Tax Avoidance through thin Capitalization (Evidence from Indonesian Firms)

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Abstract- *This paper examines the tax avoidance through thin capitalization evidence from publicly listed Indonesian firms from Indonesian Stock Exchange. The population of this study is companies listed on the Indonesian Stock Exchange from 2009 until 2011. The sample research was taken by using purposive sampling method, in order to obtain a sample about 35 companies listed as foreign direct investment in the Indonesian Stock Exchange. This research is done by using multiple regressions with SPSS. The results for regression of thin capitalization with cost of debt indicates that no effect on tax avoidance. While the thin capitalization instruments regression results show that the debt to equity ratio and profitability affect on the profitability of tax avoidance.*

Keywords- *Thin Capitalization; Cost of Debt; Debt to Equity Ratio; Profitability; Tax Avoidance*

1. INTRODUCTION

Tax is important element in all countries around the world. Therefore governments in many countries pay more attention on tax. In Indonesia, tax income from year to year always as main income. In 2013 income tax was about Rp. 1.134.289.200.825.000,-. Natawisastra (2007) concluded that government do some efforts to optimize the income from this sector, one of efforts is to attract investor from abroad to invest in Indonesia through foreign direct investment.

Optimization revenue from income tax through foreign companies faces many constraints. One of the constraints in order to optimize their tax revenue is tax avoidance. Tax avoidance is an effort to reduce tax liabilities that are legal (Rahayu, 2008). Therefore, the issue of tax avoidance is a complex and unique problem. On the one hand, tax avoidance is allowed because it does not break the rules, but on the other hand tax avoidance is undesirable because it reduces the tax.

One form of the practice of tax avoidance, which is conducted by the Foreign Direct Investment in Indonesia, is thin capitalization (Rusydi, 2009). Rahayu (2008) states that the thin capitalization practices mostly carried out by multinational corporations or companies whose capital is in part or wholly derived from the Company's foreign direct investment.

Cost of debt effect on income from tax avoidance. The cost of debt of a company is determined by the characteristics of the company that issued the debt because it affects the risk of bankruptcy, agency cost and information asymmetry problems (Bhojraj and Sengupta, 2003). Lim (2011) showed that attempts to minimize tax such as tax shelters and tax avoidance are a replacement of the use of debt. Companies that commit tax avoidance tend to reduce the use of debt, thereby increasing the financial slack (the amount of cash and marketable securities owned by the company), reducing the cost and risk of bankruptcy, improving credit quality, the impact will reduce the cost of debt. Martani and Masri (2012) states tax avoidance has a positive relationship with cost of debt. In the literature, the corporate tax avoidance, by applying the agency perspective on the relationship between tax avoidance and cost of debt (Lim, 2011). Thus, this paper examines the relationship of corporate tax avoidance and cost of debt by using Indonesian listed firms from Indonesian Stock Exchange.

Debt to Equity Ratio affects income tax avoidance. One indication of the company by streamlining tax avoidance is thin capitalization can be seen through the ratio of DER (Debt to Equity Ratio). DER is the value of the ratio of debt to equity level, meaning that the higher the value of the DER then it shows the value of the company's debts is greater than the capital. DER ratio associated with thin capitalization, because DER is becoming one of the measuring devices in the thin capitalization practices that became one of the methods in the practice of tax avoidance (Rahayu, 2008). Klosterman (2007) claims that if the company chose to do the thin capitalization ratio DER will usually be more than one. This will have implications for the company's interest expenses are high as companies rely more on the use of debt to finance its operations rather than using capital. Therefore, company's interest costs are included in the group will be a major expense that will directly reduce the amount of profit in the end period

Profitability ratio is ratio that is used to measure a company's ability to generate profits. In accordance with the pecking order theory, companies that have high profit will tend to use the equity in their financing. Profitability effect on tax avoidance because the tax base is becoming earnings or profitability. The higher the level of profit the company will result in the amount of corporate income tax increases. Jung, Boyoung and Byungmo (2009) conducted a study on a company that has a group (chaebol) and a group that does not have a group (non- chaebol) in Korea. Research results show that companies that are members of the group (chaebol) tend to perform activities of tax avoidance through income shifting, how much profit the company will be a positive influence on the tax paid. A company that has many affiliate companies tends to perform shift profits (income shifting) among the companies that are members of the group, as part of efforts to minimize the tax burden.

Based on the above explanation, the research question formulated for this study is based on the prior studies. The question is whether corporate tax avoidance activity is associated with thin capitalization such as cost of debt, debt to equity ratio and profitability.

2. LITERATURE REVIEW

Hanlon and Heitzman (2009) define tax avoidance as the reduction of explicit taxes per dollar of pre tax accounting earnings. Furthermore, Desai and Dharmapala (2009) define tax avoidance as a transfer of value from the state to shareholders. According to Wang (2010) define tax avoidance define as representative of tax planning strategies, encompassing activities that are perfectly legal and more aggressive transactions that fall into grey area. Pasternak and Rico (2008) define tax avoidance is the legal utilization to reduce the amount of tax that is payable by means that are within the law.

Tax avoidance is engineered taxation issues that still remain within the framework of the tax provisions (Suandy, 2001). Opinion is almost the same in the state by Lim (2011) that defines tax avoidance as a reduction of tax relief by utilizing the tax provisions do legally. Tax paid by a company will result in the economic capability of the company, therefore a lot of companies doing a variety of ways to minimize the tax burden. Efforts to minimize the tax burden can be done in various ways, whether they are meeting the provisions (lawful) or who violates the provisions of taxation (unlawful). According to the Organization for Economic Corporation and Development –OECD (2010) mentioned that the tax avoidance there are three characters, namely: (1) appearance transaction and no artificial elements (2) Scheme established often exploit loopholes of the law (3) It is a secret.

In various studies, there are several terms associated with tax avoidance. The term is often found among other tax shelters and tax aggressive. Frank, Lynch, and Rego (2009) suggest that an aggressive tax measures aimed at reducing taxable income through tax planning. The company is assumed to be more aggressive in tax planning, by utilizing all opportunities though not all acts done in contravention of the existing tax laws. Graham and Tucker (2006) define tax shelters by the US Congress (the House Committee on Taxation, 1999) as an attempt to evade tax without being exposed to economic risk or loss. Based on the definition of tax aggressiveness and tax shelters can also be interpreted as tax avoidance.

Tax avoidance can be measured by several measurements. Maydew, Mills, L. and Ericson (1998) measured the amount of tax planning for investment purposes. In the study of tax planning used the effective tax rate (ETR) were calculated from the amount of tax expense (current tax expense) for the year i divided by the number of total income before interest expense (interest expense) and tax expense (tax expense) for the year i. Other studies that measure the effective tax avoidance with tax rates were made by Dyreng, Hanlon, and Maydew (2005). In that study to measure the long- run tax avoidance Dyreng et.al., (2005) used the Annual GAAP effective tax rates, as measured by tax expense divided by income before tax. Tax avoidance can be measured using total accruals to separate the different components of the tax book caused by tax and earnings management purposes (Desai and Dharmapala, 2006). Measurement of tax avoidance by using discretionary accrual others, as was done in the research Lim (2011).

Martani and Masri (2012) states that tax avoidance is legal earnings manipulation is still in accordance with the provisions of tax laws to minimize the amount of tax payable. The cost of debt of a company is determined by the characteristics of the company issuing the debt because it affects the risk of bankruptcy, agency cost and information asymmetry problems (Bhojraj and Sengupta, 2003). Graham and Tucker (2006), and Lim (2011) showed that an attempt to minimize taxes such as tax shelters and tax avoidance is a replacement of the use of debt. Desai and Dharmapala (2009), cross-sectional testing, ownership tax avoidance institutional affect the relationship with the company, where the company with a stronger institutional ownership, tax avoidance affects the value of the company. This suggests that the influence of shareholders in tax avoidance companies depends on the ability of shareholders to control manager.

In this study, thin capitalization is proxies by cost of debt, debt to equity ratio and profitability. Cost of debt as one important element in the capital structure is influenced by factors that tax debt tax shields which can be used as an interest expense as a deduction from the tax payable (Martani and Masri, 2012). Klostermann (2007) stated the thin capitalization is a condition in which the company in determining the capital structure preferring to rely on debt rather than equity. The relationship between debt and equity is illustrated through the debt-to- equity ratio (DER), the ratio of debt to equity. Jung, Boyoung and Byungmo (2009) firms that have high profitability will tend to tax avoidance by shifting income (income shifting) from affiliated entities to the parent company which has a lower tax rate .

Cost of debt is defined as the required return creditors while providing funding to the company (Fabozzi, 2007). Pittman and Fortin (2004) in a study to measure the cost of debt as interest expense paid by the company in one year divided by the average number of long-term loans and short-term interest-bearing during the year. Bhojraj and Sengupta (2003) shows that the cost of debt of a company determined the characteristics of the company; it can be seen from the bond issue that affects the risk of bankruptcy, agency cost and the problem of information asymmetry.

Cost of debt affect on income tax avoidance. Cost of debt as one important element in the capital structure is influenced by factors that tax debt tax shields which can be used as an interest expense as a deduction from the tax payable (Martani and Masri, 2012). Director General of Taxation (2013) stated many companies that do engineering to reduce the amount of tax debt. One method used is to enlarge the debt so that cost of debt and the large tax burden decreases. Lim (2011) examined the effect of tax avoidance on the cost of debt is moderated by changes in tax rates. Research results show, the effect of tax avoidance on the cost of debt reduced in the period the tax rate down.

Debt to Equity Ratio (DER) is the capital structure of the company which is the composition of debt to equity. Source of funds from the onset of the debt has consequences charge interest while the sources of funds from equity dividends have consequences on set of administration (Siregar, 2007). The composition of debt and equity that are not optimized will reduce the profitability of the company (Aji, 2003). DER affect on income tax avoidance. Klostermann (2007) stated that the thin capitalization is a condition in which the company in determining its capital structure preferring to rely on debt rather than equity. The relationship between debt and equity is illustrated through the debt-to- equity ratio (DER), the ratio of debt to equity. Companies that have more than one DER ratios tend to charge tax avoidance with great interest. This resulted in the amount of tax paid is becoming increasingly smaller.

Thin Capitalization Rules in Indonesia is embodied in Article 18 paragraph (1) of Income Tax Act which provides that the government has the authority to determine the ratio of DER is allowed to taxation. By simply relying on tax avoidance provisions set forth in Article 18 of the Income Tax Act would be difficult for the government in this case the Directorate General of Taxes in preventing the use of thin capitalization by multinational corporations in their tax evasion efforts. Government through the Minister of Finance No. 1002 / KMK.04 / 1984 DER has determined that the limit of 3: 1 , but after a while the rules of entry into force was postponed until an undetermined time through the Minister of Finance No. 254 / KMK01 / 1985. So until the current provisions DER restrictions in Indonesia is still limited discourse.

Profitability shows the ability of the capital invested in total assets to generate profits for investors (Faisal, 2003). Under the pecking order theory, the first choice in funding decisions is to use retained earnings, then using debt and equity. The higher the profit earned will be smaller firms use debt used by the company, because the company can use internal equity derived from retained earnings first. If the profitability and investment spending remains the company with high profitability will use a relatively low debt and vice versa (Brigham and Houston, 2001 in Yoga, 2010).

This study examines and analyzes the relationship instrument in the form of thin capitalization by using the cost of debt, debt to equity ratio, profitability and tax avoidance. This study will use the research variables used in the study Lim (2011). In this study based on Lim (2011), which became independent variable is tax avoidance while the dependent variable is the cost of debt. In this study, the position of the variable changed, which became independent variable is the variable cost of debt, which is the dependent variable, is tax avoidance. That is the reason the conversion of a research position is that tax avoidance is influenced by, cost of debt as a result of the financing companies that prefer to use debt / debt than capital. In this study, the independent variable in addition to cost of debt also added variables debt to equity ratio and profitability. Variables were selected as independent variable because of previous research has an influence on tax avoidance.

Cost of debt influence on tax avoidance. The cost of debt of a company is determined by the characteristics of the company issuing the debt because it affects the risk of bankruptcy, agency cost and information asymmetry problems (Bhojraj and Sengupta, 2003). Lim (2011) showed that attempts to minimize taxes such as tax shelters and tax avoidance are a replacement of the use of debt. Companies that do tax avoidance will reduce the use of debt , thereby increasing the financial slack , reducing the cost and risk of bankruptcy, improving credit quality , the impact will reduce the cost of debt. Martani and Masri (2012) states tax avoidance is a positive effect on cost of debt. Companies that use excessive amounts of debt will increase the risk of bankruptcy as well as increase the cost of debt. Companies tend to do the engineering to avoid tax debt.

Profitability effect on tax evasion because the tax base is becoming earnings or profitability. The results of the study from Jung, Boyoung and Byungmo (2009) show that tax income is affected by shifting activities undertaken by companies that are members of the group, how much profit the company will be a positive influence on the tax paid . A company that has many affiliate companies will tend to shift tax avoidance among the companies that are members of the group, as part of efforts to minimize the tax burden.

The empirical model in this study in the following:

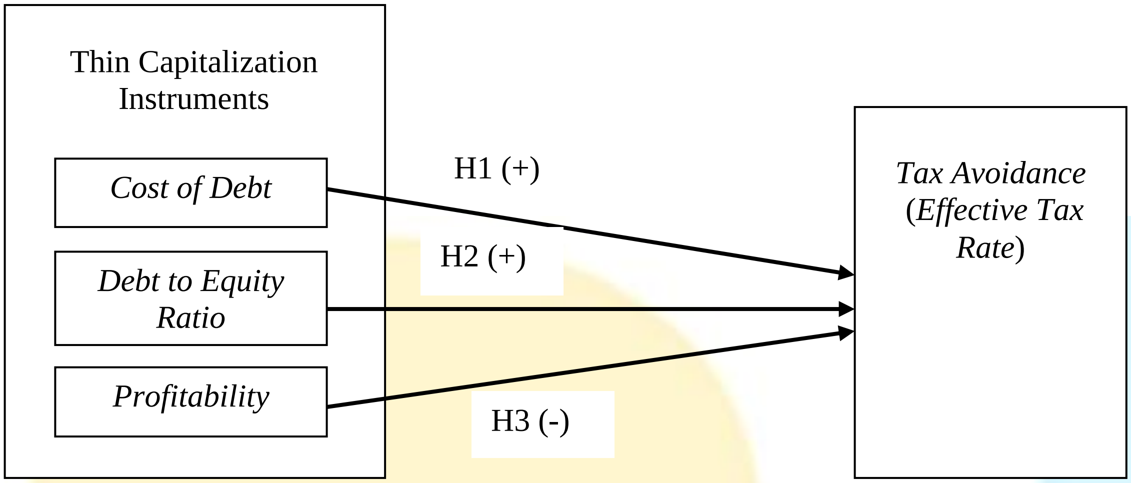

Figure 1. Empirical Model

3. HYPOTHESES DEVELOPMENT

3.1. Relationship thin capitalization with using cost of debt and an indication of tax avoidance

Instruments downsizing at a cost of cost of debt effect on income tax avoidance. In accordance Agency Cost / Tax Trade - Off Theory Shield Company will use debt as a funding source if the benefit of the tax reduction is greater than the bankruptcy cost and agency cost. At the time the company the company chose to use debt in order to reduce the corporate income tax has made efforts to tax avoidance. Tax avoidance behavior is affected by agency problems. Companies that use excessive amounts of debt will increase the risk of bankruptcy as well as increase the cost of debt. Companies tend to do the engineering to avoid tax debt.

This study investigates the relationship between tax avoidance and cost of debt from the agency perspectives. Desai and Dharmapala, (2006a, 2006b); Desai and Dharmapala, (2009); Desai, Alexander and Luigy, (2007) concluded that tax avoidance can reduce transparency of firms and permits managers opportunity to extract rents from outsider investor, to create a shield for managerial opportunism and diversion of rents.

The cost of debt of a company is determined by the characteristics of the company issuing the debt because it affects the risk of bankruptcy, agency cost and information asymmetry problems (Bhojraj and Sengupta, 2003). Lim (2011) showed that attempts to minimize taxes such as tax shelters and tax avoidance are a replacement of the use of debt. Companies that do tax avoidance will reduce the use of debt, thereby increasing the financial slack, reducing the cost and risk of bankruptcy, improving credit quality, the impact will reduce the cost of debt. Martani and Masri (2012) states that tax avoidance is a positive effect on cost of debt. Based on previous research, it can be formulated as a hypothesis 1 as follows:

H1 : Instruments thin capitalization by using cost of debt indicated a positive effect on income tax avoidance.

3.2. Relationship thin capitalization by using DER (debt to equity ratio) and an indication of tax avoidance

Streamlining capital instruments with DER has an effect on tax avoidance. Based on the Modigliani - Miller model companies will prefer debt to meet their needs so that the value of the company will increase, this is evidenced by the ratio of debt to equity ratio is large. Like what the composition of the capital structure of a company DER takes tax consequences. Tax laws in Indonesia that a company whose business activities are conducted in funding the debt through interest expense incurred on the debt can be deducted as an expense in computing the taxable income of the company, this resulted in the tax paid by the company into smaller, thus the greater the company's debt will be smaller than the logic of the tax to be paid by the company.

To achieve optimal profit company will make efforts to make efforts to reduce the cost of tax. One of the measures used is with tax avoidance by increasing the composition of the company DER so hopefully there will be more interest costs, the company will reduce taxable income. The bigger the company the more likely DER tax avoidance. In other words there is a relationship between DER with tax avoidance (Schallheim and Wells, 2006).

Rahayu (2008) conducted a study that one of the tax avoidance practices conducted by PMA is to do with the thin capitalization DER companies in order to plan more than one, so it has consequences for the company that the company's operations will be mainly financed with debt than equity. With debt financing, the company had the opportunity to charge interest as a deduction from taxable income. It can concluded that the greater the likelihood of firms Vendor DER, the greater tax avoidance. Based on these studies it can be formulated as a second hypothesis as follows:

H2: Instruments thin capitalization using debt to equity ratio is an indication of a positive effect on tax avoidance.

3.3. Relationship thin capitalization by using profitability and tax avoidance

Instruments streamlining affect on the profitability of capital with income tax avoidance. Profitability shows the level of the company's ability to generate profits, the greater the profitability ratio, the greater the level of corporate profits. Companies that have high profitability will tend to reduce the debt and prefer to use the equity in funding. Therefore, the higher the level of corporate profits indication of tax avoidance through engineering the smaller debts.

As per the pecking order theory, multinational corporations that have high profitability will prefer equity financing than debt, so the company will tend to reduce the debt so that the risk of default (financial distress) and bankruptcy can be avoided. Thus, when the company's profitability is high then the behavior of tax evasion through thin capitalization tend to decrease. This suggests that the relationship of profitability to the efforts of tax avoidance is negatively related.

Jung, Boyoung and Byungmo (2009) conducted a study of the tax paid by companies in Korea, the company has distinguished between groups (chaebol) and a group that does not have a (non- chaebol). Research results show that the tax is affected by profit shifting activities undertaken by companies that are members of the group, how much profit the company will be a positive influence on the tax paid. A company that has many affiliate companies tends to perform shift profits (income shifting) among the companies that are members of the group, as part of efforts to minimize the tax burden. Rego (1999) examines the relationship between corporate profitability with the amount of tax to be paid . Research results show that at the time the tax to be paid by a large company, the company will tend to report lower profitability compared to companies which are taxed at a smaller rate. Based on previous research, it can be formulated as follows:

H3: Instruments thin capitalization by using a negative effect on the profitability indication income tax avoidance.

4. RESEARCH DESIGN

This study uses a quantitative approach because the data obtained in the form of figures and analysis using the statistical analysis used to use hypotheses testing study for a test of all the variables studied. The time horizon of this study is cross - sectional because all data collected during the annual period. Type of investigation with a discussion correlation study in which researchers want to test the important variables associated with the problem. Empirical research conducted after the hypothesis is formulated, where the latter data from empirical studies compared with the hypothesis that the researcher will determine to reject or accept the hypothesis.

Research object is a company whose shares are listed on the Indonesia Stock Exchange (IDX) 2009-2011. Data used in this study are secondary data source data obtained from the Indonesian Capital Market Directory (ICMD) for the observation period from 2009 to 2011.

The population in this study is all public company status of FDI (Foreign Direct Investment) is listed on the Indonesian Stock Exchange from 2009 until 2011. All firms except for financial companies, this is because of public company financial sector has different rules compared to other sectors of public companies, which must comply rules of BAPEPAM and Bank Indonesia. The sampling technique used was purposive sampling using the following criteria:

1. The Company is a public company with the status of non-financial FDI serving the financial statements during the period from 2009 to 2011 that has more than one DER at least 2 years. The reason for choosing this sample is that companies often do income tax avoidance by thin capitalization is a foreign company that has more than one DER.
2. The company that serves the complete financial statements from 2009 to 2011
3. It has a complete data related to the variables used in the study

5. EMPIRICAL RESULT

5.1 . Research Data

The study was conducted on Foreign Investment Company, which is listed on the Indonesia Stock Exchange in 2009 until 2011. The sampling method in this study using purposive sampling method is a method of sampling using certain criteria. The samples in this study are described in Table 1 below:

Table 1. Sample Collected

Sample Selection	No. of Firms
Number of FDI firms listed 2009 - 2011	82
Less Financial firms	(9)
Non-financial firms	73
Less firms not use DER > 1 – 2 year from 2009 – 2011	(42)
Number of sample	31
Observation Year 3 Year	
Total Sample (3 x 31)	93
Less Outlier	(12)
The Final Sample	81

5.2. Descriptive Statistics

Descriptive statistical analysis in this study is used to see the picture of the characteristics of the samples used in the study. Table 2 below illustrates the descriptive analysis of the sample as a whole or separately according to the sample group.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std Deviation
TA	81	.0003	.3875	.109325	.0913774
COD	81	.0009	.2950	.078423	.0608541
DER	81	.40	16.40	2.6263	2.95508
PROF	81	-3.295	.5676	.108246	.1597438

5.3. Regression Results

Table 3. The Result of Partial Test (t)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Standard Error	Beta		
1.(constant)	.142	.017		8.145	.000
COD	-.169	.134	-.112	-1.260	.282
DER	.006	.003	.189	2.101	.039
PROFITABILITY	-.325	.052	-.568	-6.293	.000

Based on Table 3 above in mind that the three independent variables were entered into the model was not significant at the 0.05 COD. While the DER and PROF variables significant at 0.05. Therefore, from the above results can be obtained by the following equation:

Tax Avoidance = 0.142 – 0,169 COD + 0.006 DER - 0.325 PROF + ε

The results of first hypothesis test (H1) which states that thin capitalization by using cost of debt and no significant positive effect on income tax avoidance confirmed in Table 3. It can be seen that T value for the variable cost of debt amounting to -1.260 with a significance probability of 0.212. Probability of 0.212 is greater than 0.05 means that the cost of debt partially no effect on tax avoidance.

This result was confirmed by the results of the comparison between the values of t and t table. T table value at 0.05 significance level and df (degrees of freedom) nk - 1 = 80 is 1.990 (one- tailed test). Thus t value -1260 is smaller than t table 1.990 (-1.260 t count < t table 1,990). Interpret the results of this test that the significance level of 0.05, the variable cost of debt effect is negative and not significant with tax avoidance or in other words, H1 is rejected. Thus the first hypothesis which says streamlining capital instrument (thin capitalization) using cost of debt indicated a positive effect on income tax avoidance is not empirically proven.

Results of second hypothesis test (H2) which states that thin capitalization by using a debt to equity ratio is an indication of the positive effect of income tax avoidance is not acceptable. T value for the variable debt to equity ratio is about 2.101 with a significance probability of 0.039. Probability of 0.039 is smaller than 0.05 means that the debt to equity ratio of the partial affects on tax avoidance.

These results are supported by the results of the comparison between the values of t and t table. Calculation shows that the t value is 2.101 while the table t value at a significance level of 0.05 and df (degrees of freedom) nk - 1 = 80 is 1.990 (one- tailed test) . Thus t value 2.101 is greater than 1,990 tables (t count 2.101 > 1.990 t table). Interpret the results of this test that the significance level of 0.05, the variable debt to equity ratio and a significant positive effect on tax avoidance, or in other words, H2 is accepted. Thus the second hypothesis which states thin capitalization by using a debt to equity ratio indicated a positive effect on income tax avoidance proved empirically.

The result of third hypothesis (H3) which stated that thin capitalization by using a negative effect on profitability indication of income tax avoidance can be accepted. T value for the variable profitability is about -6.293 with a significance probability of 0.000. Probability of 0.000 is smaller than 0.05 means that the profitability is partially an effect on tax avoidance. Interpret the results of this test that the significance level of 0.05, the variable profitability significantly and negatively related to tax avoidance or in other words, H3 is accepted. Thus hypothesis 3, which stated thin capitalization by using a negative effect on the profitability indication tax avoidance proved empirically.

6. CONCLUSION

The aim of this study is to examine and analyze empirically the affect of thin capitalization by using cost of debt, debt to equity ratio and profitability to tax avoidance. This study used a sample of foreign direct investment company listed on the Indonesia Stock Exchange in 2009 until 2011.

The result of first hypothesis test showed that the thin capitalization by using cost of debt does not affect the indication of income tax avoidance. The results of this study indicate that the cost of debt has no effect on tax avoidance in the company of foreign direct investment. Cost of debt that occurred solely because of economic incentives (economic motive) is not intended solely for tax avoidance. The result of second hypothesis test showed that the thin capitalization by using a debt to equity ratio affect on tax avoidance. The results of this study indicate that a lot of foreign direct investment company that has a debt to equity ratio of more than one, so that the company is more likely to finance the operations of the company with debt (debt financing). This is in accordance with the existing theory that the greater the debt showed that strategies tax avoidance by thin capitalization is widely used by foreign investment company in Indonesia. The result of third hypothesis test showed that the thin capitalization by using a negative effect on the profitability to tax avoidance. The results of this study indicate that the greater the level of profitability in the company of foreign direct investment, the tendency to commit tax avoidance through the thin capitalization is smaller.

There are several limitations from this study. First limitation is the low coefficient of determination. This indicates that the selection of variables used in this study is less precise. The low coefficient of determination could be caused by the model transforms research from previous studies. Improper model selection is what might be causing the model in this study is not / less fit and the data analysis much insignificant. Secondly, this study only used a sample of foreign direct investment in companies listed on the Stock Exchange, where the company is not able to represent the company's foreign direct investment which is not listed on the Stock Exchange. In general, foreign direct investment companies are not going public more opportunity to make tax avoidance. For the future research, there are several suggestions. First, further research should use new variables to retest the model such as corporate governance as an independent variable. The last suggestion, future studies could expand the sample to all foreign direct investment in companies that are not just listed on the Stock Exchange.

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