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EXPLORING THE INFLUENCE OF PROFITABILITY, LEVERAGE, CAPITAL INTENSITY, AND FIRM SIZE ON TAX AVOIDANCE IN INDONESIA

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Abstract:

Tax avoidance refers to the strategic practices employed by companies to legally minimize their tax obligations by taking advantage of legal loopholes or exemptions. Indonesia's tax ratio ranks as the third lowest among Asia-Pacific nations and remains below the international standard of 15%, falling short of the ideal level for the country. Therefore, this study investigates the influence of profitability, leverage, capital intensity, and company size on tax avoidance among consumer goods firms listed on the Indonesia Stock Exchange during the period from 2020 to 2022. The study utilized purposive sampling, resulting in a sample of 80 out of 124 consumer firms. The data were analysed using multiple linear regression in IBM SPSS version 26. The findings indicate that while leverage, capital intensity, and company size did not have a significant effect on tax avoidance, profitability exhibited a negative relationship with tax avoidance. Future research can focus on the variables such as ownership structure, corporate governance, political connections, audit quality, managerial ownership, and transparency. Managers (agents) and shareholders (principals), driving managers to engage in tax avoidance to meet performance targets and reduce agency costs.

Keywords:

Tax Avoidance, Profitability, Leverage, Capital Intensity, Company Size

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Introduction

Indonesia is a developing country with a wealth of natural resources. Located in a strategic area, it serves as a world trade and transportation hub, attracting many companies, both local and international, to actively operate in the country. This presence of businesses reduces unemployment and boosts state income, particularly through taxes. The government utilizes tax income to fund most social welfare programs (Hossain et al., 2024). One approach to tax collecting used in Indonesia is the self-assessment system, which grants people the authority to independently determine, file, and pay their taxes. Under this system, corporate taxpayers may seek to reduce their tax obligations, often leveraging government-provided benefits and reliefs, which can inadvertently facilitate tax avoidance (Duhoon and Singh, 2023). According to Napitupulu et al. (2020), tax avoidance is an attempt to avoid paying taxes without violating existing rules. Generally, tax avoidance can be viewed as minimizing the tax burden legally through the use of sound financial planning techniques (Marwat et al., 2023). Tax avoidance arises when corporate taxpayers exploit weaknesses in tax laws and regulations, reducing their tax burden through legal means by capitalizing on gaps or opportunities within the existing tax framework (Henny, 2019; Safitri & Muid, 2020). Table 1 shows an increase in the number of corporate taxpayers from 2019 to 2021. However, in 2020, the Covid-19 outbreak caused the nation's economy to slow down. The compliance ratio from 2019 to 2022 was only around 60 per cent, with the remainder not submitting tax returns. This figure does not include small industries that are not registered as taxpayers representing a substantial tax loss (Hendi and Angelina, 2021).

Table 1: Compliance Ratio for Submission of Annual Corporate Income Tax Return

Year	Registered Corporate Taxpayers	Annual Income Tax Return	Compliance Ratio
2019	1,472,217	963,814	65.47 %
2020	1,482,500	891,877	60.16 %
2021	1,652,251	1,012,302	61.27 %
2022	1,567,298	1,052,482	67.15 %

Source: Direktorat Jenderal Pajak (2022)

The company aims to earn as much income and profit as possible in its operational activities. A company's profitability reflects its capacity to generate profits. According to Hendi & Angelina (2021), a high Return on Assets (ROA) indicates better industry performance, reflecting high profits and effective management in utilizing assets. Meanwhile, profit serves as the basis for corporate taxation. If it receives income, its tax status will change from a tax subject to a taxpayer subject to income tax (Safitri & Muid, 2020). As a result, the management of the firm and the government's tax authorities have conflicting interests over how much tax the company should pay. Management will strive to reduce tax costs and maximize profits to satisfy shareholders, while the tax authority seeks to ensure maximum tax payments (Karlinah et al., 2024; Nauli Sipayung et al., 2023). These conflicting interests lead companies to exploit opportunities such as tax avoidance, which is still considered legal as it does not violate tax law (Nauli Sipayung et al., 2023). However, even though it is legal, tax avoidance may diminish the effectiveness of tax collection.

Tax avoidance is one of the many reasons why taxpayers do not submit their tax returns (Toharosi et al., 2022). The tax ratio reflects tax compliance, as seen from the ratio of tax revenue to GDP (Muliawati, 2019). This ratio indicates the government's capacity to collect taxes and absorb gross domestic product (GDP) through taxes (Prasetiyo, Djaddang, and

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Ahmar, 2021). In 2019, the Director General of Taxes stated that the ideal tax ratio for Indonesia should align with international standards, aiming for 15% and above. In 2021, Indonesia's tax ratio was the third lowest among Asia Pacific countries, according to an OECD survey of 24 countries (Wildan, 2021). As shown in Table 2, since 2019 the tax ratio has not reached a double-digit figure, though it approached 10.39% in 2022, still below 15%. One factor contributing to the low tax ratio and state revenue is tax avoidance (Karlinah et al., 2024; Wijaya and Rahayu, 2021). Therefore, overcoming tax avoidance is crucial to upholding an equitable and effective tax system and promoting public confidence in businesses and the government (Mukhtaruddin et al., 2024).

Table 2: Tax Ratio in Indonesia

Description	2019	2020	2021	2022
GDP at Current Prices (trillion IDR)	15.833	15.434	16.970	19.588
Central Tax (trillion IDR)	1.546	1.285	1 .547	2.034
Central Tax to GDP	9.76	8.33	9.12	10.39

Source: Indonesia (2023); BPS (2023)

In the context of tax avoidance, profitability refers to a company's capacity to generate earnings relative to its costs. Highly profitable companies often have greater resources and motivation to engage in tax avoidance strategies, aiming to legally reduce their tax liabilities through available tax breaks or loopholes. Previous studies still have conflicting findings on company profitability on tax avoidance (Dwiyanti & Jati, 2019; Hendi & Angelina, 2021; Mayndarto, 2022; Napitupulu et al., 2020; Rifai & Atiningsih, 2019; Safitri & Muid, 2020; Shubita, 2024; Tutuhatunewa et al., 2022; Viola & Baihaqi, 2023). Moreover, leverage is a measure of a company's debt related to its business funding operations. Companies with a relatively high debt ratio typically show a lower tax payment ratio (Dewi & Oktaviani, 2021). High debt is directly proportional to interest expenses. Since financing through debt results in substantial interest expenses, management may use this situation to manage the size of the tax burden (Purnomo & Widyawati, 2022). This poses a critical issue in financial management and tax avoidance because companies frequently use debt to boost their investments. The reliance on borrowed capital can lead companies to exploit tax laws and loopholes to reduce their tax obligations, thereby raising concerns about the equity and efficiency of tax systems. Additionally, the ratio of capital invested in a company's fixed assets to the overall asset value is known as capital intensity. A higher investment in fixed assets increases depreciation expenses, leading to higher company expenses and lower profits, which in turn decreases corporate taxes (Ulfa et al., 2021). In addition, company size can indicate a firm's capacity and stability in conducting its economic activities (Safitri & Muid, 2020). Corporate tax planning improves as the size of the company increases (Turyatini, 2017). Thus, company size can affect a business's ability to meet its tax obligations and might also lead to tax avoidance behaviours (Mukhtaruddin et al., 2024). Bigger companies have complex resources and operations making it easier for them to explore and utilize various tax strategies consequent in tax avoidance by using their size and resources to find ways to reduce their tax liabilities

The problem of tax avoidance is prevalent in Indonesia, making research on this phenomenon crucial. This research builds upon the study by Mayndarto (2022) by adding leverage and capital intensity variables. The focus is on consumer goods industry sector companies listed on the IDX from 2020 to 2022. This sector includes companies that provide daily consumer needs, comprising five subsectors: food and beverages, pharmaceuticals, cosmetics, cigarettes, and

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household goods. Thus, this study explores the impact of profitability, leverage, capital intensity and company size on tax avoidance in the Indonesia Stock Exchange Market. Tax avoidance is currently considered legal due to the absence of specific laws and regulations addressing it. This study aims to provide recommendations for optimizing tax revenue and reforming the tax system by introducing new legislation as the tax sector is a major contributor to state revenue in the national budget.

Literature Review

Agency Theory

Jensen and Meckling (1976) defined agency theory as an agency connection between the management (an agent) and the principal (the owner of capital). Because the principal and the agent have different interests, this relationship often leads to conflict. While agents may act in their self-interest, principals seek to safeguard their welfare as best as possible. According to Jensen and Meckling (1976), agency costs consist of monitoring costs, costs to demonstrate compliance and losses borne by capital owners due to inappropriate manager actions. Asymmetric information between the parties involved can exacerbate this problem, resulting in dysfunctional behaviour by managers who take advantage of these conditions for personal gains, such as tax avoidance. Tax avoidance can risk damaging the company’s reputation and causing legal problems and tax sanctions (Wijaya & Rahayu, 2021). Managers often engage in sophisticated transactions for tax avoidance purposes to evade detection by tax authorities and sometimes also to conceal their actions from investors (Duhoon & Singh, 2023).

Tax Avoidance

Tax avoidance is defined by the Organization for Economic Co-operation and Development (OECD) as a strategy used by taxpayers to lower their tax obligations without breaking the law, but in a way that contravenes the objectives of the tax law. Mukhtaruddin et al. (2024) stated tax avoidance involves efforts to reduce or even eliminate corporate tax liabilities while still complying with the law. To minimize existing tax liabilities, tax avoidance exploits loopholes in tax regulations. If such practices are adopted within a company, they could compromise the integrity of the internal control system, leading to financial statements that may not accurately reflect the company’s true financial condition (Marwat et al., 2023). Hidayat & Mulda (2019) notes that tax avoidance practices can include various tactics such as reporting losses in financial statements, conducting transactions between group companies at inflated prices, and shifting profits to countries with low tax rates. Numerous factors contribute to tax avoidance, such as inadequate resources for tax administration, complex tax laws with loopholes, and weak law enforcement. Moreover, lacking taxpayer compliance is frequently linked to a lack of confidence in the government’s capacity to manage tax revenues efficiently and transparently (Karlinah et al., 2024).

Profitability

Profitability is crucial for the sustainability of any business as it enhances the company’s financial health, allowing it to reinvest, foster innovation, and add value for shareholders (Shubita, 2024). It reflects a company’s capability to generate profits and is a key indicator of its financial well-being. One way to assess profitability is through the Return on Assets (ROA) ratio, which measures how effectively a company earns profit by comparing net profit after taxes to the total assets owned. According to Hossain et al. (2024), the basic principle of taxation is that a company’s tax liability increases with higher profits.

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Leverage
Leverage refers to how much debt a company uses to finance its assets. According to Hamilah & Situmorang (2021), leverage is a financial ratio that measures a business's ability to meet its debt obligations. The higher the company's debt, the greater the interest expenses it must pay, which can decrease the company's pre-tax profits. Consequently, higher leverage can increase the company's tax burden (Widyastuti et al., 2022). Conversely, by using high leverage, companies can reduce their taxable income since interest expenses are deductible, thus potentially lowering their tax burden.

Capital Intensity
Capital intensity refers to the level of investment activity where companies utilize fixed assets and inventory to increase profitability (Nauli Sipayung et al., 2023). Capital intensity measures the amount of capital invested by a business in depreciable fixed assets (Dwiyanti & Jati, 2019). Because the tax expenditure borne by a company can be reduced through the depreciation expense of its fixed assets, companies with substantial fixed assets tend to have lower tax liabilities (Abdullah et al., 2021). High capital intensity indicates that the company's depreciation expenses are high, which can reduce taxable income and, consequently, lower tax liabilities.

Company Size
Companies are generally categorized into large, medium, and small based on their size (Fauzan et al., 2019). The complexity of transactions increases with the size of the company, which can affect tax avoidance strategies (Siregar, 2016). Larger businesses often generate more consistent revenue compared to smaller businesses and typically have more resources to manage their taxes (Mukhtaruddin et al., 2024). Company size can be assessed by the number of assets available; a larger amount of assets suggests a larger company with more complex transactions (Merslythalia & Lasmana, 2016).

Hypotheses Development

The Relationship Between Profitability on Tax Avoidance
Profitability is a metric that assesses a company's effectiveness in generating profits. The Return on Assets (ROA) value indicates the company's effectiveness in using its assets to generate profits (Mayndarto, 2022). A higher ROA value typically signifies that the company is more successful in generating profits, which leads to an increase in taxable income as the company grows (Hamilah & Situmorang, 2021). Companies that achieve high profits are generally better equipped to meet their tax obligations. This implies that companies with higher profits may engage less in tax avoidance measures because corporate income tax is based on taxable income (Safitri & Muid, 2020). According to agency theory, agents are pressured to enhance company profits. As profits rise, so do income taxes, which makes tax avoidance less feasible. Mayndarto (2022) revealed a significant negative link concerning profitability and tax avoidance. This is consistent with the prior study's findings (Hendi & Angelina, 2021; Purnomo & Widyawati, 2022; Rifai & Atiningsih, 2019; Safitri & Muid, 2020; Shubita, 2024). Thus, the following hypothesis is proposed:
H1: The profitability of a company has a negative effect on tax avoidance

The Relationship Between Leverage on Tax Avoidance
Rifai & Atiningsih (2019) defined leverage as the percentage ratio of total debt to total company equity, commonly known as the Debt-to-Equity Ratio (DER). A DER signifies that

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a company's debt surpasses its equity, potentially leading to significant external costs. Corporate debt can be advantageous for tax purposes because interest expenses reduce taxable income, thus increasing the company's tax burden. Agency theory suggests that agents are motivated to increase debt levels, as higher interest expenses can reduce the total tax liability. Research by Hendi & Angelina (2021) found a significant positive relationship between leverage and tax avoidance. This finding is consistent with the previous results that found a positive relationship between leverage on tax avoidance (Fajarwati & Ramadhanti, 2021; Henny, 2019; Viola & Baihaqi, 2023).

H2: The Leverage of a company has a positive effect on tax avoidance

The Relationship between Capital Intensity on Tax Avoidance

Capital intensity measures the scale of a company in investing in fixed assets. The depreciation of these assets is documented as a depreciation expense in the financial statements, which decreases taxable income (Dwiyanti & Jati, 2019). This depreciation impacts profits, leading to a decrease in the company's tax burden (Nauli Sipayung et al., 2023). In taxation, the fixed asset depreciation period is often shorter than the useful life predicted by the company (Rifai & Atiningsih, 2019). As depreciation expenses increase, the amount of tax paid decreases. This happens because companies often use large amounts of fixed assets to avoid taxes, which results in a low Corporate Effective Tax Rate (CETR). According to agency theory, the agent will be under pressure to enhance the intensity of the business's fixed assets in proportion to the high depreciation expenditure, which will have an impact on the reduced tax burden and lower tax payments. It was suggested that capital intensity would positively affect tax avoidance (Dwiyanti & Jati, 2019; Hendi & Angelina, 2021; Viola & Baihaqi, 2023).

H3: The capital intensity of a company has a positive effect on tax avoidance

The Relationship Between Company Size on Tax Avoidance

A company's size is often determined by the total value of its assets. Companies with more extensive asset bases are more inclined to pursue tax avoidance, as they possess greater resources for effective wealth management and strategic tax planning. Conversely, smaller companies with fewer assets typically engage in minimal tax avoidance (Mayndarto, 2022). Possessing a significant asset base is seen as more stable in generating profits; however, the reliance on operational expenses increases, leading to reduced profits as it lowers the company's tax burden. Due to the complexity of transactions, this allows businesses to take tax avoidance actions from each transaction by taking opportunities for existing loopholes (Mukhtaruddin et al., 2024). Prior studies were unanimous that there is a significant and positive relationship between company size and tax avoidance (Mayndarto, 2022; Viola & Baihaqi, 2023).

H4: The size of a company has a positive effect on tax avoidance

Methodology

This study employed a quantitative approach to address research inquiries using numerical data and statistical models. This study utilized secondary data drawn from the annual financial reports of consumer goods companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022. Data collection was conducted through the documentation method and review of relevant literature. Following nonprobability sampling methods, the sample was selected

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through a purposive sampling technique. The criteria for sample selection are detailed in Table 3.

Table 3: Sample Selection Criteria

Criteria	Total
Companies from the consumer goods sector listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 period	124
Experiencing losses	(13)
Do not have complete data	(3)
Companies that meet the criteria	**80**
Number of observations for 3 years (80 x 3)	**240**

Source : Data Processed by Author, 2023

Variables Measurement

In this study, to measure both the dependent and independent variables, researchers adopted several commonly used measurements from previous studies (Mayndarto, 2022; Rahmawati et al., 2021; Safitri & Muid, 2020; Sari, 2021). Tax Avoidance, as a dependent variable, was measured using CETR by dividing total tax payments by profit before tax, Profitability was measured through the Return on Assets (ROA) ratio, which was obtained by dividing profit after tax by total assets and multiplying the result by 100%. Leverage was assessed by calculating the Debt-to-Equity ratio (DER), which represents the proportion of total liabilities to total Equity. Capital intensity was determined by dividing total fixed assets by total assets and multiplying by 100%. Company size was measured using the natural logarithm of total assets (Ln (total assets)).

Regression Analysis

When examining the effect of individual factors on the outcome in this research, we utilized multiple linear regression models. The regression formula is presented below

$$CETR = \alpha - \beta 1\ ROA + \beta 2\ DAR + \beta 3\ CAPINT + \beta 4\ SIZE + \varepsilon \text{........ (1)}$$

Explanation:

CETR	: Tax Avoidance
ROA	: Profitability
DER	: Leverage
CAPINT	: Capital Intensity
SIZE	: Company Size
α	: Constant
β1,2,3,4	: Regression coefficient
ε	: error

Results

Descriptive Statistical Analysis

For descriptive statistical analysis, we found the maximum, minimum, and mean values for each dataset. The data processing results are displayed in Table 5.

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Table 5: Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
CETR	80	.01	15.93	.4269	1.63175
ROA	80	.00	.35	.1067	.07451
DER	80	.11	3.82	.7513	.74404
CAPINT	80	.06	.76	.3316	.16707
SIZE	80	12.34	19.01	15.2062	1.64128
Valid N (listwise)	80				

Source: SPSS Output, (2024)

In this study, a valid data sample of 80 companies was analysed. The CETR values varied from a low of 0.01 to a high of 15.93, with a mean of 0.4269 and a standard deviation of 1.63175. The ROA values ranged from 0.001 to 0.35, with an average of 0.1067 and a standard deviation of 0.07451. The DER values spanned from 0.11 to 3.82, with an average of 0.7513 and a standard deviation of 0.74404. For CAPINT, values ranged from 0.06 to 0.076, with an average of 0.03316 and a standard deviation of 0.16707. Finally, the SIZE values ranged between 12.34 and 19.01, with an average of 15.2062 and a standard deviation of 1.64128.

Classical Assumption Test Results

Before utilizing the outcomes of the multiple linear regression analysis, it was essential to assess the classical assumptions of the findings. Table 6 depicts a summary of the test results that were conducted.

Table 6: Summary of Classical Assumption Test Results

Test	Measurement	Results		Conclusion
Normality	Kolmogorov-Smirnov	Asymptotic. sig	0.200	Normally distributed data
Multicollinearity	VIF	ROA DER CAPINT SIZE	0.959 0.888 0.903 0.927	No multicollinearity
Autocorrelation	Durbin Watson	Durbin Watson	1.969	No Autocorrelation
Heteroscedasticity	Glejser	ROA DER CAPINT SIZE	0.156 0.906 0.288 0.315	Heteroscedasticity does not exist

Source: SPSS Output, (2024)

Based on the results presented in Table 6, it can be concluded that the data and regression model were appropriate for analysis. The normality test confirmed that the data followed a normal distribution, as evidenced by the asymptotic significance value of 0.200, which exceeds the threshold of 0.05. Moreover, the multicollinearity test results revealed that all independent variables had Variance Inflation Factors (VIF) ≤ 10, suggesting that there was no significant correlation among the independent variables and that the regression model was free from

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multicollinearity issues. The Durbin-Watson value obtained from the autocorrelation test was 1.969. Given that the values of d_u = 1.7531 and 4-d_u or 4-1.7531 = 2.2469, we had $d_u < d_w <$ 4-d_u (1.7531 < 1.969 < 2.2469), indicating the absence of autocorrelation in the regression model. Finally, the heteroscedasticity test results showed that all variable significance values were greater than 0.05, suggesting that heteroscedasticity was not present in the regression model.

Determination Coefficient (R^2) Result
The coefficient of determination (R^2) was used to evaluate the proportion of the independent variable in explaining the variance in the dependent variable (Ghozali, 2018). The results are illustrated in Table 7.

Table 7: R^2 Test

Model	R	R Square	Adjusted R Square
1	.387[a]	.15	.152

Source: SPSS Output, (2024)

It appears in Table 7 that the adjusted R^2 square is only 0.152, This indicates that the independent variables in the form of profitability, leverage, capital intensity and company size can only describe tax avoidance actions as much as 15.2%. The outstanding 85.8% is explained by other variables.

Multiple Linear Regression Result
To ascertain whether the independent variable had a positive or negative impact on the dependent variable, the data findings were as Table 8.

Table 8: Result of Multiple Linear Regression

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
(Constant)	.272	.101		2.689	.009
ROA	-.550	.236	-.324	-2.329	.023
DER	-.055	.033	-.233	1.651	.104
CAPINT	-.046	.065	-.086	.703	.485
SIZE	.003	.006	.069	.549	.585

a. Dependent Variable: CETR
Source: SPSS Output, (2024)

The regression equation model for this investigation was created using the information in Table 8 as detailed below:

CETR = 0.272 - 0.550 ROA - 0.055 DER - 0.046 CAPINT + 0.003 SIZE + ε .... (2)

Discussion

Profitability is Negatively Related to Tax Avoidance
The first hypothesis (H1) found that profitability had a negative influence on tax avoidance. The results in Table 8 indicated that H1 was supported, with a significance value of 0.023 (<0.05), and a regression coefficient of -0.550. Thus, it could be concluded that profitability

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negatively impacted tax avoidance. This finding is in line with the majority of previous studies that support the negative relationship (Hendi & Angelina, 2021; Mayndarto, 2022; Purnomo & Widyawati, 2022; Rifai & Atiningsih, 2019; Safitri & Muid, 2020; Shubita, 2024). The high ROA value owned by the company reflects the higher proficiency of its asset utilization to obtain profits. When profits increase, it will be directly proportional to the taxes paid. This indicates the company's ability to pay its tax burden and shows a decrease in tax avoidance. According to Shubita (2024), companies with high levels of profit may have less incentive to engage in tax avoidance strategies, due to the high reputational and visibility risks that may occur. This finding supports agency theory, where agents will be pressured to increase company profits. As profits rise, the income tax liability also increases. If a company is not prepared for the higher tax burden, it may be less inclined to engage in tax avoidance strategies.

Leverage Has No Significant Effect on Tax Avoidance

hypothesis (H2) asserted that leverage has a positive effect on tax avoidance. However, the hypothesis was rejected since the result findings indicated a significant value of 0.104 (>0.05) indicating that leverage had no impact on tax avoidance. The findings are in line with prior studies (Dewi & Oktaviani, 2021; Purnomo & Widyawati, 2022; Rahmawati et al., 2021; Rifai & Atiningsih, 2019; Safitri & Muid, 2020). Companies with high debt often borrow from related parties rather than external creditors, meaning there are no deductible expenses to lower taxable income. Additionally, these companies must manage the risks associated with high debt, such as interest payments and investor concerns about financial health. As a result, these companies are less likely to use debt for tax avoidance. This finding contradicts agency theory, which suggests that higher debt and interest expenses should be used to reduce tax liabilities

Capital Intensity Has No Significant Impact on Tax Avoidance

The third hypothesis (H3) stated that capital intensity positively affects tax avoidance. However, the hypothesis was rejected based on the result findings, which provided an insignificant value of 0.485 (>0.05) indicating that capital intensity had no impact on tax avoidance. The findings are in line with previous scholars with insignificant results (Dewi & Oktaviani, 2021; Fajarwati & Ramadhanti, 2021; Henny, 2019; Rahmawati et al., 2021; Safitri & Muid, 2020). The finding is not in accordance with agency theory which pressures agents to increase the intensity of the company's fixed assets in line with the high depreciation expense and will affect the lower tax burden in order to reduce tax payments. The results of the study actually explain the amount of ownership of fixed assets does not reflect any hidden intention or purpose to commit tax avoidance, but purely to support operational activities or as the company's own investment.

Company Size Has No Significant Impact on Tax Avoidance

The fourth hypothesis (H4) proposed that company size positively influences tax avoidance. However, this hypothesis was rejected because the significant value of 0.585 (>0.05) indicates that company size does not impact tax avoidance. The findings are in line with preceding research (Fajarwati & Ramadhanti, 2021; Hendi & Angelina, 2021; Henny, 2019; Safitri & Muid, 2020). In explanation, large companies prefer to maintain their reputation, while small companies have limitations both from assets and spending additional costs such as for tax consultants. It is more effective and efficient if the company pays its taxes rather than doing tax avoidance. The tax authorities also always supervise all companies, regardless of the size of the company. This result is not in line with agency theory which will pressure agents to carry out tax avoidance actions, because large companies have complex structures and require more supervision and coordination which can increase agency costs.

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Conclusions

Based on the analysis and discussion, the following conclusions can be drawn: (1) Profitability has a negative relationship with tax avoidance; (2) Leverage does not significantly impact tax avoidance, consistent with earlier findings; (3) Similarly, capital intensity does not influence tax avoidance; (4) Company size also shows no significant effect on tax avoidance. These findings highlight that while profitability plays a role in tax avoidance behaviour, leverage, capital intensity, and company size do not significantly influence it according to the studies examined. Therefore, the government should not worry much as a company's profitability increases, and its likelihood of engaging in tax avoidance decreases. This suggests that more profitable companies may prioritize compliance with tax obligations over employing tax avoidance strategies. On the other hand, other variables namely leverage, capital intensity and company size are found to be insignificant to tax avoidance. In justification, companies may prioritize financial stability, loan repayment, and managing interest expenses over using debt for tax avoidance. Firms with high capital intensity might not benefit from tax avoidance strategies through asset-related deductions due to inflexible depreciation rules. Additionally, larger firms tend to protect their reputation and avoid the legal and financial risks associated with aggressive tax avoidance, while smaller companies may lack the resources or expertise to engage in complex tax avoidance schemes. As this study only contributes to 8 per cent of R^2 adjusted, future studies can concentrate on additional variables such as governance, ownership structure, tax rates, political connections, audit quality, managerial ownership, transparency and different industry sectors to expand the body of knowledge on tax avoidance.

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