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The Effect of Transfer Pricing, Thin Capitalization, and Capital Intensity on Tax Agressiveness in Industrial Companies in Indonesia for the Period 2020-2024

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Abstract: Tax aggressiveness is one of the strategies companies use to minimize their tax burden. This practice can lead to tax compliance issues and impact state revenue. This study aims to examine the influence of transfer pricing, thin capitalization, and capital intensity on tax aggressiveness in Indonesian industrial companies for the 2020-2024 period. Transfer pricing is assessed using related party transaction indicators, thin capitalization is assessed using the debt-to-equity ratio (DER), capital intensity is assessed using investment indicators in fixed assets, namely the capital intensity ratio (CIR), while tax aggressiveness is assessed from the effective tax rate (ETR). This study chose a quantitative approach from secondary data sources. The population in this study is divided into industrial companies recorded on the IDX for the 2020-2024 period, with a total population of 65 companies. The sampling technique was purposive sampling for a total sample of 12 companies from 60 observation data. Data analysis was carried out using the PLS-SEM (Partial Least Square) approach and processed using the WarpPls 8.0 application. The study findings indicate that Transfer Pricing and Thin Capitalization have a negative and significant impact on Tax Aggressiveness, while Capital Intensity has a positive and significant impact on Tax Aggressiveness.

Keywords: Transfer Pricing, Thin Capitalization, Capital Intensity, Tax Aggressiveness.

INTRODUCTION

Taxes play a necessary role as the largest source of revenue that will support development and develop population prosperity (Yahya et al., 2022). Over the previous periods, Indonesia's tax revenue has continue towards face significant challenges. In data from the Ministry of Finance of the Republic of Indonesia, (Gross Domestic Product) GDP ratio was only around 8.17% in 2020 and gradually increased to 9.11% in 2021. In 2022, the GDP ratio increased again, reaching 10.41%. However, in 2023, the GDP ratio decreased to 10.31%, and in 2024, the GDP ratio decreased even further to 10.08% (ikpi.or.id 2025). This figure level remains below that of the highest tax ratio ever achieved in 2008, which was 13.3% (Pajak.go.id 2024). The indication that the tax revenue target will not be achieved may be due to actions taken by

taxpayers, because taxes are considered a cost component this must be borne by companies and will reduce the entity's profits, so many companies try to minimize their obligations, including by aggressively avoiding taxes (Tabrani et al., 2020).

According to Frank et al. (2009), tax aggressiveness is the manipulation of taxable income from tax design, either using legal (tax avoidance) or illegal (tax evasion) (L. Susanto & Viriany, 2018). Tax avoidance is a legal and safe tax avoidance for taxpayers because it uses a tax avoidance scheme that aims to minimize tax obligations by seeking and exploiting opportunities in tax policy (Hamdiah & Rusmina, 2023). Meanwhile, tax evasion is a tax violation that uses tax evasion schemes aimed at minimizing tax burdens, with some tax burdens not being paid at all (Nainggolan & Hutabarat, 2022).

According to the Directorate General of Taxes reports, Tax Justice Network (2022) estimates that Indonesia's tax losses in 2021 because of the avoidance of multinational companies will reach 2.2 billion dollars or equivalent to approximately IDR 32 trillion. Tax avoidance can occur under the latest regulations on individual limited liability companies. Companies can form new entities to split their turnover (Pajak.go.id 2023). The primary aim of transfer pricing is to allocate income and expenses between entities based on the arm's length, in accordance with principle General of Taxation Regulation PER-32/PJ/2011(Aljundi & Purwatiningsih, 2025). Consequently, companies operating internationally are able to set transfer prices in affiliated transactions between different jurisdictions to facilitate aggressive tax planning strategies. (Utami & Irawan, 2022).

In their study (Bakhram et al., 2021) it is stated that an increased volume of affiliate transactions, the more tax avoidance businesses engage in. Based on previous research, (Muhajirin et al., 2021) stated if transfer pricing has a positive impact on tax aggressiveness. These results contrast with the findings of research conducted by (Hidayah & Ayu, 2024) which explains that transfer pricing has a negative impact on tax aggressiveness. Conversely, as indicated by (Ainaya Annastasya et al., 2022) no significant effect of transfer pricing on tax aggressiveness was found .

Thin capitalization refers to a practice whereby companies prefer debt financing with interest over other sources of financing, resulting in high debt interest expenses (Ravanelly & Soetardjo, 2023). Interest expenses on debt are used to calculate tax deductions. Thus, interest expenses will increase and reduce taxable income. This will causes a reduction state taxes (Istiqomah, A., & Trisnaningsih, 2022). In 2015, Indonesia established DER regulations through PMK Number 169/PMK.010/2015 concerning the Determination of the debt-to-equity ratio for income tax purposes, which is a maximum of 4:1. After years of significant loopholes in Specific Anti Avoidance Rules (SAARs) particularly Thin Capitalization (DJP 2018).

The enactment of the DER regulation proves that Indonesia has experienced several cases related to thin capitalization. This is consistent with based on previous research, (Suntari & Mulyani, 2020) explains that thin capitalization has a significant positive impact their tax aggressiveness. These findings differ from those of a study conducted by (Pradana et al., 2024) which states that thin capitalization has a negative impact on tax aggressiveness. Meanwhile, according to (Putra & Ekawanti, 2024) thin capitalization bears no significant correlation with tax aggressiveness.

Based on the Ministry of Investment/Investment Coordinating Board (BKPM), investment implementation over the course of 2020-2024 continued to increase despite the COVID-19 pandemic. For comparison, investment realization in 2024 reached IDR 1,714.2 trillion (103.9%) exceeding the target, and increased by 20.8% year-on-year (YoY), compared to IDR 1,418.9 trillion in 2023, which only (101.3%) exceeding the target and increased by 17.5% year-on-year (YoY). This increase in investment illustrates that companies are increasing the portion of fixed assets in their financial structure. These conditions, coupled with various investment tax incentives such as super deduction tax (PMK No.128/PMK.010/2019

and PMK No.153/PMK.010/2020), have the potential to expand the scope for companies to pursue legal tax minimization strategies.

Law Number 36 of 2008 Article 6 paragraph 1 (b) concerning Income Tax explains that depreciation of the cost of acquiring tangible assets and amortization of the cost of acquiring rights, as well as other budgets that provide benefits for over a year, are all budgets can be reduced by gross revenue. (Syifa & Irawan, 2025). Based on previous research, (Raflis & Ananda, 2020) stated that capital intensity exerts a significant positive influence from capital intensity and tax aggressiveness. These are not consistent with a study conducted by (Utomo & Fitria, 2020) which states a significant negative the correlation between capital intensity and tax aggressiveness. Meanwhile, according to (Anggriantari & Purwantini, 2020) Capital intensity has no impact on tax aggressiveness.

Despite extensive prior research, several gaps remain in understanding the determinants of tax aggressiveness. Prior studies often examine these variables in isolation, rather than integrating transfer pricing, thin capitalization, and capital intensity within a single analytical framework. Furthermore, most previous studies have been conducted in different contexts, time periods, and sectors, limiting the generalizability of their findings to the current Indonesian setting. The dynamic changes in Indonesia's tax regulations, particularly following the implementation of the Tax Harmonization Law (UU HPP), as well as shifts in economic conditions in the post-COVID-19 era, may alter corporate strategies in managing tax obligations. This is because each company has its own interests, especially profit-oriented companies (Puspita & Ramadhanty, 2023).

Based on the results of research stated by Edy Susanto (2019), there are three industrial sectors with the highest flow of black money, namely the agricultural, manufacturing, and extractive sectors. The study there is a chance of loss of tax revenue from multinational companies for the Indonesian government amounting to IDR 390.5 billion, which was calculated from cases throughout the 2010-2019 period (Farid et al., 2025). Based on the previously described phenomena and problems, the main objective of this research is to analyze the extent to which "The Effect of Transfer Pricing, Thin Capitalization, and Capital Intensity on Tax Aggressiveness in Industrial Companies in Indonesia for the Period 2020-2024." The results are expected to contributions to understanding taxation behavior in Indonesia and to serve as input for the government in formulating more effective and equitable tax policies.

Literature Review

Agency Theory

The theory of agency was originally conceived by (Jensen & Meckling, 1976) "Theory of The Firm: Managerial Behavior, Agency Costs, and Ownership Structure" which explain the correlation of owners (principals) and managers (agents) in a company. Manager (agents) are given authority by the owners of the company (principals) to manage the company, including making tax decisions. In this relationship, conflicts of interest often arise because each party has different objectives. Managers (agents) are responsible for optimizing the owners' profits and fulfilling their personal interests in order to maximize economic fulfillment such as compensation, incentives, or short-term profit targets, while owners (principals) focus on increasing their share value (Ibrahim et al., 2021). As a result of these conflicts of interest, agency costs arise, consisting of monitoring costs, bonding costs, and residual losses**.**

This disparity in objectives gives rise to information asymmetry, differences in interests between managers (agents) and company's owners (principals) can lead to non-compliance by management or taxpayers, which will have an impact on ttax avoidance strategies employed by the company (Ayem & Sari, 2021). The condition where managers (agents) control relatively extensive information concerning the company's condition compared to what is known by the owners. Managers' efforts to reduce this tax burden are often manifested through

aggressive tax strategies, both in the form of tax avoidance and practices that border on tax evasion, such as related party transaction arrangements (transfer pricing), the use of debt-based financing structures (thin capitalization), and the management of the company's asset composition (capital intensity). In practice, tax aggressiveness is often carried out systematically through tax planning that is still within regulatory limits, making it difficult to identify as a violation of the law. However, these practices have the potential to incur agency costs that can also cause the value of the company to decline, ultimately resulting in losses borne by the company's owners (principals).

The Effect of Transfer Pricing on Tax Aggressiveness

The Organization for Economic Cooperation and Development (OECD) defines transfer pricing as setting prices for transactions occurring between related parties within a multinational group that have the potential to exceed fair market value provided that they receive benefit the group (Yudawirawan, 2026). Transfer pricing is a refers to a company's internal policy for setting price for intercompany transaction, whether it be goods, services, intangible assets, and financial transactions of a company (Sofran & Hasanah, 2024). Transfer pricing is increasingly being used by companies in optimizing global income, reduce monetary risk, or manipulate tax and import duty burdens so that tax payments can be minimized (Lannai, 2024). Transfer pricing can be a problem in the practice of what is called "transfer pricing abuse", which creating the potential for tax avoidance (Sebele-mpofu et al., 2021). The transfer pricing uses opportunities in international tax policies to minimize their tax liabilities, namely by increasing purchasing prices and decrease in selling prices between related companies in the same group, then transferring profits to companies that operate in countries with increasingly minimal tax rates (Rahmanda et al., 2024).

(Amaliah & Triono, 2024) argue that transfer pricing, when linked to the applicability of agency theory, illustrates that managers (agents) with an interest in managing company assets often disregard the interests of shareholders (principals), with the purpose of transferring profits to foreign companies by manipulating profits to achieve a lower tax burden to be paid to the state. Such aspects align with the study by (Pratomo & Triswidyaria, 2021) which states that companies take aggressive actions by transferring their profits to related companies, so that the higher the transfer pricing, the more aggressive the tax actions taken by the company. Similarly, the results of research (Aisyah et al., 2024) reveals that transfer pricing has a positive impact on tax aggressiveness. (Muhajirin et al., 2021) the results indicate positive and statistically significant correlation between transfer pricing and tax aggressiveness.

H_1: Transfer Pricing has a positive effect on Tax Aggressiveness

The Effect of Thin Capitalization on Tax Aggressiveness

According to (Nadhifah & Arif, 2020), Thin capitalization is characterized as a condition in which a company debt exceeds its capital, resulting in a condition often known as excessive debt. Thin capitalization refers to a company's investment decision to fund its business operations prioritize debt financing rather than utilizing equity capital in its capital system (Diana, 2024). Taxpayers assume that paying taxes does not provide any benefits or feel any direct benefits and the interest burden on debt can minimize company profits(Afifah & Dewi, 2019). Interest paid on debt can be recognized as a deduction against taxable income, thereby minimizing the tax owed (Kurubah & Waskito, 2021). In their research (Millena & Ningsih, 2022) it is stated that thin capitalization can minimize tax burdens because it has more debt than capital, so that interest expenses from debt can minimize company profits, thereby also minimizing the firm's tax burden.

(Nulhakim & Tarmidi, 2025) argue in theory, managers (agents) can use debt as a tool to reduce taxable income without having to make significant operational changes, by maximizing

interest expenses to lower taxes, despite the high risk. However, the increased financial risk resulting from high debt burdens is often not borne directly by managers (agents), but rather by owners (principals) and creditors. This aspect is in line with the study (Ananda & Suhartono, 2021) which explains that there is sufficient evidence thin capitalization contributes positively and significantly to influence on tax aggressiveness. Likewise, a study (Ainaya Annastasya et al., 2022) the findings of the analysis reveals that thin capitalization exerts a positive and statistically significant effect on tax aggressiveness. In their study (Mahaputra & Yasa, 2024) it is explained that thin capitalization contributes to a positive and statistically significant influence impact on tax aggressiveness.

H_2: Thin capitalization has a positive effect on tax aggressiveness.

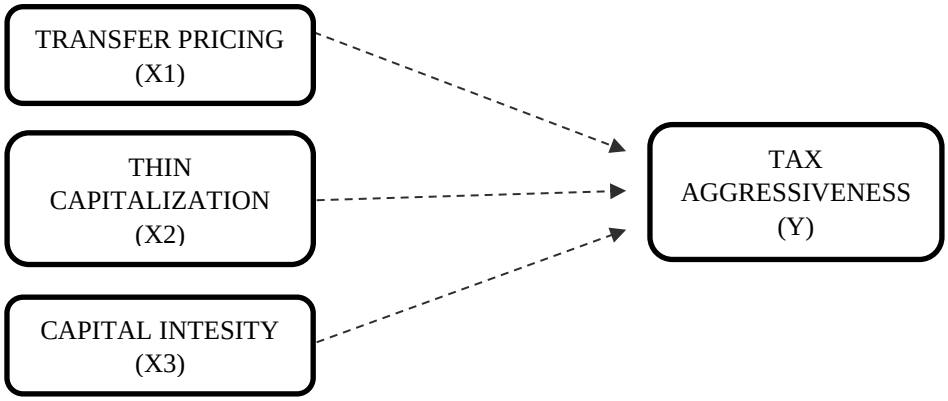
The Effect of Capital Intensity on Tax Aggressiveness

Capital Intensity refers to the level of investment activity of a company in the form of assets that are turned over to become fixed assets, so that companies with a high proportion of fixed asset investment can generate tax burdens that have less impact on annual depreciation expenses (Agustina & Sanulika, 2024). Capital Intensity is the investment made by a company in fixed assets (capital) including buildings, machinery and land (Afiana & Mukti, 2020). (Nursaidah & Laela, 2022) states that companies utilize capital intensity based on depreciation costs of their non-current assets to decrease company profits. The more a company invests in fixed assets, the higher the depreciation burden it bears (Prasetyo & Wulandari, 2021). A company's profits can decrease due to depreciation charges on its fixed assets, so the more fixed assets a company has, to a greater the potential for carrying out tax aggressive practices (M. A. Maulana et al., 2025)

(Gouwvara & Susanty, 2023) argue agency theory can explain that company managers (agents) will make use of these depreciation costs to minimize taxes, which ultimately means that company managers (agents) will use tax reduction methods by continuing to purchase fixed assets when the company has idle funds. Managers (agents) may over-invest in fixed assets not for productivity, but for their own interests, but indirectly managers save company profits, so managers will get bonuses based on higher net profits after taxes, while owners (principals) receive dividends, but there is a risk of tax avoidance. In their study (Nadhifah & Arif, 2020) it was findings indicate that many firms are involved in tax avoidance practices with a high fixed asset ratio. In their study (Rahma et al., 2022) it was stated that capital intensity and tax avoidance provide findings if tax avoidance is impacted by the level of capital intensity. These aspects align together results of a study (Zahara et al., 2025) which explains that capital intensity has a positive and significant effect on tax aggressiveness. Similarly, a study (Rahmadi & Mujiyati, 2024) states that capital intensity has a positive and significant effect on tax aggressiveness.

H_3: Capital Intesity has a positive effect on tax aggressiveness.

Conceptual Framework



Source: Research result

Figure 1. Research Conceptual Framework

METHODS

The selected research method chosen is a quantitative research method and that utilizes secondary data. Opinion (Subagio et al., 2008) quantitative research is a research method that uses an empirical study approach to collect, analyze, and present data in numerical. Researchers chose a purposive sampling technique to obtain data sources. The research relied on secondary data sourced from financial statements and annual reports published through the Indonesia Stock Exchange (IDX). The data selected in this study was generated based on the website (http://www.idx.co.id/). Research data analysis is a methodological step in applying different statistical and qualitative analysis tools in updating the initial data that has been obtained as harmonious information.

The data analysis technique in this study was carried out using the PLS-SEM (Partial Least Square) approach and processed using the WarpPls 8.0 application. According to (Sofyani, 2025) state the PLS is used in more predictive research, where researchers are interested in seeing how well independent variables can predict outcomes or dependent variables. PLS PLS can specifically emphasize the robustness of this technique in limited sample sizes and non-normally distributed data (Chinnaraju, 2025). In an article by (Hair et al., 2019), they stated that there are two types of relationships between latent variables and their indicators: reflective and formative. Researchers used reflective indicators, meaning the indicators influence the construct (variable).

According to (Sugiyono, 2013) in quantitative research, the population interpreted to be the area of generalization consisting of objects or subjects with certain characteristics that will be studied to draw conclusions (Subhaktiyasa, 2024). The population selected in this study is divided into industrial companies recorded on the IDX during the 2020-2024 period, totaling 65 companies. According to (Renggo & Kom, 2022) in quantitative research, the sample is determined by the researcher by considering several things, namely by considering the problems faced in a study, the objectives to be achieved in a study, the research hypothesis made, the research method, and the research instrument. The number of samples used by the researcher was 12 companies with 60 observation data, which is 5 years multiplied by 12 companies. The sample determination method chosen is:

Table 1. Research Sample

Criteria	Total
Research Population	65
Companies that were not listed on the IDX before 2020	(19)
Companies that did not earn profits or suffered losses	(24)
Companies that did not have receivables from related parties	(10)
Total of companies in the sample that satisfied the criteria	**12**
Research years (2020-2024)	**5**
Total sample of observation data	**60**

Source: Research results by researchers (2025)

The selected variables, Transfer Pricing (X1), Thin Capitalization (X2), and Capital Intensity (X3) are the independent variables, while Tax Aggressiveness (Y) is chosen to be the dependent variable.

Transfer Pricing

According to (Suyanto & Sujannah, 2021) Transfer pricing is a form of transaction between companies that have a special relationship, which can be assessed from the from the following formula:

$$Transfer\ Pricing\ = \frac{total\ related\ party\ receivables}{total\ Accounts\ \ receivables}$$

Thin Capitalization

According to (Anggraeni & Oktaviani, 2021) Thin capitalization is a condition where a company with a foundation tends to use more debt than capital, which can be assessed from the following formula:

$$Debt\ to\ Equity\ Ratio\ = \frac{total\ Liabilities}{total\ equity}$$

Capital Intensity

According to (Budiman et al., 2025) Capital intensity is a comparison of fixed assets to the total assets of a company in order to understand the amount of investment carried out by the company in the form of fixed assets used to generate profit. The following formula can be used to measure it:

$$Capital\ Intensity\ Ratio = \frac{total\ net\ fixed\ assets}{total\ assets}$$

Tax aggressiveness

Definited by (T. Maulana et al., 2022) Tax aggressiveness is tax avoidance by companies and can describe all tax aggressiveness activities that reduce taxes to the tax authorities. It can be assessed from the following formula:

$$Effective\ Tax\ Rate\ = \frac{total\ tax\ Expense}{Pre-Tax\ Income}$$

RESULTS AND DISCUSSION

Results

The results of this study represent the findings of the Structural Model Evaluation study (Inner Model). The structural model applied in this study evaluates the impact of three independent variables, namely Transfer Pricing (X1), Thin Capitalization (X2), and Capital Intensity (X3) on the dependent variable Tax Aggressiveness (Y).

Coefficient of Determination (R2)

The R-Squared (R2) value is used to measure the degree to which the structural model can to account for variations in the dependent variable. A higher R^2 value indicates a better model.

Tabel 2. R-Squared Value

	R-Squared	Adj. R-Squared
Tax Aggressiveness (Y)	0.122	0.075

Source: Research result by Warp PLS 8.0 (2025)

According to the analysis findings in Table 2, the variables Transfer Pricing (X1), Thin Capitalization (X2), and Capital Intensity (X3) can contribute 12.2% to Tax Aggressiveness (Y). This is reflected by an R-Squared value of 0.122, which indicated 12.2% f the variation in tax aggressiveness are explained to the variables (X1, X2, and X3) in this study. Meanwhile, the remaining 87.8% is influenced by other variables not included in this research model. However, after correcting for the number of variables through the Adj. R-Squared value, the explanatory power of the model decreased to 0.075 or 7.5%. This aspect shows that the independent variables in this study model produce a relatively minimal explanatory role for the dependent variable and that the model has weak clarity in explaining the existing variation.

Predictive Relevance (Q2)

The Q-Squared (Q^2) The score is used to measure the model predictive ability for the dependent variable, which is the tax aggressiveness variable. The following are the values of Q-Squared (Q^2):

Tabel 3. R-Squared Value

	Q2
Tax Aggressiveness (Y)	0.138

Source: Research result by Warp PLS 8.0 (2025)

The Q-Square (Q^2) value of 0.138 indicated this model has a fairly good predictive capability. This means that 13.8% of the variability in Tax Aggressiveness can be explained from variables in the model. A Q^2 value above/more than 0 indicates if the model is has acceptable predictive relevance, indicating that the model is capable of adequately predicting changes in the Y variable even though the R^2 value is relatively low.

Multicollinearity Test (VIF)

Multicollinearity test was carried out using the Variance Inflation Factor (VIF) value. This test aims to ensure if each independent variable does not produce a high correlation with each other that could disrupt the stability of the structural model estimates. To anticipate potential endogeneity in the model, this study used the Full Collinearity Test approach developed by Kock (2015) using the Average Full Collinearity VIF (AFVIF) value generated by WarpPLS 8.0

Tabel 4. VIF Values

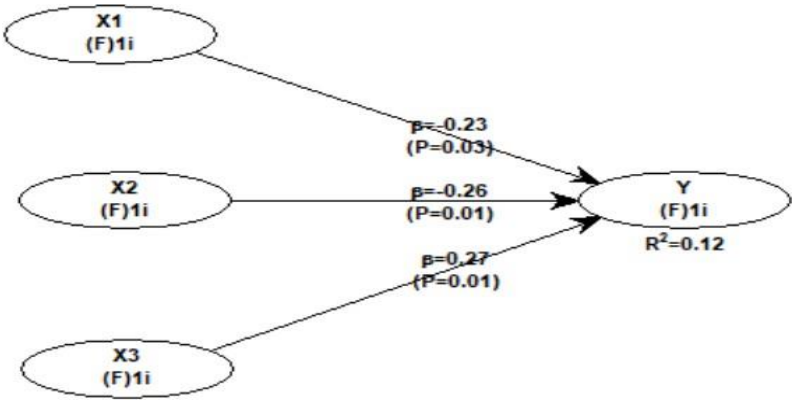
	VIF
Avarage Block VIF (AVIF)	1.145
Avarage Full Collinearity VIF (AFVIF)	1.117

Source: Research result by Warp PLS 8.0 (2025)

The AVIF score was 1.145 and the AFVIF score was 1.117 were obtained. According to (Sumin, 2017) explain to the criteria recommended by Kock (2015), a model is said to be free from multicollinearity if the AVIF and AFVIF values are below 5, and categorized as ideal if they are below 3.3. Overall, the low AVIF and AFVIF values indicate that the research model does not have multicollinearity, either in the variables or indicators. This condition is important because it ensures that the parameter estimates produced by WarpPLS are stable, reliable, and trustworthy.

Hypothesis Testing

Hypothesis testing is a statistical approach used to evaluate assumptions chosen to determine whether a prediction or claim (hypothesis) regarding a population can be accepted or rejected according to sample data. Hypothesis testing in this study was carried out sequentially PLS analysis techniques with the assistance of the WarpPLS 8.0 software. Hypothesis testing is measured using path coefficient values, and the significance level is obtained from the output as shown in Figure 2.



Source: Research result

Figure 2. Warp PLS 8.0, Data processed by researchers (2025)

Tabel 5. Path Coefficients and Path Value

Variable	Path Coefficients	P-Value	Description
Transfer Pricing (X1)	-0.232	0.028	Significant/Rejected
Thin Capitalization (X2)	-0.262	0.015	Significant/Rejected
Capital Intensity (X3)	0.272	0.012	Significant/Accepted

Source: Research result by Warp PLS 8.0 (2025)

Discussion

The Effect of Transfer Pricing on Tax Aggressiveness

The Influence of Transfer Pricing on Tax Aggressiveness shows the test result of the path coefficient value of β = –0.232 with a significance value of P-Value 0.028 < 0.05. Although the p-value indicates that the effect is significant, the direction of the effect that appears is

negative, different from the predicted direction of the effect in the hypothesis (positive), therefore H1 is rejected. The negative coefficient value indicates that the higher the transfer pricing activity, the lower the company's level of tax aggressiveness. This finding indicates that the intensity of using the transfer pricing mechanism is carried out in compliance with tax regulations (arm's length principle) (Fajriyati et al., 2025) . Taxpayers must prepare transfer pricing documents in accordance with PMK Number 213/PMK.03/2016 and PMK Number 22/PMK.03/2020 as the basis for the the enforcement of equitable principles of fairness and normality of industry, makes the company's tendency to carry out such aspects engage in aggressive tax actions decreases. With the existence of this regulation, it becomes it is increasingly complicated for companies to carry out transfer pricing with the intention of tax aggressiveness (L. C. Susanto et al., 2022). This result in line with the study (Al Hasyim et al., 2023) which states that Transfer Pricing has a significant influence but in the opposite/negative direction towards tax aggressiveness.

The Effect of Thin Capitalization on Tax Aggressiveness

The effect of Thin Capitalization on Tax Aggressiveness shows a test result with a path coefficient value of $\beta = -0.262$ and a significance value of P-Value $0.015 < 0.05$. Although the p-value indicates that the effect is significant, the direction of the effect that appears is negative, different from the predicted direction in the hypothesis (positive), therefore H2 is rejected. The negative coefficient indicates that the higher the Thin Capitalization activity, the lower the company's Tax Aggressiveness level. Although interest expenses can reduce payable taxes, companies generally do not choose a thin capitalization strategy through interest-bearing debt due to the high inherent risks, both from the debt and tax avoidance perspectives (Natalia & Widyadhana, 2021). This finding reflects the effectiveness of national tax regulations in limiting the use of debt structures as a means of tax avoidance, based on Minister of Finance Regulation Number 169/PMK/010/2015, debt to equity ratio is set at four to one (4:1) as the maximum limit. Thus, it can be interpreted that the effectiveness of regulations determining the ratio of equity to liabilities in Indonesia can also be one of the reasons why the use of debt has not led to thin capitalization practices in a company aimed at tax aggressiveness (Indriyani & Siarwi, 2025). These the findings align together the study by (Rahmahwati & Sahara, 2025) which states that Thin Capitalization has a significant influence but in the opposite/negative direction on tax aggressiveness.

The Effect of Capital Intensity on Tax Aggressiveness

The effect of Capital Intensity on Tax Aggressiveness shows a path coefficient test result of $\beta = 0.272$ with a significance value of P-Value $0.012 < 0.05$. The P-value indicates that this effect is significant at the 5% level, and it is in the predicted direction (positive); therefore, H3 is accepted, because the research results are in line with the theoretical hypothesis. The positive coefficient indicates If the Capital Intensity activity is higher, the company's Tax Aggressiveness level will be higher. In the 2020-2024 period, this high fixed asset intensity was primarily intended to increase the company's operational activities, thus serving as a strategy to survive the unstable post-pandemic period (Permatasari et al., 2022).However, agency theory describes that management knows more about the company's actual finances, unlike the owners who do not, so managers can allocate their investment in the form of fixed assets, causing depreciation expenses to affect the company's profits, which ultimately leads to tax aggressiveness practices (Rahma et al., 2022). This is in accordance with tax regulations, depreciation expenses can reduce company profits, meaning they were able to reduce the company payable taxes through annual depreciation (Hendrianto & Hidayati, 2022). These the findings align together the study by (Pramesti & Susilawati, 2024) The claim states that tax aggressiveness is very significant and is influenced by capital intensity. This result is in in line

with the study (Syafrizal, 2022) have a significant effect on tax aggressiveness. Similarly, research by (Suyanto, 2022) found that capital intensity has a significant positive effect on tax aggressiveness.

CONCLUSION

The conclusions indicate that tax aggressiveness in industrial companies publicly listed on the IDX from 2020 to 2024 can be significantly influenced by three main factors operating in different directions. Transfer pricing has been shown to have a significant negative impact on tax aggressiveness, because companies tend to be in accordance with the arm's length concepth. Strict oversight and documentation requirements from tax authorities have successfully suppressed the use of transfer pricing in aggressive tax practices. Thin capitalization also shows a negative and significant impact on tax aggressiveness. This is because companies don't aggressively use interest expense to reduce taxes. This is due to the effectiveness of the government-imposed Debt-to-Equity Ratio (DER) limits and the financial risk considerations associated with high debt structures. Capital intensity as been shown to have a significant positive impact on tax aggressiveness. Investment in fixed assets is a major instrument in tax aggressiveness, because companies can utilize depreciation expenses as a legal and safe reduction of taxable income.

This study has limitations in the relatively small total sample, because a large volume of companies was eliminated in the criteria and also time constraints in researching. The relatively low R^2 value indicates that there are still other influencing variables that have not been included in the model, such as profitability, corporate governance, or other indicators. Despite these limitations, this study provides an empirical contribution by showing that Capital Intensity has a positive effect as a factor that increases tax aggressiveness, while Transfer Pricing and Thin Capitalization have negative effects and are not factors that increase tax aggressiveness. This research can enrich the tax literature and demonstrate the importance of regulatory effectiveness in transforming theoretical relationships into empirical findings.

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