient value of the interaction between thin capitalization and executive characteristics (-1.595229). This research contributes to the field of tax accounting literature by providing empirical support for the Theory of Reasoned Action (TRA) as it pertains to tax avoidance. This study suggests that executives do not excessively employ thin capitalization as a means of tax avoidance. Executives are mindful of tax incentives, many of which were introduced during the pandemic and remain in effect. This leads to a reduced likelihood of excessive tax avoidance, as evidenced by the average tax avoidance being below zero. Furthermore, executives tend

to exercise caution in their tax avoidance strategies, as these actions are subject to clear legal regulations. Regulations issued by the government can reduce tax avoidance activities because corporate tax compliance affects the reputation of the company itself. As a result, executives take calculated risks that offer greater profitability. Consequently, investors can assess their investment decisions by considering the level of risk taken by a company.

The findings of this study also have implications for the achievement of Sustainable Development Goal (SDG) 16, particularly in promoting effective, accountable, and transparent institutions. The negative relationship between thin capitalization and tax avoidance, as well as the moderating role of executive characteristics, suggests that corporate decisions are influenced not only by financial incentives but also by regulatory compliance and governance considerations. The tendency of executives to utilize debt financing within regulatory boundaries indicates a commitment to responsible tax practices and institutional accountability. Therefore, strengthening regulations related to debt financing and tax reporting can help reduce tax avoidance practices, enhance corporate transparency, and support sustainable fiscal governance in line with the objectives of SDG 16.

## CONCLUSION

**Fundamental Finding:** This study examines the effect of thin capitalization on tax avoidance and the moderating role of executive characteristics in multinational consumer non-cyclical companies listed on the Indonesia Stock Exchange after the COVID-19 pandemic. The findings indicate that thin capitalization significantly affects tax avoidance, with a negative relationship suggesting that companies do not excessively rely on debt financing to reduce their tax obligations. The results also reveal that executive characteristics, proxied by corporate risk, moderate the relationship between thin capitalization and tax avoidance. The negative interaction coefficient indicates that executives tend to exercise caution in utilizing debt-related tax strategies, thereby reducing the likelihood of aggressive tax avoidance practices. These findings support the Theory of Reasoned Action (TRA), which suggests that executive decisions regarding tax strategies are influenced by rational considerations, regulatory compliance, and organizational objectives. **Implication:** The findings provide practical implications for tax authorities, policymakers, corporate managers, and investors. For regulators, the results highlight the importance of strengthening monitoring mechanisms related to debt financing and interest expense deductions. The study also supports the implementation of regulations based on the interest expense-to-EBITDA ratio, as recommended by the OECD, to prevent base erosion and profit shifting. Furthermore, the findings contribute to Sustainable Development Goal (SDG) 16 by promoting transparent corporate governance, responsible tax practices, and stronger institutional frameworks. For investors, the results provide insights into evaluating corporate risk and financial strategies when making investment decisions. **Limitation:** This study has several limitations. First, the analysis is limited to multinational companies in the consumer non-cyclical sector listed on the Indonesia Stock Exchange, which may restrict the generalizability of the findings. Second, only one independent variable, namely thin capitalization, was examined. Third, tax avoidance was measured using a single proxy, namely Book-Tax Differences (BTD). Finally, the sample only included companies with complete panel data during the research period. **Future Research:** Future studies are encouraged to expand the scope of analysis by including companies from other sectors and incorporating additional determinants of tax avoidance. Researchers may also employ alternative tax avoidance proxies to enhance the robustness of findings. Furthermore, comparative studies examining the relationship between thin

capitalization, executive characteristics, and tax avoidance before and after the COVID-19 pandemic would provide a deeper understanding of changes in corporate tax behavior under different economic conditions.

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## AUTHOR CONTRIBUTIONS

**Anisa Hardianingrum:** Conceptualization, Methodology, Investigation, Data Curation, Formal Analysis, Visualization, Writing – Original Draft, and Writing – Review & Editing. **Eko Arief Sudaryono:** Conceptualization, Supervision, Validation, Resources, and Writing – Review & Editing. All authors have read, reviewed, and approved the final version of the manuscript.

## CONFLICT OF INTEREST STATEMENT

The authors state that no financial or personal conflicts of interest exist that may have affected the content or findings of this research.

## STATEMENT ON THE USE OF AI OR DIGITAL TOOLS IN WRITING

The authors declare that no artificial intelligence (AI) tools or other digital writing assistants were used in the preparation, analysis, or writing of this manuscript. All stages of the research process, including data analysis, interpretation, and manuscript writing, were conducted solely by the authors. The authors take full responsibility for the originality, accuracy, and integrity of the content presented in this article.

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