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The Effect of Business Strategy, Inventory Intensity, and Thin Capitalization on Tax Avoidance

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Abstract

This study aim to analyze the effect of Business Strategy, Inventory Intensity, and Thin Capitalization on Tax Avoidance in Consumer Non-Cylicals companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period. This study employed a quantitative method with an associative approach. The data used were secondary data in the form of companies' annual financial statements obtained from the official website of the Indonesia Stock Exchange. The sampling technique used was purposive sampling, resulting in 22 companies observed over a five-year period, with a total of 110 observations. The data were analyzed using panel data regression with EViews 12 software. The result show that Business Strategy, Inventory Intensity, and Thin Capitalization simultaneously have a significant effect on Tax Avoidance. Partially, Business Strategy and Inventory Intensity have no significant effect on Tax Avoidance, while Thin Capitalization has a significant effect on Tax Avoidance.

Keywords: ***Business Strategy, Inventory Intensity, Thin Capitalization, Tax Avoidance***

INTRODUCTION

According to Ananda & Suhartono (2023), tax is one of the important indicators of national economic strength because good tax collection reflects the level of compliance and public contribution to the state. On the other hand, some people and business actors still consider taxes as a burden that can reduce their income without directly felt benefits. As a result, many individuals and companies attempt to avoid taxes in various ways. One form is tax avoidance, which is a legally conducted tax evasion effort by utilizing loopholes in tax regulations.

Companies minimize the burden of tax payable through engineered business processes. Engineering here does not mean falsifying but rather leads to the utilization of tax regulation loopholes through permitted accounting methods in the company (Vera & Karina, 2025). The tax avoidance phenomenon once befell one of the companies in the

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consumer non-cyclicals sector, namely PT Indofood Sukses Makmur (INDF), which was reported to be involved in a tax avoidance practice worth Rp 1.3 billion in Indonesia. They reportedly carried out this strategy by forming a new entity and transferring assets, debts, and noodle division operations to PT Indofood CBP Sukses Makmur (ICBP) (Candra & Febyansyah, 2023).

Tax avoidance is a process of regulating business activities by utilizing available loopholes in tax provisions, so the company can minimize the amount of tax paid. Sidauruk and Putri (2022) state that tax avoidance is part of a tax planning strategy aimed at minimizing total tax payments. According to Silviana and Hidayat (2024), tax avoidance is indeed legally permissible, but the government does not want this practice because it can affect state revenues. According to Jensen M and Meckling in Nazmi & Finatariani (2025), agency theory describes the relationship between the principal and the agent. This theory shows that agency is a relationship formed based on an agreement between the principal (shareholders) and the agent (management) tasked with upholding the principal's interests (Hendrani et al., 2022). The relationship between agency theory and tax avoidance shows that without good management, detrimental risks can arise. Management's ability to oversee tax avoidance is crucial because they have the authority to manage corporate profits to reduce tax obligations (Wulandari & Pratiwi, 2023).

The first factor affecting tax avoidance is business strategy. Business strategy is a choice made by management before the company's operational activities begin (Anggraini et al., 2020). Based on previous research, business strategy has a negative effect on tax avoidance (Putri and Setiawan, 2022). However, this contradicts the research of Anggraini et al. (2020), Nurrahmi and Rahayu (2020), and Harianto (2020), which state that business strategy has no effect on tax avoidance. According to Sulistiawati and Sadewa (2024), Inventory Intensity is a method of measuring how much inventory is invested by the company. The reason for using inventory intensity in conducting tax avoidance is because the larger the company stores inventory, the more the company must incur maintenance costs for the inventory in the warehouse. These costs will reduce profits and affect the tax imposed on the company.

As stated by Jumailah (2020), one form of tax avoidance strategy that can be implemented by companies is through thin capitalization practices, which is when a company decides to fund its operational activities with debt rather than using its own capital. Thin capitalization raises issues because in the tax system there are different treatments between financing sourced from capital and from debt. Swissia et al. (2022) state that the results of their research show the thin capitalization variable has a significant effect on tax avoidance.

Tax avoidance is one part of corporate planning that can be used to avoid larger tax payments and can increase income after tax (Cahyo Nugroho, 2022). H1: It is

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suspected that Business Strategy, Inventory Intensity, and Thin Capitalization simultaneously affect Tax Avoidance. According to Lestari & Hertati (2020), business strategy is a series of management decisions made to achieve company goals. Based on previous research conducted by Lestari & Hertati (2020), business strategy has a positive effect on tax avoidance. H2: It is suspected that Business Strategy affects Tax Avoidance. According to Sulistiawati & Sadewa (2024), the higher a company's inventory, the more aggressive it will be towards the tax burden received by the company. This cost will reduce profits and affect the tax imposed on the company, thus stating that inventory intensity has a positive effect on tax avoidance (Sinaga & Malau, 2021). H3: It is suspected that Inventory Intensity affects Tax Avoidance. According to Jumailah (2020), the use of debt can increase firm value due to the tax benefits of interest on loans. In the use of capital investments, the distribution of dividends from capital will be taxed, whereas interest from debt can be used as an income deduction in tax calculations. H4: It is suspected that Thin Capitalization affects Tax Avoidance.

METHOD

This research was conducted to identify significant relationships between the studied variables using a quantitative method with an associative approach. The population used in this study is all Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period. The sampling technique used purposive sampling with specific criteria, including companies that consecutively listed, provided complete financial statements in Rupiah, did not experience losses, and possessed all research variables during the observation period. Following these criteria, 22 companies were selected, resulting in 110 total observation data over the 5-year period.

Table 1. Sample Selection Criteria

No	Criteria	Violations	Accumulation
	Consumer Non-Cyclicals sector companies listed on the Indonesia Stock Exchange for the 2020-2024 period.		132
1	Consumer Non-Cyclicals companies consecutively listed on the Indonesia Stock Exchange for the 2020-2024 period.	46	86
2	Companies that published complete financial statements for the 2020-2024 period.	3	83
3	Consumer Non-Cyclicals companies that published financial statements in Rupiah.	3	80

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No	Criteria	Violations	Accumulation
4	Consumer Non-Cyclicals companies that did not experience losses during the 2020-2024 period.	34	46
5	Consumer Non-Cyclicals companies possessing all variables in this study.	24	22
	Total Sample Companies		22
	Total Research Sample Data over 5 Years = Sample x Observation Years		110

The data collected for this study were secondary data obtained from the official website of the Indonesia Stock Exchange and other relevant sources. Data collection techniques included literature studies to gather previous research and supporting theories, as well as document methods using past events records such as corporate annual financial reports.

This study utilizes one dependent variable, Tax Avoidance, measured by the Effective Tax Rate (ETR). There are three independent variables: Business Strategy measured by the ratio of advertising expenses to total sales, Inventory Intensity measured by dividing total inventory by total assets, and Thin Capitalization measured using the Debt to Equity Ratio (DER).

Table 2. Operational Research Variables]

Variable Name	Measurement Indicator	Scale
Tax Avoidance	ETR = Tax Expense / Earnings Before Tax	Ratio
Business Strategy	Market = Advertising Expense / Total Sales	Ratio
Inventory Intensity	Inventory Intensity = Total Inventory / Total Assets	Ratio
Thin Capitalization	DER = Debt / Equity	Ratio

The data analysis technique employed statistical calculations using the E-Views 12 application. The analysis stages consisted of descriptive statistics, panel data regression models, and model estimation tests comprising the Chow Test, Hausman Test, and Lagrange Multiplier Test. Classic assumption tests including normality, multicollinearity, heteroskedasticity, and autocorrelation tests were performed prior to hypothesis testing, which utilized the coefficient of determination, simultaneous F-test, and partial t-test.

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RESULTS AND DISCUSSIONS

Descriptive Statistics Analysis

This study utilized 110 observation data from Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. The descriptive statistics display the data characteristics for each research variable.

Table 3. Descriptive Statistics Test Results

	Tax Avoidance (Y)	Business Strategy (X1)	Inventory Intensity (X2)	Thin Capitalization (X3)
Mean	0.232124	0.038932	0.245729	1.024364
Median	0.225451	0.032115	0.216247	0.641763
Maximum	0.637679	0.207651	1.527093	6.465892
Minimum	0.051460	0.000513	0.023290	0.100232
Std. Dev.	0.059477	0.038533	0.255176	1.169654
Observations	110	110	110	110

The Tax Avoidance variable has a mean of 0.232124, showing the average tax avoidance rate during the research period. Business Strategy has a mean of 0.038932, showing relatively stable data distribution. Inventory Intensity has a mean of 0.245729, with a standard deviation of 0.255176, indicating a fairly high variation among sample companies. Thin Capitalization has a mean of 1.024364, with a maximum value of 6.465892, showing the existence of companies with very high thin capitalization levels.

Panel Data Regression Model Selection

Model selection was conducted through a series of tests: the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test.

Table 4. Panel Data Regression Model Selection Conclusion

Selection Test	Model Testing	Test Result	Selected Model
Chow Test	Common Effect Model or Fixed Effect Model	0.0000 < 0.05	Fixed Effect Model
Hausman Test	Fixed Effect Model or Random Effect Model	0.0955 > 0.05	Random Effect Model

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Lagrange Multiplier Test	Common Effect Model or Random Effect Model	0.0000 < 0.05	Random Effect Model

Based on the overall test results, the Random Effect Model (REM) is the most appropriate model to interpret the relationship between the research variables.

Classical Assumption Test

The normality test using Jarque-Bera resulted in a probability of 0.000000, indicating the residuals are not normally distributed; however, based on the central limit theorem, data exceeding 30 observations is assumed to approach a normal distribution. The multicollinearity test showed all Centered VIF values are below 10, confirming no multicollinearity symptoms among the independent variables. The heteroskedasticity test using Breusch-Pagan-Godfrey obtained a Prob. F of 0.1156 (> 0.05), showing the model is homoskedastic. The autocorrelation test resulted in a Durbin-Watson value of 1.182571, which falls within the acceptable -2 to +2 range, indicating no serious autocorrelation issues.

Multiple Linear Regression Analysis and Hypothesis Testing

The multiple linear regression was estimated using the Random Effect Model (REM).

Table 5. Multiple Linear Regression and Partial Test (t-Test) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.211899	0.014844	14.27477	0.0000
Business Strategy (X1)	-0.112710	0.184027	-0.612463	0.5415
Inventory Intensity (X2)	0.026496	0.031336	0.845535	0.3997
Thin Capitalization (X3)	0.017672	0.006363	2.777145	0.0065

The regression equation obtained is TA = 0.211899 - 0.112710(X1) + 0.026496(X2) + 0.017672(X3) + e. The Adjusted R-squared value is 0.048733, showing that Business Strategy, Inventory Intensity, and Thin Capitalization can explain 4.87% of the Tax Avoidance variation, while the remaining 95.13% is explained by other variables

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outside this model. The simultaneous test (F-test) yielded a Prob(F-statistic) of 0.040334 (< 0.05), concluding that the independent variables simultaneously affect Tax Avoidance.

DISCUSSION

The statistical analysis demonstrates that Business Strategy, Inventory Intensity, and Thin Capitalization simultaneously influence Tax Avoidance within Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange for the 2020-2024 period, evidenced by the Prob(F-statistic) of 0.040334. This finding aligns with agency theory, which outlines that management decisions regarding business strategy formulation, inventory management, and funding structure determination collectively shape corporate behavior toward tax avoidance. Although only Thin Capitalization shows a significant partial effect, the variables collectively contribute to changes in tax avoidance, confirming that corporate tax policies rely on interconnected managerial decisions. These results corroborate previous studies by Ridwan and Hasanah (2024) and Anggraini and Prasetya (2025), reinforcing that tax avoidance is driven by multiple internal corporate policies.

The partial test for Business Strategy yields a probability of 0.5415, indicating no significant effect on Tax Avoidance. Agency theory suggests management has the authority to design strategies aiming for efficiency, market expansion, and competitiveness. However, the data reveals this authority is not inherently directed toward tax avoidance. Companies in the Consumer Non-Cyclicals sector prioritize operational stability, product distribution, and meeting market demands rather than tax reduction efforts. This supports the findings of Ridwan and Hasanah (2024) and Wulandari and Fikriyah (2024), while contradicting Nazmi and Finatariani (2025). The divergence in results is likely due to differences in sample characteristics, specific industry sectors, or the business strategy measurement proxies applied.

Similarly, Inventory Intensity does not significantly affect Tax Avoidance, showing a probability of 0.3997. This implies that a larger proportion of inventory does not automatically translate to tax avoidance practices. While agency theory notes that managing assets like inventory theoretically impacts storage costs, depreciation risks, and ultimately taxable income, the reality for Consumer Non-Cyclicals companies is different. Inventory management in this sector is strictly utilized to maintain goods availability and ensure operational continuity, rather than acting as a mechanism for tax savings. This conclusion aligns with Ridwan and Hasanah (2024) but opposes Rizal Saragih et al. (2023), a contrast that stems from distinct operational characteristics and inventory policies across different sectors.

In contrast, Thin Capitalization exerts a positive and significant effect on Tax Avoidance, highlighted by a probability of 0.0065 and a coefficient of 0.017672. This indicates that higher thin capitalization levels directly increase a company's tendency to

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engage in tax avoidance. From the perspective of agency theory, management utilizes its authority to structure funding by favoring debt. This strategy allows the company to minimize its tax burden by recognizing interest expenses as deductions from taxable income. A higher debt-to-equity ratio provides a greater opportunity to reduce taxable profit. This result supports the research of Agustina and Sanulika (2024) and Swissia et al. (2022), but contradicts Anggraini and Prasetya (2025). The heavy reliance on debt within the Consumer Non-Cyclicals sector to fund operations, raw material procurement, and business expansion makes the impact of thin capitalization on tax avoidance particularly prominent.

CONCLUSION

Based on the research conducted on Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange for the 2020-2024 period, Business Strategy, Inventory Intensity, and Thin Capitalization simultaneously affect Tax Avoidance. Partially, Business Strategy does not affect Tax Avoidance, and Inventory Intensity also shows no effect on Tax Avoidance. Conversely, Thin Capitalization is proven to have a significant effect on Tax Avoidance within the observed companies.

This study has several limitations, including the use of only three independent variables, a restricted focus on a single industry sector over a limited five-year observation period, and reliance on a single proxy for measuring tax avoidance. Future researchers are advised to incorporate additional variables that potentially influence tax avoidance, such as profitability, leverage, firm size, capital intensity, corporate governance, and institutional ownership. Expanding the sample coverage to include all industrial sectors and extending the observation period is strongly recommended to achieve more comprehensive results regarding long-term corporate tax avoidance behavior.

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