



The Impact Of Disclosure Of Leverage, Capital Intensity, Liquidity And Company Size On Tax Avoidance

Vela Tri Juliani ¹, Fachruzzaman ²

¹ Fakultas Ekonomi dan Bisnis, Universitas Bengkulu, Bengkulu, Indonesia

Email: 1) vela3juliani@gmail.com

How to Cite :

Juliani, T.V., Fachruzzaman, F. (2024). The Impact of Disclosure of Leverage, Capital Intensity, Liquidity and Company Size on Tax Avoidance. EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi Dan Bisnis, 12(1). doi: <https://doi.org/10.37676/ekombis.v12i1>

ARTICLE HISTORY

Received [07 November 2023]

Revised [25 December 2023]

Accepted [30 December 2023]

KEYWORDS

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

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ABSTRACT

This study aims to provide empirical evidence on the influence of disclosing leverage, capital intensity, liquidity, and company size on tax avoidance. The dependent variable is tax avoidance, measured using the effective tax rate (ETR) as a proxy, while the independent variables are leverage, capital intensity, liquidity, and company size. The study used a sample of 63 mining companies listed on the Indonesia Stock Exchange from 2018 to 2022. The results of the research indicate that leverage, capital intensity, liquidity, and company size do not have an impact on tax avoidance.

INTRODUCTION

Tax is a mandatory contribution to the state owed by individuals or entities as taxpayers without receiving direct reciprocation, and its collection is based on the law (Setiorini et al., 2017). Tax avoidance means structuring transactions to gain tax benefits. Tax avoidance can be accomplished in various ways. Firstly, it can be done by transferring the taxpayer and/or the taxable item to a country that offers preferential tax treatment (tax haven country) for a specific type of income (substantive tax planning). Secondly, tax avoidance is carried out to maintain the economic substance of transactions through formal means that incur the lowest tax burden (formal tax planning). Thirdly, there are provisions regarding anti-avoidance transactions, such as transfer pricing, small capitalization, treaty shopping, controlled foreign corporations (Specific Anti-Hindrance Rule), and transactions lacking business substance (General Anti-Hindrance Rule) (Finnerty et al., 2007). Chen et al (2016) argue that companies engaged in tax avoidance are seen as not contributing to the government for public facility financing. Companies engaging in tax avoidance can result in reduced tax revenue for the government, damage the company's reputation, and cause losses for society. Many companies view taxes as a burden that diminishes their profits, so they attempt to reduce their tax burden through legal loopholes. Therefore, the role of tax avoidance in the corporate context becomes crucial.

Disclosure of the leverage, capital intensity, liquidity, and company size are known variables that influence a company's tax policy. However, their impact on tax avoidance is not fully understood in detail. Therefore, this research aims to fill this knowledge gap by examining in detail how these variables affect a company's tax policy.

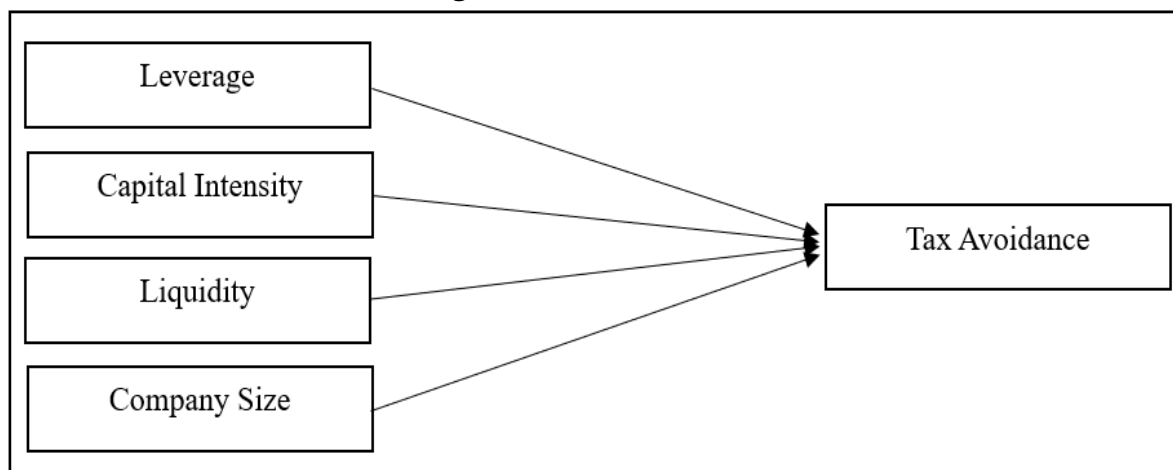
Consistent with the explanations provided, this study seeks to analyze the influence of leverage, capital intensity, liquidity, and company size on tax avoidance. The research will focus on mining companies listed on the Indonesia Stock Exchange (BEI) for the period 2018-2022 as the subjects of the study.

This research is expected to make a significant contribution to the academic literature in the fields of taxation and finance. The results of this study can serve as valuable input and provide insights for companies regarding tax aggressiveness.

LITERATURE REVIEW

Setiorini et al (2017) states that Agency Theory is a theory that explains the contractual relationship between parties delegating certain decisions and those receiving the delegation (agents/directors/management). Agency theory relies on three human characteristics, namely (1) individuals prioritize their self-interest, (2) humans have limited cognitive perception of the future (bounded rationality), and (3) individuals always seek to avoid risk (risk-averse). Therefore, it can be concluded that managers, as agents running the company, will act in their self-interest. However, when it comes to tax payments in accordance with the prevailing laws and to meet the interests of shareholders, managers will take various actions, including earnings management. Managers consider this as not violating regulations, and thus, they will continue to be entrusted by shareholders to manage the company (Sherly et al., 2016).

Figure 1 Research Framework



The Impact of Leverage on Tax Avoidance

Putri (2017) stated that leverage is a financial ratio that describes the company's obligation fulfillment in relation to its total assets. Companies decide to use debt to increase their assets, provided that the returns obtained exceed the costs incurred (Legowo et al., 2021). According to agency theory, which deals with the relationship between agents and principals, the relationship between the owners/shareholders (principals) and managers (agents) concerns how the company's managers use debt in financing operational activities. If the company uses debt in its financing composition, interest expenses will arise and must be paid, thereby reducing taxable income.

Companies with debt will incur interest expenses, and these expenses will reduce the company's profit before tax, thereby decreasing the tax amount due to the addition of cost components (Artinasari & Mildawati, 2018a). This aligns with the research of Hazır (2019), which states that a larger amount of debt will result in a lower effective tax rate. Therefore, debt becomes one of the factors that motivate companies to reduce their tax burden.

H1: Leverage has a positive effect on tax avoidance

This Impact of Capital Intensity on Tax Avoidance

Dessy et al (2018) states that capital intensity is one of the financial decisions made by a company's management to improve its profitability.

Companies with high capital intensity will have a low effective tax rate (Legowo et al., 2021). This aligns with agency theory, which explains the differing interests between principals and agents. The agent's interest is to achieve desired compensation by improving financial performance. Therefore, they utilize the depreciation of fixed assets to reduce the company's tax burden. Managers will invest in idle assets with the goal of leveraging their depreciation to lower the tax burden. Consequently, the company's performance is enhanced due to the reduced tax burden. Hence, companies with high levels of fixed assets have lower tax burdens because of the annual depreciation expense.

H2: Capital Intensity has a positive effect on tax avoidance

The Impact of Liquidity on Tax Avoidance

(Artinasari & Mildawati, 2018a) explains that liquidity is a company's ability to pay its short-term liabilities, taking into account the resources it possesses. Liquidity is not only about a company's overall financial situation but also relates to the ability to convert specific current assets into cash (Endaryati et al., 2021).

Companies with low liquidity may not comply with taxation in order to maintain a stable cash flow rather than paying taxes. The lower a company's liquidity, the more likely it is to be less compliant with Indonesian tax regulations, resulting in a low cash-effective tax rate (Tampubolon, 2021). This is supported by the research of (Ann & Manurung, 2019), which states that liquidity has an impact on tax avoidance.

H3: Liquidity has a negative effect on tax avoidance

The Impact of Company Size on Tax Avoidance

According to (Ardyansah & Zulaikha., 2014), the larger the scale of a company, the lower its Effective Tax Rate (ETR). This aligns with agency theory, which suggests that the larger a company's assets, the better it can manage its assets, ultimately leading to increased profitability. It can be inferred that the company's size prompts it to engage in tax aggressiveness because a lower ETR results from lower tax expenses. This is consistent with the research of Masrurroch et al (2021), which indicates that larger companies tend to have lower tax burdens and are capable of effective planning using their available resources.

H4: Company size has a positive effect on tax avoidance

METHODS

This type of research is quantitative in nature, which is consistent with the use of secondary data as the research subject obtained from the financial reports of mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022. The sampling method employed is purposive sampling, which is a part of the non-probability sampling method, where samples are selected based on specific criteria (Danardhito et al., 2023). The criteria applied for the sample selection are as follows:

1. Mining companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022.

2. Mining companies that have publicly disclosed financial reports on the Indonesia Stock Exchange during the years 2018-2022.
3. Mining companies that report their financial data in the Indonesian Rupiah currency.
4. Mining companies that have not incurred losses during the period of 2018-2022.
5. Companies with complete data for the analysis of each variable in the research.

Operational Definition and Variable Measurement

Tax Avoidance

Suranta et al (2020) measures tax avoidance using the effective tax rate (ETR). Calculated by dividing the total income tax expense by the profit before tax. The formula used to calculate the ETR, as stated by (Salihu et al., 2015) is as follows:

$$ETR = \frac{\text{Income Tax Expense}}{\text{Profit Before Income Tax}}$$

Leverage

Leverage is measured using the Debt to Asset Ratio (DAR), calculated by dividing total liabilities by total assets. The formula used to calculate DAR, as referenced from (Lanis & Richardson, 2012), (Salihu et al., 2015), is as follows:

$$DAR = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Capital Intensity

Capital intensity is measured by dividing total fixed assets by total assets. The formula used to calculate capital intensity, as referenced from (Pratiwi & Oktaviani, 2021), is as follows:

$$CIR = \frac{\text{Fixed Assets}}{\text{Total Assets}}$$

Liquidity

Liquidity is measured using the Current Ratio (CR), calculated by dividing current assets by current liabilities. The formula used to calculate liquidity, as referenced from (Lanis & Richardson, 2011), (Purwanto, 2016), is as follows:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Company Size

Maulana et al (2021) states that the larger the total assets, the better the prospects for the company over a relatively long time frame. This suggests that the company is more stable and capable of generating profits compared to companies with smaller total assets. The formula to calculate the company size, as referenced from (Dyrenge et al., 2008), (Delgado et al., 2018), (Dunbar et al., 2004), and (Hazır, 2019) as follows:

$$SIZE = \text{Log}(\text{total assets})$$

RESULTS

Population and Research Sample

The criteria were established with a total of 63 company samples observed across 315 observations. The number of samples in the observation can be seen in Table 1.

Table 1 Sampling Criteria

Sample Criteria	Total Sample	Total Obser.5 Five Years	%
Mining companies listed on the Indonesia Stock Exchange (IDX) during the years 2018-2022.	63	315	100%
Mining companies that have publicly disclosed financial reports during the years 2018-2022.	(1)	(5)	1.59%
Mining companies that use a currency other than the Indonesian Rupiah in their financial reports during 2018-2022.	(36)	(180)	57.14%
Mining companies that incurred losses from 2018 to 2022.	(17)	(85)	26.98%
Companies lacking complete data required for analyzing each research variable.	-	-	0%
The total number of Companies that meet the research criteria	9	45	14.29%

Processed Secondary Data, 2023

Descriptive Statistics

According to Ghozali (2016: 19), descriptive statistical tests are aimed at analyzing data by describing or providing a concise and easy-to-read overview of the data, including the mean, minimum, maximum, and standard deviation values. This is followed by an explanation in the form of a narrative that interprets the contents of the table.

Table 2 Descriptive Statistical Test Results

Variable	N	Min	Max	Mean	Std. Dev
LEVERAGE	45	0.1475	0.8448	0.486506	0.1751694
CAPITAL INTENSITY	45	0.0058	0.8938	0.352563	0.2536041
LIQUIDITY	45	0.2315	2.4897	1.426839	0.5262361
COMPANY SIZE	45	26.5249	31.4456	28.742878	1.5353826
TAX AVOIDANCE	45	0.0009	0.7178	0.189698	0.1394405
Valid V (listwise)	45				

Processed Secondary Data, 2023

Based on the results of the descriptive statistical data analysis above, tax avoidance yielded a minimum value of 0.0009 and a maximum value of 0.7178, with a mean of 0.189698 and a standard deviation of 0.1394405. The leverage variable had a minimum value of 0.1475 and a maximum value of 0.8448, with a mean of 0.486506 and a standard deviation of 0.1751694. The capital intensity variable had a minimum value of 0.0058 and a maximum value of 0.8938, with a mean of 0.352563 and a standard deviation of 0.2536041. The liquidity variable had a minimum value of 0.2315 and a maximum value of 2.4897, with a mean of 1.426839 and a standard deviation of 0.5262361. The company size variable had a minimum value of 26.5249 and a maximum value of 31.4456, with a mean of 28.742878 and a standard deviation of 1.5353826.

Normality Test

Ghozali (2016) states that the normality test is used to assess whether independent and dependent variables, or both, follow a normal distribution in a regression model. If the variables do not follow a normal distribution, the results of the statistical test will be

affected. In testing for the normality of data, the one-sample Kolmogorov-Smirnov test can be employed, with the following considerations:

- If the significant value is $>$ the significance level (α) of 0.05 then the data distribution is considered normal.
- If the significant value is $<$ the significance level (α) of 0.05, then the data distribution is considered non-normal.

Table 3 Normality Test Results

	<i>Unstandardize d Residual</i>	<i>Std.</i>	<i>Explanation</i>
Asymp Sig. (2-tailed)	0.200	>0.05	<i>Data Normally Distributed</i>

Processed Secondary Data, 2023

Based on the normality test above, the asymptotic Sig. value is 0.200, which is greater than 0.05. This indicates that the regression equation for the model in this research has normally distributed data, and, therefore, this research model is considered to satisfy the assumption of normality.

Multicollinearity Test

The multicollinearity test aims to examine the correlation between independent variables in a regression model. If there is no correlation, then the regression model can be considered good. To detect the presence or absence of multicollinearity in this regression model, you can look at the tolerance value > 0.10 and the variance inflation factor (VIF) value < 10 , which means there is no multicollinearity among the independent variables in the regression model (Ghozali, 2011: 107-108).

Table 4 Multicollinearity Test Results

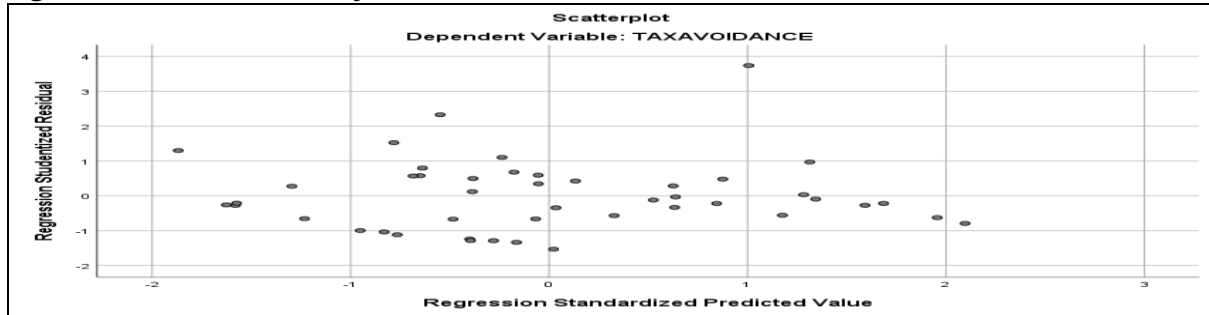
<i>Variable</i>	<i>Tolerance</i>	<i>Std.</i>	<i>VIF</i>	<i>Std.</i>	<i>Explanation</i>
Leverage	0.353	>0.10	2.833	<10	<i>No Multicollinearity</i>
Capital Intensity	0.503	>0.10	1.988	<10	<i>No Multicollinearity</i>
Liquidity	0.348	>0.10	2.870	<10	<i>No Multicollinearity</i>
Company Size	0.568	>0.10	1.760	<10	<i>No Multicollinearity</i>

Processed Secondary Data, 2023

Based on the results of the multicollinearity test in Table 4, it is shown that the independent variables in this study, namely leverage, capital intensity, liquidity, and company size, have tolerance values > 0.10 or VIF values < 10 . Therefore, it can be concluded that the independent variables in this study are free from multicollinearity or there is no correlation among the independent variables.

Heteroscedasticity Test

According to Ghozali (2011: 139), heteroskedasticity does not occur if there is no clear pattern (no waves, widening and narrowing) in the scatterplot, and the points are scattered both above and below the 0 line on the y-axis.

Figure 2 Heteroscedasticity Test Results

From Figure 2, the scatterplot output shows that the points do not form a clear pattern, and they are scattered both above and below the 0 line on the y-axis. So, it can be concluded that there is no heteroskedasticity issue in the regression model.

Autocorrelation Test

One way to determine autocorrelation is by using the Durbin-Watson (DW) test, with the following criteria: if $DW < -2$, positive autocorrelation occurs; if $-2 < DW < +2$, there is no autocorrelation; if $DW > +2$, negative autocorrelation occurs (Sunyoto, 2011).

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.412 ^a	.170	.087	.1332484	1.407

Processed Secondary Data, 2023

Based on the results in Table 5 above, it is shown that the autocorrelation test yielded a DW test value of 1.407, which means the DW value falls between -2 and +2. Therefore, it can be concluded that the data does not exhibit autocorrelation issues.

Multiple Linear Regression Analysis

Multiple linear regression analysis aims to determine the influence of two or more independent variables (X) on a dependent variable (Y).

According to V. Wiratna Sujarweni (2014; 181), a multiple linear regression model can be considered good (having accuracy in estimation, being unbiased, and consistent) if the model meets the assumptions of normality and is free from classical assumptions such as multicollinearity, heteroskedasticity, and autocorrelation (in time series data)

Table 6 Multiple Linear Regression Analysis Results

Model	B	Std. Error
(Constant)	-.942	.533
LEVERAGE	.157	.193
CAPITAL INTENSITY	-.035	.112
LIQUIDITY	.047	.065
COMPANY SIZE	.035	.017

Processed Secondary Data, 2023

Based on Table 6 above, the results of the multiple linear regression tests yielded the following linear regression equation:

$$Y = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$$

$$CETR = -0,942 + 0,157DAR - 0,035CIR + 0,047CR + 0,035SIZE + e$$

From the regression equation, it can be interpreted as follows:

The value of the constant, -0.942, indicates that the variables leverage, capital intensity, liquidity, and company size are assumed to be constant or equal to 0. Therefore, the magnitude of the tax avoidance variable decreases by 0.942. The variable "leverage" has a positive regression coefficient of 0.157, which means that if leverage increases by 1 percent, tax avoidance will increase by 0.157 (15.7%) while keeping the other independent variables constant. The variable "capital intensity" has a negative regression coefficient of -0.035, which implies that a 1 percent increase in capital intensity will lead to a decrease in tax avoidance by 0.035 (3.5%) while keeping the other independent variables constant. The variable "liquidity" has a positive regression coefficient of 0.047, which means that a 1 percent increase in liquidity will result in an increase in tax avoidance by 0.047 (4.7%) while keeping the other independent variables constant. The variable "company size" has a positive regression coefficient of 0.035, which implies that a 1 percent increase in company size will lead to an increase in tax avoidance by 0.035 (3.5%) while keeping the other independent variables constant.

Partial t-test

According to Ghozali (2011: 101), if the Sig. value is < 0.05 , it means that the independent variable (X) has a partial effect on the dependent variable. Additionally, if the value is $T_{\text{value}} > T_{\text{table}}$, it means that the independent variable (X) has a partial effect on the dependent variable (Y) (V. Wiratna Surjaweni, 2014; 155).

Table 7 Partial t-test Results

<i>Variable</i>	<i>hypothesis direction</i>	<i>B</i>	<i>t</i>	<i>Sig</i>	<i>Explanation</i>
LEVERAGE	<i>Positive</i>	.157	.814	.420	<i>No Significant</i>
CAPITAL INTENSITY	<i>Negative</i>	-.035	-.311	.757	<i>No Significant</i>
LIQUIDITY	<i>Positive</i>	.047	.722	.474	<i>No Significant</i>
COMPANY SIZE	<i>Positive</i>	.035	2.007	.052	<i>No Significant</i>

Processed Secondary Data, 2023

Hypothesis One (H₁)

Based on the t-test results, the variable "leverage" has a positive coefficient of 0.157 with a significance level of 0.420, which is greater than 0.05. This can be supported by the T_{value} being smaller than the T_{table} ($T_{\text{value}} < T_{\text{table}} = 0.814 < 2.021$). This means that H_0 is accepted, and H_a is rejected. Based on this test, it can be concluded that Hypothesis One (H₁), which states "leverage has a positive effect on tax avoidance," is rejected. In other words, leverage does not have an impact on tax avoidance.

Hypothesis Two (H₂)

Based on the t-test results, the variable "capital intensity" has a negative coefficient of -0.035 with a significance level of 0.757, which is greater than 0.05. This is supported by the T_{value} being smaller than the T_{table} ($T_{\text{value}} < T_{\text{table}} = -0.311 < 2.021$). Therefore, H_0 is accepted, and H_a is rejected. Thus, Hypothesis Two (H₂), which suggests "capital intensity has a positive effect on tax avoidance," is rejected. In other words, capital intensity does not influence tax avoidance.

Hypothesis Three (H₃)

Based on the t-test results, the variable "liquidity" has a positive coefficient of 0.047 with a significance level of 0.474, which is greater than 0.05. This is supported by the T_{value} being smaller

than the T_{table} ($T_{value} < T_{table} = 0.722 < 2.021$). This means that H_0 is accepted, and H_a is rejected. Consequently, Hypothesis Three (H_3), which states "liquidity has a negative effect on tax avoidance," is rejected. In other words, liquidity does not impact tax avoidance.

Hypothesis Four (H_4)

Based on the t-test results, the variable "company size" has a positive coefficient of 0.047 with a significance level of 0.052, which is greater than 0.05. This is supported by the T_{value} being smaller than the T_{table} ($T_{value} < T_{table} = 2.007 < 2.021$). Therefore, H_0 is accepted, and H_a is rejected. Thus, Hypothesis Four (H_4), which suggests "company size has a positive effect on tax avoidance," is rejected. In other words, company size does not have an impact on tax avoidance.

Simultaneous F-test

It is used to measure the accuracy of the sample regression function in estimating an actual value (goodness of fit). In the test, a significance level of 5% is used, and the decision is made by comparing F_{value} with F_{table} .

The basis for the decision is that if the p-value (sig) is less than 0.05, it means that the independent variable (X) has a simultaneous effect on the dependent variable (Y) (Ghozali 2011: 101). If the F-value is greater than the F-table, it means that the independent variable (X) has a simultaneous effect on the dependent variable (Y) (V. Wiratna Sujarweni, 2014: 154).

Table 8 Simultasn F-test Results

<i>Model</i>	<i>F</i>	<i>Sig.</i>	<i>explanation</i>
1 <i>Regression</i>	<i>2.046</i>	<i>0.106</i>	<i>No Significant</i>

Processed Secondary Data, 2023

Based on the above Table 8, the p-value (Sig.) is 0.106, and the significance level is 0.05, which means $0.106 > 0.05$. Additionally, the F_{value} is less than the F_{table} , specifically, $2.046 < 2.60$. Based on this test, it can be concluded that all independent variables, when considered simultaneously, do not have an influence on the dependent variable.

Multiple Coefficient of Determination Test (R^2)

The coefficient of determination explains how much of the variation in the dependent variable can be explained by the independent variables. The coefficient of determination has a value between 0 and 1. If the value approaches one, it means that the independent variables provide nearly all the information needed to predict the variation in the dependent variable (Ghozali, 2016: 95).

Table 9 Multiple Coefficient of Determination Test Results (R^2)

<i>Model</i>	<i>R</i>	<i>R Square</i>
1	<i>.412^a</i>	<i>.170</i>

Processed Secondary Data, 2023

Based on the results of the coefficient of determination test in Table 9, it can be observed that the correlation coefficient value is 0.412, and the coefficient of determination (R^2) obtained is 0.170. This means that the influence of leverage, capital intensity, liquidity, and company size on tax avoidance is 17%, while the remaining 83% is influenced by other variables not involved in this study.

DISCUSSION

The Impact of Leverage on Tax Avoidance

The results of statistical testing show that leverage proxied by DAR has no effect on tax avoidance proxied by ETR. This can be seen in the table which shows that the significance level is 0.420 or greater than 0.05 with a coefficient value of 0.157, it can be concluded that the hypothesis one is rejected.

The results of this study are in line with research Danardhito et al (2023), where the test results show regression did not succeed in finding a significant relationship between leverage and corporate tax avoidance. but the results of this study contradict the results of research Hazir (2019), which states that leverage affects tax avoidance.

The Impact of Capital Intensity on Tax Avoidance

The results of statistical testing show that capital intensity proxied by CIR has no effect on tax avoidance proxied by ETR. This can be seen in the table which shows that the significance level is 0.757 or greater than 0.05 with a coefficient value of -0.035, it can be concluded that the hypothesis two is rejected.

The results of this study are in line with research Maulana et al (2021), where the test results show regression did not succeed in finding a significant relationship between capital intensity and corporate tax avoidance. but the results of this study contradict the results of research Artinasari & Mildawati (2018), which states that capital intensity has a positive effect on tax avoidance.

The Impact of Liquidity on Tax Avoidance

The results of statistical testing show that liquidity proxied by CR has no effect on tax avoidance proxied by ETR. This can be seen in the table which shows that the significance level is 0.474 or greater than 0.05 with a coefficient value of 0.047, it can be concluded that the hypothesis three is rejected.

The results of this study are in line with research Danardhito et al (2023), where the test results show regression did not succeed in finding a significant relationship between liquidity and corporate tax avoidance. but the results of this study contradict the results of research Ann & Manurung (2019), which states that liquidity affects tax avoidance.

The Impact of Company Size on Tax Avoidance

The results of statistical testing show that company size has no effect on tax avoidance proxied by ETR. This can be seen in the table which shows that the significance level is 0.052 or greater than 0.05 with a coefficient value of 0.035, it can be concluded that the hypothesis four is rejected.

The results of this study are in line with research (Surbakti, 2012), where the test results show regression did not succeed in finding a significant relationship between company size and corporate tax avoidance. but the results of this study contradict the results of research Masrurroch et al (2021), which states that company size has a positive effect on tax avoidance.

CONCLUSION

Based on the results of the research conducted, it can be concluded that leverage does not have an impact on tax avoidance, capital intensity does not influence tax avoidance, liquidity does not affect tax avoidance, and company size does not affect tax avoidance.

The limitations of this study include the sample being limited to mining companies, and only a few of them provided complete data, resulting in only 45 observation units being

used. Additionally, the dependent variable, tax avoidance, was measured using the ETR, allowing for a limited perspective on a company's tax avoidance.

Suggestion

Based on the conclusion, the researcher suggests that future researchers consider using other companies listed on the stock exchange as research subjects. They can also include additional variables to obtain more significant results and utilize different measurements of tax avoidance, such as CETR.

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