

The influence of capital intensity, corporate governance, and transfer pricing on tax avoidance with the moderating role of firm size

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Abstract

This study examines the effect of capital intensity, corporate governance, and transfer pricing on tax avoidance with company size as moderate. This research was conducted at property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. This research employs a quantitative approach, utilizing panel data regression analysis techniques and moderated regression analysis (MRA) via EViews software version 12. Sampling employed a purposive sampling technique, resulting in seven companies from the property and real estate sector listed on IDX from 2019 to 2023, totaling 92 companies. The data used in this study is secondary data. The data collection technique uses the documentation method through the IDX official website, namely www.idx.co.id, and the Company's official website. Hypothesis testing in this study used the t-test. The results of the survey prove that 1) Capital intensity does not affect tax avoidance, 2) Corporate governance and transfer pricing have a significant positive effect on tax avoidance, 3) company size can moderate and strengthen the effect of corporate governance and transfer pricing on tax avoidance, 4) company size is unable to moderate the effect of capital intensity on tax avoidance.

Public interest statements

This study examines the factors influencing tax avoidance in property and real estate companies, providing support to policymakers in enhancing regulations and oversight. It promotes transparency and good governance to ensure sustainable revenue, fair taxation, and industry integrity, contributing to economic stability and societal prosperity.

Keywords: Capital intensity, corporate governance, transfer pricing, company size.

Paper type: Research paper

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Abstrak

Penelitian ini menguji pengaruh capital intensity, corporate governance, dan transfer pricing terhadap tax Avoidance dengan ukuran perusahaan sebagai moderat. Penelitian ini dilakukan pada perusahaan properti dan real estate yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2019 sampai dengan 2023. Penelitian ini menggunakan pendekatan kuantitatif, dengan menggunakan teknik analisis regresi data panel dan moderated regression analysis (MRA) melalui software EViews versi 12. Pengambilan sampel menggunakan teknik purposive sampling, sehingga diperoleh tujuh perusahaan dari sektor properti dan real estate yang terdaftar di BEI tahun 2019 sampai dengan 2023, sehingga totalnya menjadi 92 perusahaan. Data yang digunakan dalam penelitian ini adalah data sekunder. Teknik pengumpulan data menggunakan metode dokumentasi melalui situs resmi BEI yaitu www.idx.co.id dan situs resmi Perusahaan. Pengujian hipotesis dalam penelitian ini menggunakan uji-t. Hasil penelitian membuktikan bahwa 1) Intensitas modal tidak berpengaruh terhadap penghindaran pajak, 2) Tata kelola perusahaan dan harga transfer berpengaruh positif signifikan terhadap penghindaran pajak, 3) Ukuran perusahaan dapat memoderasi dan memperkuat pengaruh tata kelola perusahaan dan harga transfer terhadap penghindaran pajak, 4) Ukuran perusahaan tidak mampu memoderasi pengaruh intensitas modal terhadap penghindaran pajak.

Pernyataan kepentingan publik

Penelitian ini mengkaji faktor pengaruh penghindaran pajak di perusahaan properti dan real estate, bertujuan membantu pembuat kebijakan meningkatkan regulasi dan pengawasan. Mendukung transparansi dan tata kelola yang baik demi keberlanjutan pendapatan, keadilan pajak, kestabilan ekonomi, dan kesejahteraan masyarakat.

Kata Kunci: Intensitas modal, tata kelola perusahaan, penetapan harga transfer, ukuran perusahaan.

INTRODUCTION

Economic growth and national development rates can be increased through higher tax revenue to improve a country's welfare. Taxes are a transfer of resources from the private or business sector to the public sector, where, for the state, taxes are the primary source needed to raise state funds (Aulia & Purwasih, 2023). The tax revenue will be allocated to finance the development process, infrastructure, and other public facilities. Tax revenue can also be used to improve the quality of human resources in Indonesia. Thus, every taxpayer, both corporate and individual, must fulfill their tax obligations according to existing regulations so that economic growth and national development rates can develop rapidly in Indonesia. However, because Indonesia itself is a center of international trade, companies have a gap to minimize the tax burden they pay by moving their profits to jurisdictions with lower tax rates and taking advantage of differences in tax regulations between countries (Aqilla & Ersi, 2024).

Research conducted by Awaliah et al. (2022) on Corporate Tax Avoidance Trends in Indonesia reveals that companies in the property and real estate sector are the most prevalent in tax avoidance during the 5-year research period, spanning from 2016 to 2020. Likewise, research conducted by (Rahmawati & Nurcahyani, 2024) observed the rate of tax avoidance in the property and real estate sector, where the results of his research showed that tax avoidance in property and real estate sector companies experienced fluctuations with PT Metropolitan Land Tbk for four consecutive years from 2017 to 2020 being the largest company that took tax avoidance actions, while PT Ciputra Development Tbk for 5 years from 2017-2021 was the company that took the

smallest tax avoidance. The high level of tax avoidance in this sector has the potential to hinder economic growth and reduce tax revenues needed for national development because according to the Coordinating Ministry for Economic Affairs of the Republic of Indonesia on the official page <https://www.ekon.go.id> (19/11/2023) said that the Property Industry is a leading sector in driving the Indonesian economy to GDP. Indonesia's Minister of Finance, Sri Mulyani Indrawati, at the G20 India meeting in 2023, emphasized that tax avoidance practices carried out by multinational companies pose a serious threat to global economic stability. Large companies with access to international tax structures can pay lower taxes than smaller domestic companies or individuals who comply with tax obligations. The result is base erosion, a reduction in tax revenue that threatens tax authority and tax justice in many countries using profit shifting. According to the 2020 Tax Justice Network report, Indonesia is estimated to experience a loss of IDR 68.7 trillion per year. The IDR 68.7 trillion could have been used to finance infrastructure and development in Indonesia.

Several factors, including capital intensity, corporate governance, transfer pricing, and company size, influence the prevalence of corporate tax avoidance practices. Capital intensity reflects a company's investment strategy in fixed assets, which involves both acquiring new assets to maintain business operations and preserving existing ones. These investments may reduce a firm's tax burden, as fixed assets generate depreciation expenses that can lower taxable income (Aena et al., 2023)—however, research findings on the relationship between capital intensity and tax avoidance show mixed results. Studies by Melia et al. (2023) and Silvi (2024) demonstrate that capital intensity significantly affects tax avoidance. In contrast, Febrianti et al. (2023) found no statistically significant relationship, suggesting potential moderating factors or contextual differences that warrant further examination.

The second factor influencing tax avoidance is corporate governance. Effective corporate governance can impact a company's tax rate, where stronger governance mechanisms tend to increase state revenue, while weaker governance may lead to revenue declines (Hanifah, 2022). Empirical evidence on this relationship presents mixed findings: studies by Dinda et al. (2021) and Dziktiara and Elly (2023) found that corporate governance has a positive effect on tax avoidance, whereas Ratih (2023) concluded that it has no significant effect. The third contributing factor is transfer pricing, which is particularly relevant for multinational corporations engaging in cross-border transactions. These entities may engage in tax avoidance by strategically shifting profits to subsidiaries located in jurisdictions with lower tax rates (Putri & Mulyani, 2020). This practice allows companies to minimize their overall tax burden while remaining compliant with international tax laws.

Tax avoidance strategies can also be implemented domestically through the manipulation of pricing in transactions between related parties, where prices may be artificially inflated or deflated beyond reasonable market values (Pratiwi & Pramita, 2021). Empirical studies present conflicting findings regarding this practice. Dessy and Hari (2022) found that transfer pricing has a significant impact on tax avoidance, whereas Ghasani et al. (2021) concluded that no significant relationship exists. Another critical factor influencing tax avoidance is company size, which serves as a key metric for classifying businesses and reflects their operational scale and economic management capacity (Wahyuni, 2022). Research by Asih and Erika (2024) and Muhajirin et al. (2021) demonstrates that company size may act as a moderating variable, potentially amplifying or mitigating the effects of capital intensity, corporate governance, and transfer pricing on tax avoidance behaviors.

THEORETICAL FRAMEWORK AND HYPOTHESIS

According to agency theory (Jensen & Meckling, 1976), a contract-based relationship exists between the principal (owner) and the agent (management), where the agent is authorized to make decisions and act on behalf of the principal. However, conflicting interests often arise, as the principal expects continuously increasing profits, while the agent, unable to meet these expectations, may manipulate financial reports to protect their reputation (Sutisna et al., 2024). Agents also seek high bonuses based on reported profits; however, higher profits result in higher tax liabilities (Safira, 2023). Consequently, management may avoid taxes to maximize the principal's returns and gains. This definition aligns with the findings of Ma'sumMa'sum et al. (2023), which state that tax avoidance is driven by agency conflicts, where managers manipulate financial statements to conceal actions that serve their interests.

Capital intensity refers to a company's investment in fixed assets that generate depreciation expenses, which can be used to reduce tax liabilities (Sari & Indrawan, 2022). This capital is essential for management, reflecting how effectively a company utilizes its fixed assets to increase profits (Sari et al., 2023). Higher fixed asset ownership leads to greater depreciation expenses, which management can leverage to reduce tax obligations and increase tax avoidance practices. This aligns with agency theory, where agents (managers) are authorized to manage the company for the benefit of principals (owners), who seek to maximize short-term profit and promote long-term shareholder welfare (Zakiah & Foza, 2023). Managers may use tax avoidance through depreciation to fulfill these objectives and maintain a positive performance image. Accordingly, companies with high capital intensity tend to utilize depreciation expenses to minimize tax burdens. This finding is supported by research from Br Kaban et al. (2024) and Ernawati and Indriyanto (2024), who found that capital intensity has a positive effect on tax avoidance. Based on this, the hypothesis of this study can be formulated as follows:

H1: Capital intensity has a positive effect on tax avoidance

Corporate governance encompasses the interactions among various parties involved in managing a company, as well as the values upheld by its management (Purbowati, 2021). It serves as a framework designed to support long-term shareholder value (Prastya & Handayani, 2024). According to agency theory, shareholders aim to maximize their wealth, which often leads them to encourage managers to act in their interests (Suliastawan & Purnawati, 2020). This pursuit can lead to tax avoidance strategies aimed at boosting company profits. To counteract this issue, independent commissioners play a crucial supervisory role within corporate governance, ensuring transparency, accountability, and sound managerial decisions. Research indicates that a higher proportion of independent commissioners on the board is associated with lower tax avoidance practices (Polanunu & Hexana, 2024). This finding is further supported by studies conducted by Nur'aini and Sherlita (2023) and Susilowati and Kartika (2023), which demonstrate that robust corporate governance can deter tax avoidance. Based on this framework, the hypothesis for this study can be formulated as follows:

H2: Corporate governance hurts tax avoidance.

Transfer pricing occurs between affiliated companies when profits are shifted to subsidiaries in countries with lower tax rates, thereby reducing the tax burden on the parent company. This practice reduces the company's tax obligations in its home country and can result in national revenue losses (Wiguna et al., 2023). Management often employs transfer pricing to allocate profits within large corporations (Adenisa & Hendi, 2023), and its frequent use increases the risk of significant tax avoidance (Pratomo & Triswidyaria, 2021). This situation aligns with agency

theory, which emphasizes the conflict between corporations seeking to maximize profits and the government's interest in collecting tax revenue. In Indonesia, under the self-assessment tax system, companies are responsible for reporting and calculating their taxes. This system creates opportunities for tax avoidance through legal means, such as transfer pricing (Siswanti et al., 2024). The parent company can enhance its earnings by shifting profits to subsidiaries located in jurisdictions with lower tax rates. Supporting this view, research by Asriani et al. (2023) and Yohana et al. (2022) suggests that transfer pricing has a positive influence on tax avoidance. Based on these insights, the hypothesis for this study can be formulated as follows:

H3: Transfer pricing has a positive effect on tax avoidance.

Investment in fixed assets is closely tied to capital intensity, as these assets are essential for generating profits (Budiadnyani, 2020). Large-scale companies earn higher profits due to greater productivity and larger asset ownership (Nabila & Kartika, 2023). However, high capital intensity in large companies can also increase tax avoidance efforts (Prabowo & Ririn, 2021). According to agency theory, conflicts arise when managers exploit fixed assets to reduce tax obligations through depreciation, aligning with the principal's short-term profit goals. Company size amplifies this practice, as large companies typically possess greater fixed assets and consistent profits (Lestari & Effriyanti, 2024). This situation presents managers with opportunities to utilize depreciation as a strategic tool for tax avoidance. Supporting this, studies by Amiah (2022) and Utomo & Fitria (2020) confirm that company size moderates the relationship between capital intensity and tax avoidance. Based on this, the hypothesis can be formulated as follows:

H4: Company size moderates the effect of capital intensity on tax avoidance.

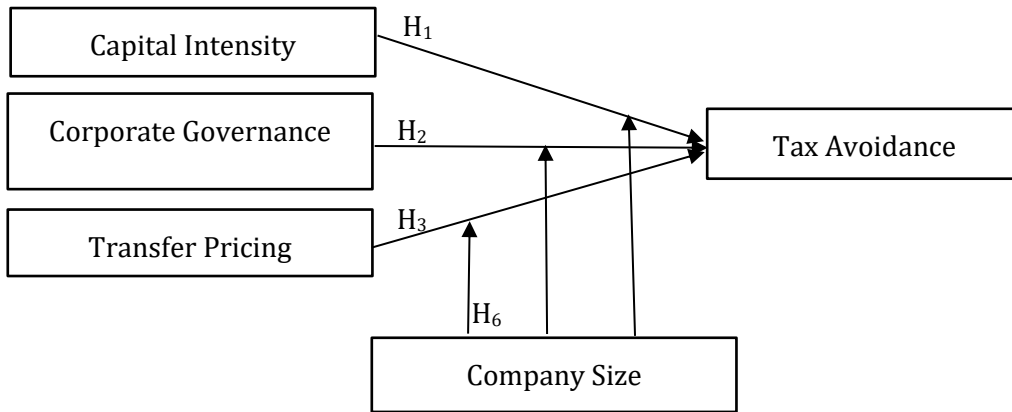
Larger companies typically have more human resources and higher transaction volumes, which creates greater operational complexity and opens opportunities for tax avoidance (Martina et al., 2020). Strong corporate governance, particularly the role of independent commissioners, is essential in ensuring transparency and reducing deviant managerial behavior, including tax avoidance (Umi Soimah et al., 2020). According to agency theory, this complexity can intensify conflicts of interest between principals and agents, where managers may prioritize personal gains through tax avoidance. Therefore, small and large firms require independent commissioners to oversee transactions transparently. The presence of more independent commissioners helps reduce tax avoidance, as they act without direct ties to shareholders (Saputri & Sharifuddin, 2020). However, research by Safitri and Arifin (2023) and Tamala (2022) indicates that company size does not moderate the relationship between corporate governance and tax avoidance. Based on this, the hypothesis is formulated as follows:

H5: Company size does not moderate the effect of corporate governance on tax avoidance.

Sales transactions within a company are often closely tied to transfer pricing schemes, especially in large companies undergoing international expansion, where the risk of tax avoidance through transfer pricing increases when operating in countries with high tax rates. Transfer pricing is generally carried out by selling goods or services at a price below market value and shifting profits to subsidiaries in jurisdictions with lower tax rates. Based on agency theory, this reflects a conflict of interest between principals and agents, where managers use their access to company resources to implement complex schemes for personal or organizational benefit. Larger companies are more likely to exploit this practice due to greater resources and broader global operations, which makes them more vulnerable to tax avoidance through transfer pricing. Therefore, company size can

moderate the effect of transfer pricing on tax avoidance. Based on this, the hypothesis is formulated as follows:

H6: Firm size moderates the effect of transfer pricing on tax avoidance.



Picture 1. Conceptual framework of research

RESEARCH METHODE

The data were obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of the companies. We collected this information through documentation techniques by compiling annual financial reports from the years 2019 to 2023. A purposive sampling technique was employed based on specific criteria, resulting in the selection of seven companies as the sample, which provided a total of 35 observations.

Table 1.
 Measurement formulas

| Variable Type | Variable Name | Measurement |
|-------------------|----------------------|--|
| Dependen | Tax Avoidance | $ETR = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$ |
| Independen | Capital Intensity | $CI = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$ |
| | Corporate Governance | $KI = \frac{\text{Number Of Independent Commissioners}}{\text{Total Number Of Commissioners}}$ |
| | Transfer Pricing | $TP = \frac{\text{Related Party Receivables}}{\text{Total Receivables}}$ |
| Moderasi | Company Size | $UP = \text{Ln}(\text{Total Aset})$ |

This study uses a panel data regression model as data management with data analysis methods in classical assumption tests, panel data selection analysis, and Moderated Regression Analysis

(MRA) for moderation variables. Then, to help researchers conduct data analysis and hypothesis testing, this study uses the Eviews version 12 computer program and Microsoft Excel for data processing.

RESULTS AND DISCUSSION

Moderated regression

This study uses Moderated Regression, which takes into account the variables of capital intensity, corporate governance, and transfer pricing that affect tax avoidance and company size as a moderating variable, following the results of Table 2.

Table 2.
Results Regresi and hypothesis

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-----------|-------------|------------|-------------|--------|
| C | 0.030453 | 0.060850 | 0.500461 | 0.6217 |
| CI | 2.147.372 | 1.634.963 | 1.313.407 | 0.2026 |
| KI | 2.142.876 | 0.581701 | 3.683.813 | 0.0013 |
| TP | 0.205383 | 0.406862 | 3.504.798 | 0.0187 |
| CI_UP | -0.708781 | 0.548186 | -1.292.957 | 0.2094 |
| KI_UP | 0.072106 | 0.019479 | 3.701.798 | 0.0012 |
| TP_UP | 0.007547 | 0.013698 | 2.850.969 | 0.0072 |
| R-squared | 0.540114 | | | |

Source: Eviews version 12 Management Results

The MRA results in Table 2 provide the following insights. The constant value of 0.030453 indicates that if the independent variables remain unchanged, the baseline level of tax avoidance stays at this value. Capital intensity has a positive coefficient of 21.47372, suggesting that a one-unit increase in capital intensity corresponds to a 21.47372-unit increase in tax avoidance, holding other variables constant. However, this relationship is not statistically significant (p-value = 0.2026 > 0.05), meaning the first hypothesis is not supported.

Corporate governance, proxied by the proportion of independent commissioners, has a positive and significant effect on tax avoidance, with a coefficient of 2.142876 (p-value = 0.0013), supporting the second hypothesis. Similarly, transfer pricing shows a positive and significant impact, with a coefficient of 0.205383 (p-value = 0.0187), confirming the third hypothesis.

The moderating role of firm size yields nuanced findings. Firm size weakens the relationship between capital intensity and tax avoidance, as shown by a negative coefficient of -0.708781 (p-value = 0.2094), leading to the rejection of the fourth hypothesis. In contrast, firm size strengthens the effect of corporate governance on tax avoidance, with a positive coefficient of 0.072106 (p-value = 0.0012), supporting the fifth hypothesis. Additionally, firm size amplifies the impact of transfer pricing on tax avoidance, with a coefficient of 0.007547 (p-value = 0.0072), validating the sixth hypothesis. The model explains 54.0114% of the variation in tax avoidance (Adjusted $R^2 = 0.540114$), while the remaining 45.9886% is attributable to factors not included in this study.

Discussion

The effect of capital intensity on tax avoidance

The analysis results state that the t-statistic significance value of the probability capital intensity is $0.2026 > 0.05$. Then, these results state that the capital intensity variable has no significant effect on tax avoidance. This indicates that the size of the company's investment in fixed assets is not a significant factor in influencing the company's decision to take tax avoidance actions. In another sense, the company's strategic management of its fixed assets, such as the purchase of property, machinery, or infrastructure, does not directly lead to the practice of tax avoidance. However, it can be caused by the structure of Indonesian tax regulations that tend to more strictly regulate the use of depreciation expense as a tax deduction so that the gap to take advantage of it in tax avoidance is smaller.

The effect of corporate governance on tax avoidance

The analysis results state that the t-statistic significance value of the probability of corporate governance is $0.0013 < 0.05$. Then, these results state that the corporate governance variable has a significant positive effect on tax avoidance. This indicates that corporate governance, especially independent commissioners who have a function to ensure transparency and accountability in reducing tax avoidance, may not be optimal due to several obstacles. Managers can use this to design a more structured tax avoidance strategy to maximize company profits and positively impact shareholders, but this can also create an imbalance of priorities that are more concerned with the interests of shareholders than the interests of other stakeholders. So if corporate governance proxied by independent commissioners in a company increases, but the supervision carried out by commissioners is not optimal, tax avoidance practices will also increase.

The results of this study are not in line with research conducted by Nur'aini & Sherlita (2023) and Susilowati & Kartika (2023), which state that corporate governance proxied by independent commissioners hurts tax avoidance. However, this study's results align with research conducted by Chasbiandani et al. (2020) and Pham et al. (2024), which states that corporate governance proxied by independent commissioners has a positive effect on tax avoidance.

The effect of transfer pricing on tax avoidance

The analysis result states that the t-statistic significance value of the probability transfer pricing is $0.0187 < 0.05$. Then, the result states that the transfer pricing variable has a significant positive effect on tax avoidance. This indicates that the more often the company applies transfer pricing, the greater the company is encouraged to practice tax avoidance on a larger scale. Large companies carry out this practice by moving their profits to countries with lower tax rates, not only out of the country but companies can also move their profits between companies within the country. The results of this study are not in line with research conducted by Nadhifah and Arif (2020) and Widiyantoro & Riris (2020), which state that transfer pricing hurts tax avoidance. However, this study's results align with research conducted by Asriani et al. (2023) and Yohana et al. (2022), which states that transfer pricing has a positive effect on tax avoidance.

Company size moderates capital intensity on tax avoidance.

Based on data analysis and hypothesis testing that has been done in this study, it can be seen that company size is not able to moderate and weaken the effect of capital intensity on tax avoidance for the 2019-2023 period with a significant value of $0.2094 > 0.05$. This explains that the increase in capital intensity of a company does not depend on the size of the company; even though large companies have larger capital and assets, this does not directly affect the management of capital intensity for tax avoidance purposes. However, companies with large size and capital intensity still have the potential to do tax avoidance. The results of this study are not in line with research conducted by Amiah (2022) and Utomo & Fitria (2020), which states that company size can moderate the effect of capital intensity on tax avoidance. However, this study's results align with research conducted by Aulia and Purwasih (2023) and Ayem et al. (2024), which states that company size cannot moderate and weaken the effect of capital intensity on tax avoidance.

Company size moderates corporate governance on tax avoidance

Based on data analysis and hypothesis testing that has been carried out in this study, company size can moderate and strengthen the effect of corporate governance on tax avoidance for the 2019-2023 period by obtaining a significant value of $0.0012 < 0.05$. This explains that companies with larger sizes tend to have better and more complex corporate governance, such as the presence of more independent commissioners. This condition allows for tighter supervision so that large companies can minimize tax avoidance practices through better corporate governance. However, if the supervision carried out by independent commissioners is less effective, tax avoidance in the company will increase. The results of this study are not in line with research conducted by (Safitri and Arifin, 2023 and Tamala, 2022), which state that company size cannot moderate the effect of corporate governance on tax avoidance. However, the results of this study are in line with research conducted by Nabila & Kartika (2023) and Prastya & Handayani (2024), which states that company size can moderate and strengthen the influence of corporate governance, namely independent commissioners on tax avoidance.

Company size moderates transfer pricing on tax avoidance

Based on data analysis and hypothesis testing that has been carried out in this study, company size can moderate and strengthen the effect of transfer pricing on tax avoidance for the 2019-2023 period with a significant value of $0.0072 < 0.05$. This explains that large companies tend to be more effective in using transfer pricing as a tax avoidance strategy. This explains that large companies tend to be more effective in using transfer pricing to avoid taxes. Large companies tend to have a multinational business structure or group of companies that are more able to utilize transfer pricing to move their profits to other companies that do not have maximum profits in the country or move profits to companies in countries with low tax rates. The results of this study are not in line with research conducted by Adenisa & Hendi Subandi (2023) and Lutfitriyah & Anwar (2021), which states that Company size cannot moderate and weaken the relationship between transfer pricing and tax avoidance. However, the results of this study align with research conducted by Dang & Tran (2021) and Komara et al. (2022), which state that company size can moderate the effect of transfer pricing on tax avoidance.

Limitations

This study has several limitations that should be acknowledged. Firstly, the data used are secondary sources, which may restrict the depth and accuracy of the analysis, as the researcher has limited control over the data collection process. Secondly, the research focuses only on property and real estate companies listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other sectors or regions. The study employs a quantitative approach, which might overlook contextual and qualitative factors influencing tax avoidance behavior. Lastly, the cross-sectional design captures data at a specific period, making analyzing trends or changes over time difficult.

CONCLUSION

This study concludes that capital intensity does not significantly affect tax avoidance in property and real estate companies during the 2019–2023 period, indicating that investment in fixed assets is not a dominant factor in driving tax avoidance due to strict tax regulations on depreciation. In contrast, corporate governance and transfer pricing both have a significant positive effect on tax avoidance, suggesting that the presence of independent commissioners may not effectively suppress tax avoidance and that transfer pricing is a common strategy to shift profits and reduce tax burdens. Furthermore, firm size does not moderate the relationship between capital intensity and tax avoidance. Still, it strengthens the influence of corporate governance and transfer pricing on tax avoidance, indicating that larger firms are more capable of leveraging governance structures and transfer pricing strategies in their tax planning practices.

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