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The Effect of Related Party Transaction, Financial Constraints, and Thin Capitalization on Tax Avoidance in Properties & Real Estate Companies Listed on The Indonesian Stock Exchange (IDX)

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Abstract
Purpose: This study aims to determine the effect of Related Party Transactions, Financial Constraints, and Thin Capitalization on Tax Avoidance in Properties and Real Estate companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period.
Design/methodology/approach: This study employed an associative research design using quantitative methods and secondary data obtained from the annual reports of companies listed on the Indonesia Stock Exchange. The population consisted of 92 companies, and 48 companies were selected as the research sample using purposive sampling, resulting in 144 firm year observations. The data analysis method used was multiple linear regression analysis using IBM SPSS Statistics 32.
Findings: The result of this study indicate that Related Party Transactions have a positive and significant effect on Tax Avoidance and Financial Constraints also have a positive and significant effect on Tax Avoidance. However, Thin Capitalization does not have a significant effect on Tax Avoidance.
Practical implicatons: The findings provide useful insights for investors, corporate management, and tax authorities in assessing factors that influence corporate tax avoidance practices and support better decision-making related to taxation and corporate governance.
Originality/value: This study contributes to the development of the literature by presenting recent empirical evidence on the determinants of Tax Avoidance in Properties and Real Estate companies during the 2022–2024 period.This study is classified as empirical research.
Paper type: Empirical.
Keywords: Tax Avoidance, Related Party Transaction, Financial Constraints, Thin Capitalization.

1. Introduction

Government revenue is the main foundation for financing national development. Among various sources of income, taxes are currently one of the most dominant sources of revenue in Indonesia. The government's reliance on taxes necessitates an effective and optimal tax system. However, in practice, efforts to increase tax revenue still face significant challenges. One such challenge is evident in Indonesia's tax ratio, which is significantly lower than the average tax ratio of countries in the Organization for Economic Co-operation and Development (OECD).

Data from the Ministry of Finance (Kemenkeu) shows that Indonesia's tax ratio has declined over the past three years. In 2022, the figure stood at 10.38%, falling to 10.31% in 2023, and then dropping further to 10.08% in 2024. For 2025, the outlook is projected to reach only 10.03% (www.kompas.id). This low tax ratio is caused, in part, by a policy gap and, secondly, by a compliance gap. This policy gap arises from tax expenditures that is, a reduction in tax revenue resulting from special provisions that differ from the general tax system, such as incentives. One factor contributing to the low tax ratio is the practice of tax avoidance, which remains widespread among taxpayers, both nationally and internationally.

These tax avoidance practices do not only occur in the general sector but have also spread to the capital market and companies listed on the Indonesia Stock Exchange (IDX). Companies listed on the IDX have the same obligation to pay taxes as taxpayers in general. However, due to their large size and more complex financial structures, these companies have more opportunities to exploit loopholes in tax regulations to minimize the amount of tax they must pay to the state.

Corporate tax compliance remains an issue, particularly due to tax avoidance practices employed by large corporations. Although these strategies do not violate legal provisions, tax avoidance indirectly reduces the government's potential tax revenue. This situation frequently occurs in sectors with complex financial structures, including the property and real estate sectors, which are currently under pressure due to unstable growth.

The properties and real estate sector is one of the industrial sectors listed on the Indonesia Stock Exchange (IDX) and is the largest tax contributor in Indonesia, playing a crucial role in boosting tax revenue. According to data from IDEAS, this sector experienced a decline in its tax ratio of approximately 3.5% of Gross Domestic Product (GDP) in 2022 (www.alinea.id). The low tax ratio in the property and real estate sector is due to the sector being used as a means to conceal profits by manipulating property prices. The property and real estate sector is also used as a vehicle for tax avoidance and money laundering through unreported transactions and the use of false identities in transactions.

Tax avoidance is a legal strategy to minimize tax liability it is safe for taxpayers because it does not violate or contradict tax regulations. The techniques and methods used tend to exploit loopholes or weaknesses (gray areas) within the tax laws and regulations themselves, thereby reducing the amount of tax owed. A related party transaction is a transfer of resources, services, or obligations between an entity and its related parties, regardless of whether or not a transaction has been recorded. Transactions with related parties in a company's operational activities include sales, purchases, accounts payable, accounts receivable, and loans both short-term and long-term.

Financial constraints refer to a company's condition of facing limitations in obtaining investment or funding, causing the company to rely on internal funding sources. The company will maximize the use of internal funding sources by reducing tax expenses, thereby engaging in tax avoidance. Thin capitalization is a tax avoidance scheme that involves structuring debt to exceed equity. This is due to differences in the treatment of interest under tax regulations. In taxation, interest payments on debt can be a deductible expense, whereas dividend payments are non-deductible expenses. Thin capitalization results in a reduction in government tax revenue.

Various studies identified in previous research have yielded varying results. Based on the findings of the study by Rezeki et al. (2021), it was stated that related party transactions have a positive effect on tax avoidance, while the study by Carine & Arsjah (2025) indicates that related party transactions do not affect tax avoidance. The conclusion of the study by Nabila & Rachmawati (2023) states that financial constraints have a significant positive effect on tax avoidance, while different findings are presented by Shafitri et al. (2024), who state that financial constraints have a negative but insignificant relationship with tax avoidance. Divergent results are also evident in the study by Julianti & Ruslim (2023), which states that thin capitalization has a positive effect on tax avoidance, whereas the study by Nusi & Praptitorini (2025) concludes that thin capitalization has no effect on tax avoidance.

Based on the above discussion, it is evident that there are still discrepancies in research findings regarding the effects of related party transactions, financial constraints, and thin capitalization on tax avoidance. Therefore, this study is important because the inconsistencies in previous research findings indicate a research gap that needs to be further examined, taking into account the current conditions of companies in Indonesia and providing the latest empirical evidence regarding the factors influencing tax avoidance practices in Indonesia, particularly among companies in the Properties & Real Estate sector listed on the Indonesia Stock Exchange (IDX).

2. Literature Review and Hypotheses Development

Agency Teory

The theory underlying tax avoidance is Agency Theory, as proposed by Jensen and Meckling (1976) in "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure." Agency Theory explains the relationship between shareholders (principals) and management within a company. The principal grants the agent the authority to make decisions and manage the company. Agency theory addresses how a company can engage in tax avoidance to serve the interests of both the principal and the agent. Management engages in tax avoidance by increasing expenses that reduce taxable income, thereby lowering the company's tax liability below what it would otherwise be.

Tax Avoidance

Tax avoidance is a legal and safe effort by taxpayers to minimize their tax liability without violating applicable tax regulations, using methods and techniques that tend to exploit loopholes in tax laws and regulations to reduce the amount of tax owed (Pohan, 2018:11). Tax avoidance is an aggressive tax strategy employed by companies to minimize their tax burden; consequently, this practice poses risks to the company, including fines and damage to the company's reputation in the public eye. The issue of tax avoidance is quite complex because, on the one hand, it is permitted as it does not violate the law, but on the other hand, it results in the government receiving less revenue than it otherwise would (Yandra, Agusti, & Wijaya, 2023).

Related Party Transaction

A related-party transaction is a transaction conducted by a company through its related parties or parties with a special relationship to the company, which may raise concerns among potential investors regarding the company. The existence of such transactions can give rise to a conflict of interest between the principal and the agent, where the agent has an incentive to structure the transaction for personal gain and the benefit of the related party. This will result in investors assigning a lower valuation to the company (Jao, Tangke, Holly, Mardiana, & Nontji, 2024). A related-party transaction is a transfer of resources, services, or liabilities between parties with a special relationship, disregarding the price charged (Sumarsan, 2017:202).

Financial Constraints

A company experiencing a financial constraint is defined as one facing relatively high external financing costs. If a company faces high financing constraints, it tends to use a higher amount of cash flow for investment, conversely, if financing constraints are low, the amount of cash used will also be low because the company has sufficient access to external funding sources. Thus, the level of cash flow can influence the relationship between financing constraints and a company's investment decisions (Perwitasari, 2021). Financial constraints are obstacles faced by a company in obtaining funds from external sources. This can occur because the company has high debt and is on the verge of bankruptcy (Cherchye, 2020).

Thin Capitalization

Thin capitalization refers to a company's capital structure in which the proportion of debt is significantly greater than that of equity. Thin capitalization occurs because tax rules allow interest expenses to be deducted as a deductible expense when calculating taxable income, whereas dividends are not considered a deductible expense (Sarif & Surachman, 2022). Thin capitalization is a tax avoidance scheme that exploits loopholes in existing tax regulations by converting equity contributions to related parties into loans, either directly or through intermediaries (Afifah and Prastiwi, 2019).

The Effect of Related Party Transaction on Tax Avoidance

According to agency theory, conflicts of interest between shareholders (principals) and managers (agents) encourage managers to maximize corporate value by minimizing costs, including tax expenses. One strategy used to reduce tax liabilities is conducting related party transactions. Through transactions with affiliated entities, companies can shift profits or allocate expenses in ways that reduce taxable income while remaining within applicable accounting standards.

Empirical evidence also supports this argument. Amidu et al. (2022) found that related party transactions increase the opportunity for companies to engage in tax avoidance through affiliated transactions. More recently, Lestari and Rosid (2025) reported that related party transactions have a positive effect on tax avoidance in Indonesian listed companies, indicating that firms with higher related party transactions tend to implement more aggressive tax planning strategies.

Based on agency theory and previous empirical findings, companies with a higher proportion of related party transactions have greater opportunities to reduce taxable income through affiliated transactions. Therefore, related party transactions are expected to increase tax avoidance.

H_1: Related Party Transaction has a positive effect on Tax Avoidance

The Effect of Financial Constraints on Tax Avoidance

Agency theory explains that managers seek to maximize firm value by maintaining financial flexibility. When firms experience financial constraints, managers tend to preserve internal cash flows by reducing expenditures, including tax payments. Consequently, tax avoidance becomes one alternative strategy to maintain liquidity and support operational activities. Previous studies also support this relationship. Edwards et al. (2019) found that financially constrained firms are more likely to engage in tax avoidance because they require additional internal funds. Similarly, Utami and Irawan (2024) found that financial constraints positively affect tax avoidance among Indonesian manufacturing firms.

Based on agency theory and previous empirical evidence, companies facing greater financial constraints have stronger incentives to minimize tax expenses to preserve cash and improve financial flexibility. Therefore, financial constraints are expected to have a positive effect on tax avoidance.

H_2 : Financial Constraints has a positive effect on Tax Avoidance

The Effect of Thin Capitalization on Tax Avoidance

Agency theory suggests that managers choose financing structures that maximize firm value while minimizing costs. One financing strategy is to rely more heavily on debt than equity. Since interest expenses on debt are generally tax deductible, firms can reduce taxable income through debt financing, thereby lowering their tax burden. Several empirical studies support this argument. Fasita et al. (2022) found that thin capitalization is positively associated with tax avoidance in Indonesian multinational companies. Likewise, Apsari and Rasmini (2025) reported that firms with higher levels of thin capitalization are more likely to engage in tax avoidance because debt financing provides tax benefits through deductible interest expenses.

Based on agency theory and previous empirical findings, companies with higher debt financing have greater opportunities to reduce taxable income through interest deductions. Therefore, thin capitalization is expected to increase tax avoidance.

H_3 : Thin Captalization has a positive effect on Tax Avoidance

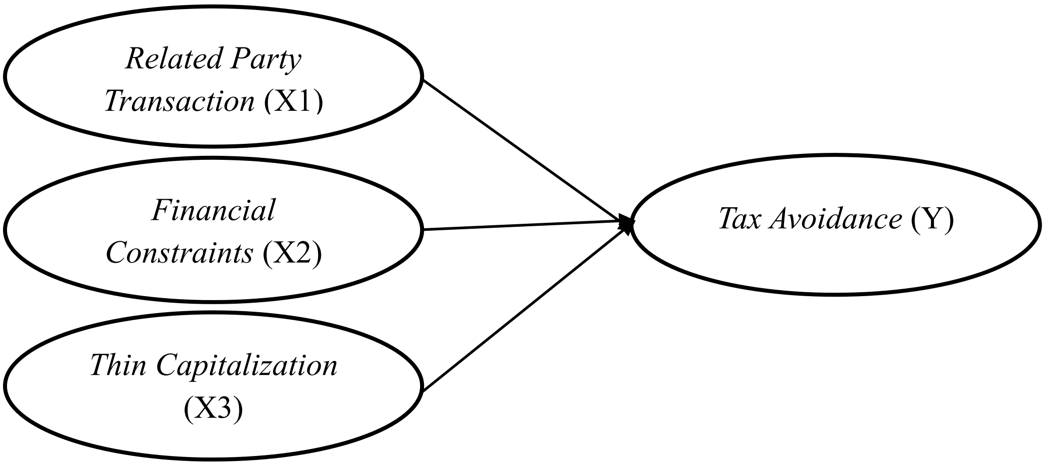

Figure 1. Conseptual Framwork

3. Research Method

The research method used to analyze the sample in this study is associative with a quantitative approach. The data collection technique used in this study is the documentation technique using secondary data. The researcher collected secondary data through documentation techniques by gathering data in the form of financial reports and audited annual reports of companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) for 2022–2024 and publish through the official platform of the Indonesia Stock Exchange (IDX) at https://www.idx.co.id or through the platfroms of each company.

The population in this study consists of all companies in the properties & real estate sector listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024, totaling 92 companies.

This study used a purposive sampling method, a thecnique involving a relevant population selected based on certain characteristics. The sample criteria for this study as follows: Companies in the property and real estate sector that published financial reports consecutively during the 2022–2024 period and Companies in the property and real estate sector with an ETR value < 1 during the 2022–2024 period. The sample size is 48 companies.

Operationalizing variables is the process of defining and measuring abstract concepts in a way that allow them to be observed or measured. The following are the operational variablees in this study:

a) Related Party Transactions

In this study, Related Party Transactions are measured using the RPTL (Related Party Transaction Liabilities) proxy.

$$RPTL = \frac{\text{Total Related Party Transaction Liabilities}}{\text{Total Liabilities}}$$

Source: Adnan & Haq (2025)

b) Financial Constraints

In this study, financial constraints are measured using the SA (Scale-Age) index. The SA index is modeled as a nonlinear function of firm size and firm age, designed to measure financial constraints while accounting for firm characteristics.

$$\text{SA Index} = (-0.737\text{x SIZE}) + (0.043 \text{ x SIZE}^2) - (0.040 \text{ x Age})$$

Source: Hadlock & Pierce (2010)

c) Thin Capitalization

In this study, thin capitalization is measured using the earnings stripping/earnings threshold approach, which employs a ratio to determine the extent to which interest expenses can be deducted from total revenue; this ratio is derived from the comparison of interest expenses to EBIT/EBITDA (Earnings Before Interest, Tax, Depreciation, and Amortization).

$$TC = \frac{\text{Biaya Bunga}}{\text{EBITDA}} \text{ x } 100\%$$

Source: Tambun & Saputra (2024)

d) Tax Avoidance

In this study, tax avoidance is measured using the Effective Tax Rate (ETR) formula, which calculates income tax expense divided by pre-tax profit or loss. The Effective Tax Rate (ETR) is the actual tax rate a company must pay relative to the profit it generates.

$$ETR = \frac{\text{Total Beban Pajak}}{\text{Laba Sebelum Pajak}}$$

Source: Zahara et al. (2025)

4. Result and Discussion

Analysis Descriptive Statistics

Descriptive statistics is a branch of statistics that discusses collecting, presenting, and determining statistical values in a way that is easier to understand and read. It uses various methods, such as calculating the mean, median, and mode to indicatethe center of the data. Furthermore, it uses data distribution methods such as standard deviation, range, and quartiles to explain data variation (Nasution, 2017). Descriptive statistical analysis is generated from two independent variables (X), namely related party transaction, financial constraints, thin capitalization, and one dependent variable (Y), namely tax avoidance, as explained in the following table:

Table 1. Results of Descriptive statistical Analysis

Variable	N	Mean	Std. dev.	Min	Max
RPTL	144	.1122	.1521	.0002	.7882
Indeks SA	144	9.419	9.419	-3.491	18.772
TC	144	.1426	.1584	.0009	.7055
ETR	144	.0520	.0520	.0003	.1963

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Based on Table 1, it can be seen that the total number of observations used in this study is 144, obtained from 48 companies in the Properties & Real Estate sector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The related party transaction Liability (RPTL) variable has a minimum value of 0.0002 and a maximum value of 0.7882, with a mean of 0.1122 and a standard deviation of 0.1521. This indicates that the average proportion of related party transaction liabilities among the sample companies is 11.22%, with a data dispersion of 15.21%. The financial constraint, measured using the SA Index, has a minimum value of -3.491 and a maximum value of 18.772, with a mean of 9.419 and a standard deviation of 9.419. These results indicate that the sample companies exhibit considerable variation in their levels of financial constraints during the observation period.

The thin capitalization (TC) variable has a minimum value of 0.0009 and a maximum value of 0.7055, with a mean of 0.1426 and a standard deviation of 0.1584. This indicates that the average level of thin capitalization among the sample companies is 14.26%, with a data dispersion of 15.84%. The tax avoidance variable, measured using the effective tax rate (ETR), has a minimum value of 0.0003 and a maximum value of 0.1963, with a mean of 0.0520 and a standard deviation of 0.0520. This indicates that the average effective tax rate of the sample companies is 5.20%, with a data dispersion of 5.20%.

Classical Assumption Test Result

Normality Test Result

The normality test in this study used *the One-Sample Kolmogorov-Smirnov Test.* The results of the normality test are shown in the following table:

Table 2. *One-Sample Kolmogorov-Smirnov* Test Result

		Unstandardized Residual
N		144
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.04468087
Most Extreme Differences	Absolute	.097
	Positive	.097
	Negative	-.065
Test Statistic		.097
Asymp. Sig. (2-tailed)		.200[c]

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Based on Table 2, it can be seen that the results of the *One-Sample Kolmogorov-Smirnov* test show that the *Asymp. Sig. (2-tailed)* value, is 0.200 ≥ 0.05; therefore, it can be concluded that the residuals are normally distributed.

Multicollinearity Test

Multicollinearity is assessed based on the *tolerance* and *Variance Inflation Factor* (VIF) values, with the criterion that if the *tolerance* is > 0.10 and VIF < 10, there is no evidence of multicollinearity. The results of the multicollinearity test are shown in the following table:

Table 3. Multicollinearity Test Result

Model		Collinearity Statistics Tolerance	VIF
1	Related Party Transaction	.958	1.044
	Financial Constraints	.973	1.028
	Thin Capilatization	.981	1.019

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Based on these results, all independent variables have *tolerance* values > 0.10 and VIF values < 10; therefore, it can be concluded that there is no multicollinearity.

Autocorrelation Test

The autocorrelation test in this study used the *Durbin-Watson* test. The results of the autocorrelation test are shown in the following table:

Table 4. Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Std. Error of The Estimate	Durbin-Watson
1	.397[a]	.158	.139	.04391	1.956

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Based on Table 4, it can be seen that the *Durbin-Watson* value is 1.956. When compared with the table values at a 5% significance level, with a sample size of n = 144 and k = 3 independent variables, the calculated values are dL = 1.685 and dU = 1.7704. These results indicate that the DW value is greater than the upper limit (dU) = 1.7704 and less than (4-dU = 2.230) resulting in the condition dU < d < 4–dU or 1.7704 < 1.956 < 2.230, which means there is neither positive nor negative autocorrelation; therefore, it can be concluded that no autocorrelation is present.

Heteroscedasticity Test

The heteroscedasticity test in this study used the *Glejser* test. The results of the heteroscedasticity test are shown in the following table:

Table 5. Heteroscedasticity Test Result

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.034	.006		5.874	.000
	Related Party Transaction	.012	.016	.041	.745	.457
	Financial Constraints	.000	.000	.025	.289	.773
	Thin Capitalization	-.007	.015	-.026	-.454	.651

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Based on Table 5, it can be seen that the Glejser test results indicate that the related party transaction variable (X_1) has a significance value of 0.457 > 0.05, the financial constraints variable (X_2) has a significance value of 0.773 > 0.05, and the thin capitalization variable (X_3) has a significance value of 0.651 > 0.05. Based on these results, all independent variables have significance values > 0.05; therefore, it can be concluded that there is no evidence of heteroscedasticity.

Linearity Test

The linearity test in this study was conducted using the *Lagrange Multiplier* (*LM*) *test*. The results of the linearity test are shown in the following table:

Table 6. Linearity Test Result

Model	**R**	**R-Square**	**Adjusted R-Square**	**Standard Error**
1	.132[a]	.0173	-.026	.04434

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Table 7. Results of the Calculated χ^2 Test

N	**R^2 (Augmented Model)**	**Calculated χ^2 ($n \times R^2$)**	**Table χ^2 (df=137, α=5%)**
144	.0173	2.491	165,316

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Based on Table 6 and Table 7, we can see an R^2 value of 0.0173 from *the augmented model* that regresses the squared residuals against the related party transaction variable (X_1), the financial constraints variable (X_2), and the thin capitalization variable (X_3), as well as the squared forms of each of these variables. With n = 144, the calculated χ^2 value is $n \times R^2 = 144 \times 0.0173 = 2.491$. The critical χ^2 value at df = 137 and α = 5% is 165.316. Since the calculated χ^2 value (2.491) is less than the critical χ^2 value (165.316), it can be concluded that the regression model in this study conforms to the linear form specification, thus fulfilling the assumption of linearity.

Statistical Tests

Multiple Linear Regression Analysis

Multiple linear regression analysis is used to quantitatively determine the magnitude of the influence of the independent variable (X) on the dependent variable (Y). The results of the multiple linear regression analysis are shown in the following table:

Table 8. Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Standard Error	Beta	t	Sig.
1	(Constant)	.031	.007		4.421	.000
	Related-Party Transaction	.038	.017	.132	2,188	.030
	Financial Constraints	.000	.000	.336	4,056	.000
	Thin Capitalization	.031	.016	.116	1,945	.054

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Table 8. shows that the results of the multiple linear regression analysis yield the following multiple regression equation model:

$$Y = 0.031 + 0.038X_1 + 0.000X_2 + 0.031X_3 + e$$

a) The constant (a) is 0.031, a positive value, which means that tax avoidance (Y) will be 0.031 if the variables related party transaction (X_1), financial constraints (X_2), and thin capitalization (X_3) are all zero.
b) The regression coefficient (b_1) for the related party transaction variable (X_1) is 0.038, meaning that if the related party transaction variable increases by one unit, tax avoidance will increase by 0.038.
c) The regression coefficient (b_2) for the financial constraints variable (X_2) is 0.000, meaning that a one-unit increase in the financial constraints variable does not result in any change in tax avoidance.
d) The regression coefficient (b_3) for the thin capitalization variable (X_3) is 0.031, meaning that if the thin capitalization variable increases by one unit, tax avoidance will increase by 0.031.

Correlation Coefficient (R)

The correlation coefficient (R) in this study was calculated using the *Product Moment* method. The results of the correlation coefficient calculations are shown in the following table:

Table 9. Results of Multiple Correlation Coefficient Analysis

Model	R	R-Square	Adjusted R-Square	Standard Error of the Estimate
1	.397[a]	.158	.139	.04391

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Table 9. shows that the R value (correlation) is 0.397. This means that the relationship between related party transaction (X_1), financial constraints (X_2), and thin capitalization (X_3) and tax avoidance (Y) falls within the 0.20–0.399 range, indicating a weak correlation.

Coefficient of Determination (R^2)

Table 9. above shows that the coefficient of determination (R^2) is 0.158. This means that 15.8% of the variation in tax avoidance (Y) can be explained by related party transactions (X_1), financial constraints (X_2), and thin capitalization (X_3), while the remaining 84.2% of tax avoidance (Y) is influenced by other variables not examined in this study.

Hypothesis Test

Simultaneous Test (F-Test)

The F-test is used to determine whether the independent variables collectively or simultaneously influence the dependent variable. The results of the F-test are shown in the following table:

Table 10. F-Test Results

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	.015	3	.005	8.655	.000[b]
	Residual	.270	140	.002		
	Total	.285	143			

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Table 10. shows the results of the ANOVA test, indicating that the calculated F-value 8.655 is greater than the critical F-value 2.67, with a significance value of 0.000, which is lower than the 0.05 significance level. Therefore, it can be concluded that the variables related party transaction (X_1), financial constraints (X_2), and thin capitalization (X_3) simultaneously (collectively) have a significant effect on tax avoidance (Y).

Partial Test (t-Test)

The t-test was used to determine whether, individually, related party transaction (X_1), financial constraints (X_2), and thin capitalization (X_3) have an effect on tax avoidance (Y). The results of the t-test calculations are shown in the following table:

Table 11. t-Test Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Standard Error	Beta	t	Sig.
1	(Constant)	.031	.007		4.421	.000
	Related Party Transaction	.038	.017	.132	2,188	.030
	Financial Constraints	.000	.000	.336	4,056	.000
	Thin Capitalization	.031	.016	.116	1,945	.054

Source: SPSS Statistics 32 (Data processed by researches, 2026)

Table 11. shows the results of the partial test (t-test), which yielded significance values that can be interpreted as follows:

a) The calculated t-value for the related party transaction variable (X_1) is 2.188 > the critical t-value of 1.977, and the significance level is 0.030 < 0.05; therefore, it can be concluded that the related party transaction variable (X_1) has a significant partial effect on tax avoidance (Y).

b) The calculated t-value for the financial constraints variable (X_2) is 4.056, which is greater than the critical t-value of 1.977, and the significance value is 0.000, which is less than 0.05; therefore, it can be concluded that the financial constraints variable (X_2) has a significant partial effect on tax avoidance (Y).

c) The calculated t-value for the thin capitalization variable (X_3) is 1.945, which is less than the critical t-value of 1.977, and the significance value of 0.054 is greater than 0.05; therefore, it can be concluded that the thin capitalization variable (X_3) does not have a significant partial effect on tax avoidance (Y).

Discussion of Analysis Results

Analysis of the Effect of Related-Party Transactions on Tax Avoidance

Based on the analysis conducted, it is evident that Related Party Transaction have a significant positive effect on Tax Avoidance, indicating that H_1 is accepted. This finding is consistent with Agency Theory, which explains that managers (agents) tend to maximize firm value by reducing corporate costs, including tax expenses. Related party transactions provide opportunities for companies to shift profits or allocate expenses among affiliated entities, thereby reducing taxable income and corporate tax liabilities. As a result, companies are able to retain more after-tax profits and improve their financial performance.

By engaging in related party transaction, a company's taxable income and the tax liability it is required to pay can be reduced. This reduction in the company's tax liability increases its net income, which subsequently allows the company to shift a portion of its revenue from countries with high tax rates to other countries with significantly lower tax rates.

The results of this study align with research conducted by Fadhali & Laksito (2023) and Nandita & Wibawaningsih (2022), which states that related-party transactions influence tax avoidance. However, the results of this study contradict research conducted by Fitrianti et al.. (2025) and Mahardini et al. (2022), which states that related-party transactions do not influence tax avoidance.

Analysis of the Effect of Financial Constraints on Tax Avoidance

Based on the analysis conducted, it was found that financial constraints have a significant positive effect on tax avoidance, indicating that H_2 is accepted. This result is in line with Agency Theory, which suggests that managers seek to maintain the firm's financial stability and maximize shareholder value. When firms experience financial constraints, managers tend to preserve internal cash flow by minimizing expenditures, including tax payments. Therefore, tax avoidance becomes one strategy to maintain liquidity and support business operations.

Financial constraints cause companies to face limitations and rely on internal funding sources to carry out their activities. Companies will strive to the fullest extent possible to utilize their internal funding sources by minimizing expenses, including tax liabilities, thereby providing them with a stronger incentive to generate higher operating cash flow through tax avoidance.

These findings are consistent with studies conducted by, Purwanto (2024) and Oktarina (2023), which state that financial constraints influence tax avoidance. However, the results of this study contradict those of studies conducted by Qisti and Rachmawati (2025) and Suryani and Prastiani (2024), which state that financial constraints do not affect tax avoidance.

Analysis of the Effect of Thin Capitalization on Tax Avoidance

Based on the analysis conducted, it was found that thin capitalization does not have a significant effect on tax avoidance, indicating that H_3 is rejected. According to Agency Theory, managers may use debt financing to reduce taxable income because interest expenses are generally deductible for tax purposes. Therefore, the initial hypothesis proposed that thin capitalization would affect tax avoidance.

Companies with a high proportion of debt in their capital structure do not necessarily incur interest expenses that exceed the threshold set in the Earnings Stripping Rules. This situation can occur if loan interest rates are relatively low or if the company has high EBITDA, so that the ratio of interest expense to EBITDA remains within the established limit. Thus, all interest expenses can still be recognized as a deduction from taxable income.

The results of this study are consistent with research conducted by Febriana & Kesuma (2023) and Hakim & Haq (2025) , which states that thin capitalization does not affect tax avoidance. However, the results of this study contradict research conducted by Rahmadhani & Lastanti (2024) and Amalia & Sudarmanto (2025), which states that thin capitalization does affect tax avoidance.

5. Conclusion

This study examines the effect of related party transaction, financial constraints, and thin capitalization on tax avoidance in Properties & Real Estate companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The findings indicate that related party transactions have a positive and significant effect on tax avoidance, suggesting that companies with higher related party liabilities are more likely to engage in tax avoidance practices. Financial constraints also have a positive and significant effect on tax avoidance, indicating that companies experiencing greater financing limitations tend to reduce their tax burden as part of their financial management strategy. In contrast, thin capitalization has no significant effect on tax avoidance, implying that the proportion of debt financing is not a determining factor in tax avoidance practices among the sampled companies.

The findings provide practical implications for company management and regulators. Company management should ensure that related party transaction are conducted transparently and in accordance with applicable regulations to minimize the risk of aggressive tax practices. Regulators and tax authorities should strengthen the monitoring of related party transactions and companies experiencing financial constraints, as these factors are associated with a higher likelihood of tax avoidance.

This study has several limitations. First, the research only focuses on companies in the Properties & Real Estate sector listed on the Indonesia Stock Exchange during the 2022–2024 period, limiting the generalizability of the findings to other sectors. Second, tax avoidance is measured solely using the effective tax rate (ETR), while related party transactions, financial constraints, and thin capitalization are represented by RPTL, SA Index, and earnings stripping/earnings treshold, other measurement proxies may produce different results.

Future researchers are encouraged to expand the scope of their studies and extend the observation period to obtain more consistent and accurate results. They are also encouraged to consider other variables believed to have an impact such as capital intensity, sales growth, and the audit committee to provide a broader picture of tax avoidance, as well as to consider using different proxies to measure the research variables.

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