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THIN CAPITALIZATION AND DIVIDEND POLICY ON TAX AVOIDANCE: THE MODERATING ROLE OF MANAGERIAL OWNERSHIP

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Abstract

The phenomenon of tax avoidance in Indonesia remains a serious challenge, with losses amounting to US$4.86 billion per year. Although tax revenue often meets its estimated targets, Indonesia's tax-to-GDP ratio is still low compared to several other ASEAN countries. Companies tend to view taxes as a burden to be paid and use legal tax avoidance strategies to reduce payments. This associative quantitative research analyzes the influence of thin capitalization and dividend policy on tax avoidance, with managerial ownership as a moderator. The data used is secondary data obtain from the financial statements and annual reports of 12 non-financial companies consistently listed in the LQ45 index on the Indonesia Stock Exchange for the period 2020-2023. The analysis technique uses panel data regression with the Common Effect Model (CEM), processed thru EViews 12 software. The test results show that thin capitalization and dividend policy do not have a significant effect on tax avoidance. Similarly, managerial ownership was unable to moderate the influence of both thin capitalization and dividend policy on tax avoidance.
Keywords: Dividend Policy, Managerial Ownership, Tax Avoidance, Thin Capitalization

Kapitalisasi Tipis dan Kebijakan Dividen terhadap Penghindaran Pajak: Peran Moderasi Kepemilikan Manajerial

Abstrak

Fenomena penghindaran pajak di Indonesia masih menjadi tantangan serius dengan jumlah kerugian mencapai US$ 4,86 miliar per tahun. Meskipunn penerimaan pajak sering mencapai target estimasinya, namun rasio pajak terhadap PDB di Indonesia masih rendah dibandingkan beberapa negara ASEAN lainnya. Perusahaan cenderung memandang pajak sebagai beban yang harus dibayarkan dan menggunakan strategi penghindaran pajak legal (*tax avoidance*) untuk menekan pembayaran. Penelitian kuantitatif asosiatif ini menganalisis pengaruh *thin capitalization* dan *dividend policy* terhadap *tax avoidance* dengan *managerial ownership* sebagai moderasi. Data yang digunakan adalah data sekunder yang diperoleh dari laporan keuangan dan laporan tahunan 12 perusahaan non-keuangan yang terdaftar konsisten dalam indeks LQ45 di Bursa Efek Indonesia periode 2020-2023. Teknik analisis menggunakan regresi data panel dengan *Common Effect Model* (CEM) yang diolah melalui perangkat lunak *EViews* 12. Hasil pengujian menunjukkan *thin capitalization* dan *dividend policy* tidak berpengaruh signifikan terhadap *tax avoidance.* Demikian pula *managerial ownership* tidak mampu memoderasi pengaruh *thin capitalization* maupun *dividend policy* terhadap *tax avoidance.*
Kata Kunci: Kebijakan Dividen, Kepemilikan Manajerial, Penghindaran Pajak, dan Kapitalisasi Tipis

1. Introduction

State revenue comes from tax and non-tax receipts (Sumekar et al., 2023). Tax revenue is one of the most vital elements in supporting national development. The funds obtained through tax collection are used to finance all state needs and expenditures, playing a major role in the sustainability of national development

(Firman et al., 2025). Taxation represents a compulsory contribution from the citizenry to the state as mandated by law. While it is enforceable, the payer receives no direct individual benefit in return indonesia translate (Mangoting, 2004).

Table 1. Details of Realization & Estimated Net Domestic Tax Revenue

Year	Actual Tax Revenue	Estimated Tax Revenue	Ratio
2023	Rp2.089.718.290.360	Rp2.045.450.000.000	102,16%
2022	Rp1.943.644.541.165	Rp1.704.957.986.654	114%
2021	Rp1.474.172.286.121	Rp1.409.581.016.340	104,58%
2020	Rp1.248.423.879.883	Rp1.371.020.559.002	91,06%
2019	Rp1.505.081.062.538	Rp1.743.056.850.376	86,35%

Source: www.kemenkeu.go.id

Data in table 1 illustrates that net domestic tax revenue experienced fluctuations between 2019 and 2023. Notably, from 2021 through 2023, tax revenue outperformed projections, with collection ratios consistently exceeding 100% of the initial estimates. Although tax revenue realization shows a positive trend, Indonesia's tax-to-Gross Domestic Product (GDP) ratio remains relatively low compared to other ASEAN countries such as Malaysia, Singapore, Thailand, and the Philippines (Fahmi & Yanti, 2024). This contrasts with tax revenues in 2019 and 2020, which failed to meet their targets, reaching a record low achievement ratio of 86.35% in 2019. Such shortfalls in tax revenue relative to estimates may indicate the presence of corporate tax avoidance practices (Widyastuti & Mulyani, 2024). This indicates that such practices remain a serious challenge in Indonesia, as companies generally view tax payments as a burden that must be paid (Isnaeni & Arief, 2025).

Tax avoidance is a corporate effort to minimize tax payments without violating existing tax laws, this practice exploits loopholes or weaknesses in tax regulations to reduce the amount of tax owed (Aulia & Purwasih, 2022). Although performed legally, tax avoidance practices can reduce the state's potential tax revenue. Tax Justice Network reports that as a result of tax avoidance in Indonesia, estimated losses reach US$ 4.86 billion per year, ranking Indonesia fourth in Asia after China, India, and Japan (Santoso, 2020).

The phenomenon of tax avoidance is evident among the group of large companies listed in the LQ45 Index, an index that measures the price performance of 45 stocks with high liquidity and large market capitalization, supported by strong corporate fundamentals (Indonesia Stock Exchange, 2021). A prominent case that has drawn significant attention is the alleged tax avoidance practice by PT Adaro Energy Indonesia Tbk (stock code ADRO). PT Adaro is suspected of practicing tax avoidance by shifting a significant portion of its profits from Indonesia to affiliated companies in other countries that offer tax exemptions or lower tax rates. These activities are estimated to have taken place from 2009 to 2017 (Sulia, 2024).

One of the factors influencing tax avoidance is thin capitalization. Thin capitalization is a corporate financing decision that prioritizes the use of debt over equity in financing operational activities, thereby shaping the company's capital structure (Taylor & Richardson, 2013). The practice of thin capitalization tends to shift the capital structure toward debt financing rather than equity; this creates a tax incentive because the resulting interest expenses can be used as a deduction against taxable income (Fahmi & Yanti, 2024). Previous research conducted by Fahmi & Yanti, (2024) and Cahyani et al., (2021) found that thin capitalization has a positive and significant effect on tax avoidance. Conversely, a study by Nusi & Praptitorini, (2025) indicates that thin capitalization does not influence tax avoidance.

The second factor influencing tax avoidance is dividend policy (Erianto & Fardinal, 2024). Dividend policy is a corporate decision regarding whether the profits earned will be distributed to shareholders or kept as retained earnings for debt repayment and company expansion (Aryadita et al., 2024). Dividend policy serves to maintain shareholder trust through the distribution of profits in the form of dividends, which can reduce the potential for tax avoidance activities (Eisenhardt, 1989). However, on the other hand, dividend policy is viewed as a long-term corporate commitment, a decrease in dividends is often perceived negatively by the market and can lead to reputational sanctions. This condition may encourage management to adopt tax avoidance strategies to generate additional cash flow to meet these commitments as well as to fund operations and investment (Anderson et al., 2022). Research conducted by Erianto & Fardinal, (2024) and Tri & Supriadi, (2025) states that dividend policy has a significant effect on tax avoidance. Conversely, a study by Hermansyah & Afridayani, (2025) indicates that dividend policy does not significantly influence tax avoidance.

The factor of companies engaging in tax avoidance can also be observed through the percentage of managerial ownership (Indrayati & Sastri, 2025). Managerial ownership describes a condition where managers simultaneously serve as shareholders in the company where they work (Septanta, 2023). In this study, managerial ownership serves as a moderating variable, indicated to either strengthen or weaken the influence of thin capitalization and dividend policy on tax avoidance. The presence of share ownership by management ensures that the excessive use of debt for tax avoidance purposes becomes more controlled. When managers hold share ownership, they act not only as managers but also as owners who share the company's financial risks (Jensen & Meckling, 1976). Managerial ownership plays a significant role in various corporate activities, including debt-based financing decisions, thereby potentially influencing the level of aggressiveness in the tax policies implemented by the company (Cahyani et al., 2021). In the context of dividend policy, managerial ownership creates an alignment of interests between managers and shareholders, thereby influencing how managers respond to the consequences of dividend policy on the company's financial condition (Morck et al., 1988). Research by Cahyani et al., (2021) and Kirnanda et al., (2024) found that managerial ownership weakens the effect of thin capitalization on tax avoidance.

2. Research Methods

2.1 Object, time and Place

The object of this research is non-financial companies consistently listed in the LQ45 index on the Indonesia Stock Exchange (IDX). This study focuses on examining the influence of thin capitalization and dividend policy on tax avoidance, with managerial ownership as a moderating variable. The research period covers four years, from 2020 to 2023. The data used in this study are secondary data obtained from companies' annual reports and financial statements. The data were collected from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the respective companies' official websites. Therefore, this research does not involve a specific physical location, as it relies entirely on secondary data sources.

2.2 Data Collection Techniques

The data collection techniques employed in this study are literature review and documentation. Literature review is a data collection technique conducted to gain an understanding of concepts and theories related to the research problem through the review and exploration of various relevant literary sources (Sugiyono, 2023). Documentation is a data collection technique involving the search for various documents and written information relevant to the research problem. These documents are then analyzed in-depth to strengthen, support, and provide more convincing evidence for the phenomenon under study (Sidiq & Choiri, 2019).

2.3 Data Analysis Techniques

The data analysis technique in this study utilizes descriptive statistical analysis to provide the necessary foundation for addressing the established hypotheses. Descriptive statistics is a technique used to analyze collected data without the intention of drawing generalized conclusions. It encompasses various forms of data presentation, such as tables, graphs, and pie charts, as well as the calculation of values including the mode, median, mean, and standard deviation. Through these methods, researchers can describe the relationships between variables, conduct correlation analysis, make predictions through regression, or compare sample means (Sugiyono, 2023).

3. Results and Discussion

3.1 Selection Method of Regression Data Panel

3.1.1 Chow Test

The Chow test is conducted to determine the most appropriate model between the Fixed Effect Model (FEM) and the Common Effect Model (CEM). When the probability value of the cross-section F-statistic is less than 0.05, the FEM is considered the preferred model. Conversely, if the probability value of the cross-section F-statistic exceeds 0.05, the CEM is regarded as the more suitable model to be applied (Basuki, 2021).

Table 2. Chow Test Result

Effects Test	Prob.
Cross-section F	0.0138

Source: Data processed using EViews 12

The results of the Chow test indicate that the probability value of the cross-section F-statistic is 0.0138, which is below the significance level of 0.05. Therefore, the Fixed Effect Model (FEM) is considered more appropriate for the analysis, and the next step proceeds with the Hausman test.

3.1.2 Hausman Test

The Hausman test is employed to identify the more suitable model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). A probability value below 0.05 indicates that the FEM is the appropriate model for the analysis. In contrast, if the probability value is greater than 0.05, the REM is considered more suitable for use (Basuki, 2021).

Table 3. Hausman Test Result

Test Summary	Prob.
Cross-section random	0.3229

Source: Data processed using EViews 12

The Hausman test results reveal a probability value of 0.3229, which exceeds the 0.05 significance level. This finding suggests that the Random Effect Model (REM) is more appropriate for the analysis. Since the Chow test favored the FEM while the Hausman test supported the REM, an additional Lagrange Multiplier (LM) test was required.

3.1.3 Lagrange Multiplier (LM) Test

The Lagrange Multiplier test is applied to determine the more appropriate model between the Common Effect Model (CEM) and the Random Effect Model (REM). If the probability value of the Breusch–Pagan (BP) test is below 0.05, the REM is considered the preferable model. On the other hand, when the probability value of the Breusch–Pagan test exceeds 0.05, the CEM is regarded as the more suitable model for the analysis (Basuki, 2021).

Table 4. Lagrange Multiplier Test Result

		Test Hypothesis	
	Cross-section	Time	Both
Breusch-Pagan	3.486263 (0.0619)	0.149561 (0.6990)	3.635824 (0.0565)

Source: Data processed using EViews 12

The results of the Lagrange Multiplier test show that the probability value of the Breusch–Pagan (BP) test is 0.0619, which is higher than the 0.05 significance level. Based on this result, the Common Effect Model (CEM) is considered the most appropriate model for this study.

3.2 Research Results

3.2.1 Multicollinearity Test

Multicollinearity in a regression model can be identified through the Variance Inflation Factor (VIF). If the VIF value is ≤ 10, it can be concluded that multicollinearity is not present. Conversely, if the VIF value is > 10, it indicates the presence of multicollinearity among the independent variables within the regression model (Basuki & Prawoto, 2015).

Table 5. Multicollinearity Test Results

Variable	Centered VIF
C	NA
X1	1.376332
X2	1.117592
Z	1.257141

Source: Data processed using EViews 12

The multicollinearity test results show that the Centered VIF values for variables X1, X2 and Z are < 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in the research model.

3.2.2 Heteroskedasticity Test

This research utilizes the Glejser Test. The decision-making criteria for the Glejser test are as follows, if the significance probability value is > 0.05, then heteroskedasticity is not present. Conversely, if the significance probability value is ≤ 0.05, the data is considered to experience heteroskedasticity (Ghozali, 2021).

Table 6. Heteroskedasticity Test Result

Variable	Prob.
C	0.1759
X1	0.1054
X2	0.4424
Z	0.6880

Source: Data processed using EViews 12

The results of the Glejser test in this study show that the significance probability values for X1 (0.1054), X2 (0.4424), and Z (0.6880) are all > 0.05. Therefore, it can be concluded that the regression model in this study is free from heteroskedasticity

3.2.3 Hipotesis

Table 7. Hypothesis Testing Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.236028	0.022797	10.35359	0.0000
X1	-0.018734	0.010156	-1.844660	0.0721
X2	0.032626	0.037677	0.865953	0.3914
X1Z	2.606765	3.962301	0.657892	0.5142
X2Z	25.77050	21.04811	1.224362	0.2276
R-squared				0.187771
Adjusted R-squared				0.091077

Source: Data processed using EViews 12

3.2.3.1 Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) is a development of multiple linear regression that incorporates a moderating variable into the model (Umamah, 2019). Multiple linear regression is an analytical method used to test whether there is a significant effect, either partially or simultaneously, of two or more independent variables on a dependent variable (Priyatno, 2022). Meanwhile, MRA is a regression analysis used to examine the role of a moderator variable in influencing the relationship between the independent and dependent variables (Ghozali, 2021). The regression equation obtained from the test results can be distributed as follows:

$$\mathbf{Y_{it} = 0{,}236028 - 0{,}018734.X_{1it} + 0{,}032626.X_{2it} + 2{,}606765.X_1Z_{it} + 25.77050.X_2Z_{it} + e_{it}}$$

Based on the MRA equation, the results can be interpreted as follows:

a. The constant value of 0.236028 indicates that if all independent and interaction variables are zero, the value of tax avoidance (Y) is 0.236028.
b. The regression coefficient for thin capitalization (X_1) is -0.018734, meaning that for every one-unit increase in thin capitalization, the value of tax avoidance (Y) will decrease by 0.018734. The negative sign indicates an inverse relationship between thin capitalization and tax avoidance.
c. The regression coefficient for dividend policy (X_2) is 0.032626, showing that for every one-unit increase in dividend policy, the value of tax avoidance (Y) will increase by 0.032626. This positive coefficient

indicates a direct relationship between dividend policy and tax avoidance.

d. The regression coefficient for the interaction between thin capitalization and managerial ownership (X_1Z) is 2.606765, suggesting that for every one-unit increase in thin capitalization as moderated by managerial ownership, there is an increase of 2.606765 in tax avoidance.
e. The regression coefficient for the interaction between dividend policy and managerial ownership (X_2Z) is 25.77050, showing that for every one-unit increase in dividend policy as moderated by managerial ownership, there is an increase of 25.77050 in tax avoidance.

3.2.3.2 T-Test

The t-test is assessed using $t_{statistic}$ and t_{table} values, as well as the significance level α (0,05). The t_{table} value is obtained from a significance level of α (0,05) with the degree of freedom (df) formulated as df = n – k, where n is the number of observations and k represents the parameters in the model, namely the constant and coefficients (Sihabudin et al., 2021; Zahriyah et al., 2021). The degree of freedom is calculated as df = 48 – 5 = 43. Based on this df value, the t_{table} value is found to be 2.01669. The results of the t-test based on table 4 are as follows:

a. The effect of thin capitalization (X_1) on tax avoidance (Y). The result show that thin capitalization has a significance value of 0.0721, which is greater than 0,05. Additionally, the $t_{statistic}$ value of 1.844660 is smaller than the t_{table} value. It is concluded that thin capitalization has no significant effect on tax avoidance. thus, the first hypothesis (H_1) is rejected.
b. The effect of dividend policy (X_2) on tax avoidance (Y). The result show that dividend policy has a significance value of 0.3914, which is greater than 0,05. Additionally, the $t_{statistic}$ value of 0.865953 is smaller than the t_{table} value. It is concluded that dividend policy has no significant effect on tax avoidance. thus, the second hypothesis (H_2) is rejected.
c. The effect of thin capitalization on tax avoidance with managerial ownership as a moderating variable (X_1Z). The t-test results for the interaction variable between thin capitalization and managerial ownership show a significance value of 0.5142 > 0.05 and a $t_{statistic}$ value of 0.657892 < t_{table}. This indicates that managerial ownership is not able to moderate the effect of thin capitalization on tax avoidance. Thus, the third hypothesis (H_3) is rejected.
d. The effect of dividend policy on tax avoidance with managerial ownership as a moderating variable (X_2Z). The t-test results for the interaction variable between dividend policy and managerial ownership show a significance value of 0.2276 > 0.05 and a $t_{statistic}$ value of 1.224362 < t_{table}. This indicates that managerial ownership is not able to moderate the effect of dividend policy on tax avoidance. Thus, the fourth hypothesis (H_4) is rejected.

3.2.3.3 Coefficient of Determination (R^2)

The coefficient of determination is used to measure the extent to which independent variables can explain the dependent variable (Ghozali & Ratmono, 2017). The statistical test results show an Adjusted R-Squared value of 0.091077. This value indicates that the variables of thin capitalization and dividend policy are able to explain 9.11% of the tax avoidance. Meanwhile, the remaining 90.89% is explained by other variables outside of this research model. This Adjusted R^2 value illustrates that the ability of the independent variables to explain the dependent variable is still considered low.

The low Adjusted R^2 value in this study may occur because tax avoidance is a complex corporate decision influenced by various other factors, such as profitability, firm size, corporate governance, executive characteristics, and applicable tax regulations. In addition, companies included in the LQ45 index generally have high levels of transparency and supervision from investors, regulators, and the Indonesia Stock Exchange (IDX), causing firms to be more cautious in engaging in aggressive tax avoidance practices. Therefore, the variables used in this study are considered to have relatively limited explanatory power regarding tax avoidance. As a result, tax avoidance practices among LQ45 companies are likely influenced more by other strategic and operational factors that were not included in this research model.

3.2.4 Robustness Test

According to Lu & White, (2014), robustness checks are performed by evaluating whether the core regression coefficients remain stable when the regression specification is altered through the inclusion or exclusion of variables or by applying alternative estimation methods.

Table 8. Robustness Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.237943	0.010120	23.51130	0.0000
X1	0.003114	0.004725	0.659038	0.5099
X2	-0.019413	0.017890	-1.085170	0.2778
X1Z	-5.049997	1.006736	-5.016208	0.0000
X2Z	-5.508539	5.986191	-0.920208	0.3575
	Robust Statistics			
R-squared	0.311934	Adjusted R-squared		0.247927

Source: Data processed using EViews 12

Robustness testing was conducted using the Robust Least Squares method to ensure that the results were not influenced by outliers or extreme observations. The results indicate that thin capitalization and dividend policy remain insignificant toward tax avoidance, suggesting that the main findings are relatively consistent. However, the interaction variable between thin capitalization and managerial ownership (X1Z) becomes negatively significant under the robust estimation approach. This finding suggests that extreme observations in the main model may have weakened the moderating relationship. After controlling for outliers, managerial ownership tends to weaken the relationship between thin capitalization and tax avoidance. Meanwhile, the interaction between dividend policy and managerial ownership remains insignificant. Overall, the robustness test demonstrates that most of the research findings remain stable.

4. Discussion

a. Hypothesis 1: Thin capitalization has a significant effect on tax avoidance

The insignificant effect of thin capitalization on tax avoidance in this study is also associated with the evaluation mechanism implemented by the Indonesia Stock Exchange (IDX) for companies included in the LQ45 index. The IDX conducts a major evaluation every six months to assess the eligibility of companies to remain listed in the LQ45 index. This evaluation mechanism encourages firms to maintain operational stability and sound financial structures in order to meet the index criteria. To further support these findings, this study presents the average ratios of thin capitalization, proxied by DER, and tax avoidance, proxied by CETR, for the sampled companies over the observation period. The comparison of average DER and CETR is intended to provide a general overview of the relationship between the use of debt in the capital structure and corporate efforts to reduce tax burdens.

The findings of this study can be explained through the perspective of trade-off theory and dynamic trade-off theory, which suggest that firms balance the benefits of debt usage, particularly tax shields, against bankruptcy risk and other financial costs. Non-financial companies consistently included in the LQ45 index tend to maintain an optimal capital structure and do not aggressively increase debt solely to obtain tax benefits, especially given the debt ratio limitations imposed by PMK No.169/PMK.010/2015. These findings are consistent with previous studies by Anggraini & Trisnawati, (2025), Rini et al., (2022), Nusi & Praptitorini, (2025) and Anindita et al., (2022).

b. Hypothesis 2: Dividend policy has a significant effect on tax avoidance

Dividend policy, as measured by the Dividend Payout Ratio (DPR), reflects a company's profit distribution policy to shareholders rather than a tax expense management strategy. The level of dividend distribution implemented by non-financial companies consistently listed in the LQ45 index on the Indonesia Stock Exchange (IDX) is not a determining factor in corporate decisions to engage in tax avoidance during the observation period. Companies with high DPR levels do not necessarily engage in aggressive tax avoidance, nor do companies with low DPR levels consistently show high levels of tax avoidance. Decisions regarding dividend policy are generally driven by considerations of maintaining liquidity, supporting reinvestment needs, and conveying positive signals to investors regarding the company's financial condition and future prospects. Furthermore, companies included in the LQ45 index are subject to relatively high levels of transparency and oversight through periodic evaluations by the IDX, encouraging them to maintain financial performance stability, reputation, and compliance with tax regulations

These findings can be explained through signaling theory, which posits that dividend policy serves as a signal provided by the company to investors concerning performance and future earnings prospects. Stable and consistent dividend payments reflect a company's healthy financial condition and its ability to generate sustainable profits; thus, companies tend to avoid tax avoidance practices that could potentially lead to legal and reputational risks, which might weaken the credibility of the dividend signal. Dividends carry signaling costs that can only be sustained by firms with strong cash flows, leading management to prioritize transparency and market trust over aggressive tax avoidance. Consequently, dividend policy functions more as a communication tool between companies and investors rather than a means of tax management, particularly among non-financial companies consistently listed in the LQ45 index on the IDX. The findings of this study are consistent with previous research conducted by Hermansyah & Afridayani, (2025), which concludes that dividend policy does not have a significant effect on tax avoidance. This phenomenon can be explained by considering various strategic factors as well as the prevailing regulatory framework. In Indonesia, dividend taxation is strictly regulated; therefore, firms generally do not use dividend policy as a primary instrument for tax planning.

c. Hypothesis 3: Thin capitalization has a significant effect on tax avoidance with managerial ownership as a moderation

The non-significance of the interaction variable between thin capitalization and managerial ownership indicates that the presence of management shareholding is not yet strong enough to strengthen or weaken the relationship between thin capitalization and tax avoidance practices. This condition suggests that a company's decision to utilize debt as a means of tax savings is largely determined by overall financing policies and corporate financial strategies, rather than the extent of share ownership held by management.

The results of this study can be explained through the agency theory proposed by (Jensen & Meckling, 1976). This theory posits that managerial ownership is expected to align the interests of managers and shareholders, thereby reducing agency conflicts (Septanta, 2023). However, the failure of managerial ownership to function as a moderating variable in this study indicates that management shareholding in the sample companies is relatively low compared to the total shares outstanding. Consequently, it has not yet been able to exert a significant influence on the company's strategic decision-making, particularly regarding financing and taxation policies.

The average managerial ownership ratio in the sample companies throughout the 2020–2023 period shows a relatively low and fluctuating trend. In 2020, the average managerial ownership was recorded at 0.002124, increasing to 0.004281 in 2021, but declining again in 2022 and 2023 to 0.001481 and 0.001464, respectively. These values indicate that the portion of shares held by management accounts for less than 1% of the total shares outstanding. This low level of managerial ownership suggests that managers do not yet have a strong enough economic interest to influence strategic corporate policies, particularly in debt-based financing decisions and taxation practices. Consequently, managerial ownership has not been able to serve as an interest alignment mechanism between managers and shareholders, as described in agency theory.

Agency theory also explains that when the proportion of managerial ownership is small, managers tend to act as professional managers rather than as shareholders (principals) (Jensen & Meckling, 1976). This condition causes managers to focus more on regulatory compliance and corporate stability, rather than on efforts to maximize personal benefits through risky tax avoidance practices

d. Hypothesis 4: Dividend policy has a significant effect on tax avoidance with managerial ownership as a moderation

These results indicate that managerial ownership is not able to moderate the effect of dividend policy on tax avoidance in non-financial companies consistently listed in the LQ45 index on the IDX during the research period. The findings of this study can be explained through the perspective of agency theory, which posits that share ownership by management is expected to align the interests of managers and shareholders, ensuring that managers act in accordance with corporate goals (Septanta, 2023). However, in the context of this study, the relatively low level of managerial ownership causes this role to not yet function effectively. Managers tend to act as professional managers who prioritize regulatory compliance and corporate stability, as indicated by the insignificant role of managerial ownership in moderating the relationship between dividend policy and tax avoidance.

Signaling theory posits that dividend policy is used by companies as a means to convey positive signals to investors regarding the company's performance, stability, and future prospects. Dividend distribution is viewed as a signal that the company is in good financial health and capable of generating stable cash flows. Theoretically, managerial ownership is expected to strengthen the credibility of these signals because management has a direct interest as shareholders. However, the low level of managerial ownership in the sample companies causes this role to not yet function effectively thus, managerial ownership is unable to moderate the relationship between dividend policy and tax avoidance.

The results of this study are in line with the research of Septanta, (2023) as well as Rahma & Masripah, (2024), who found that managerial ownership does not have a significant effect on tax avoidance in manufacturing companies on the IDX. Although agency theory states that share ownership by management can reduce agency costs and encourage more cautious decision-making, empirical findings show that the level of managerial ownership does not directly influence tax avoidance practices. Furthermore, the findings of this study are also consistent with the results of Anastasia & Situmorang, (2021), who state that management tends to prioritize operational smoothness and the achievement of corporate performance over engaging in tax avoidance, which is perceived to contribute sub-optimally to the company's objectives.

5. Relevance to Research Objectives

This study aims to analyze the effect of thin capitalization and dividend policy on tax avoidance, as well as the role of managerial ownership in non-financial companies consistently listed in the LQ45 Index on the Indonesia Stock Exchange. The results indicate that thin capitalization, dividend policy, and managerial ownership do not serve as dominant factors in determining tax avoidance practices. These findings suggest that LQ45 companies tend to maintain stable capital structures, dividend policies, and corporate governance to support business sustainability, regulatory compliance, and market confidence, thereby making tax avoidance a lower priority in managerial decision-making.

Overall, the findings of this study are relevant to the research objectives and contribute to filling the research gap by providing empirical evidence within the context of non-financial companies characterized by relatively high levels of liquidity, transparency, and market oversight. This study enriches the literature on finance and taxation by demonstrating that tax avoidance practices among LQ45 companies are more strongly influenced by operational considerations, reputation, and regulatory compliance than by capital structure policies, dividend policies, or managerial ownership.

6. Conclusion

This study analyzes the effect of thin capitalization and dividend policy on tax avoidance, with managerial ownership as a moderating variable, focusing on non-financial companies consistently listed in the LQ45 index on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The results indicate that neither thin capitalization reflected through debt-based financing structures nor dividend policy reflected through cash dividend distribution policies has a significant effect on corporate tax avoidance practices. Furthermore, managerial ownership is unable to moderate the relationship between these two independent variables and tax avoidance as the dependent variable.

These findings suggest that non-financial companies within the LQ45 index tend to prioritize regulatory compliance, transparency, and the implementation of Good Corporate Governance (GCG) over tax avoidance efforts, even those conducted legally or within the bounds of tax regulations. The high level of oversight from regulators, investors, and the public further restricts management's maneuverability in managing taxes through financing or dividend policies. Consequently, it is concluded that tax avoidance practices in LQ45 companies are influenced by other factors beyond the variables examined in this study.

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