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Determinants of Tax Avoidance From a Financial Perspective

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ABSTRACT

Tax avoidance refers to efforts by taxpayers to reduce tax liabilities by exploiting loopholes in tax regulations. This practice is legal and does not conflict with existing rules. This study aims to analyze financial determinants of tax avoidance, including liquidity, profitability, thin capital, capital intensity, earning power, sales growth, and company size. The research population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX-IC classification) during 2019–2021. Secondary data were obtained from 159 manufacturing company annual reports available on [www.idx.co.id] (http://www.idx.co.id) and company websites, with purposive sampling used for selection. The study applies a quantitative approach with multiple linear regression analysis. The findings show that tax evasion is negatively impacted by equity-based profitability, suggesting that companies with higher equity returns are less likely to evade taxes. However, firms with larger assets, faster development, and greater scale are more likely to employ tax avoidance tactics, according to the beneficial effects of asset-based profitability, capital intensity, sales growth, and company size. However, thin capitalization has no discernible impact. These results demonstrate that tax evasion is a strategic decision influenced by asset structure, financial situation, and the need for legitimacy, and that it goes beyond simple taxation issues.

INTRODUCTION

Taxes are a fiscal instrument that plays a fundamental role in the sustainability of national development. Law Number 16 of 2009 concerning General Provisions and Procedures for Taxation defines taxes as mandatory contributions paid by individuals and entities to the state, enforced by law, without direct compensation, and utilized to the maximum extent possible for the welfare of the people. Therefore, taxes are not only a primary source of state revenue but also a means of income redistribution to stimulate economic growth and maintain fiscal stability (Pohan, 2018).

According to data from the Central Statistics Agency (BPS), tax revenue realization in Indonesia showed a fluctuating trend from 2016 to 2021. In 2016, tax revenues were recorded at IDR 1,343.53 trillion and increased to IDR 1,546.14 trillion in 2018. However, in 2019, there was a significant decline to IDR 1,285.14 trillion before increasing again to IDR 1,375.83 trillion in 2020. These dynamics indicate structural factors and taxpayer behavior that influence the optimization of state revenue.

In the context of tax compliance, conflicting interests often arise between the government and taxpayers. The government, as the fiscal authority, seeks to increase revenue to finance state activities, while taxpayers tend to minimize their fiscal burden. This conflict of interests can lead to the emergence of tax avoidance strategies. One common form of tax avoidance is tax avoidance, a practice of tax planning aimed at legally reducing the tax burden by exploiting loopholes in tax regulations. According to Xynas (2011), tax avoidance is carried out without violating positive law, but if carried out excessively, it has the potential to degenerate into illegal tax evasion.

The phenomenon of tax avoidance is increasingly relevant to research because it has direct implications for state revenue and corporate governance. On the one hand, this strategy can improve the efficiency of a company's financial management; on the other hand, aggressive practices will weaken the tax base and reduce fiscal fairness.

Various factors are believed to influence a company's tendency to engage in tax avoidance, one of which is related to financial performance. This research focuses on six financial performance indicators: profitability, thin capitalization, capital intensity, earning power, sales growth, and company size. The analysis of these factors is expected to provide empirical contributions to the development of taxation literature as well as input for fiscal policy to increase the effectiveness of state revenue.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

The literature review serves as a conceptual foundation used to support the problem formulation, research objectives, and hypothesis development. This section not only contains theory but also integrates empirical evidence from previous studies relevant to the research focus on tax avoidance practices.

According to the traditional definition of stakeholder theory proposed by Freeman and Reed (1982), stakeholders are groups of people or individuals recognized as having the ability to influence or be influenced by business operations. According to stakeholder theory, organizational management should engage in activities deemed important by stakeholders and provide stakeholders with updated information regarding these actions (Ghozali, 2018). Business decisions are socially responsible to their stakeholders (Yusuf, 2017: 38).

Agency Theory

The relationship between one or more principals and agents is explained by agency theory. Agents are empowered to make decisions by their principals (Jensen and Meckling, 1976). Agents are company employees, such as managers, while the principals are the owners of the company.

The application of agency theory can lead to tax avoidance. According to this theory, tax avoidance is influenced by conflicting interests between agents and principals that arise when each party seeks to achieve a higher level of welfare.

Tax Avoidance

According to Pohan (2013), tax avoidance is an attempt to reduce the current tax burden. It is an effort and action directed at tax authorities to

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avoid paying taxes. Tax avoidance is carried out by reducing the amount of tax payable and exploiting loopholes in tax laws and procedures.

By minimizing tax payments through applicable tax laws without violating them, taxpayers can avoid tax problems with tax authorities. This practice is known as tax avoidance. Although tax avoidance is defined by the Organisation for Economic Co-operation and Development (OECD) as a way for taxpayers to reduce their tax liabilities without violating the law, in practice, this remains contrary to the objectives of tax law.

Hypothesis Development

The Effect of Profitability on Tax Avoidance

A business's ability to generate profits by utilizing all its resources and capabilities, particularly capital utilization, asset utilization, and sales activity, is explained by the profitability ratio (Chatarina, 2020: 340). An organization's asset management will be better if its profitability is higher.

A business will be able to generate substantial profits if it is profitable and has strong asset management. The amount of tax payable will be large if the business generates significant revenue. To reduce the burden on the business, management often engages in tax avoidance. Empirical research by guFauzan (2019) and Utami and Irawan (2022) shows that tax avoidance is influenced by profitability.

H1: Profitability versus tax avoidance

The Effect of Thin Capitalization on Tax Avoidance

Double tax avoidance agreements are used to shift corporate profits through debt (thin capitalization). When a parent company uses loans or shareholder cash to finance its subsidiary, this is known as thin capitalization. For companies, debt is a source of funding. Due to their inability to pay taxes, companies with high debt levels tend to pay less tax (Oktamawati, 2017).

Excessive debt burdens companies and encourages them to evade taxes. The more companies engage in thin capitalization practices, the more likely they are to finance their operations with debt, which increases the risk of tax evasion. According to studies by Nadhifah & Arif (2020) and Utami & Irawan (2022), thin capitalization practices influence tax avoidance practices.

H2: Thin capitalization has an effect on tax avoidance

The Effect of Capital Intensity on Tax Avoidance

The amount of investment a company makes in fixed assets is indicated by its capital intensity. A company's depreciation expense increases with the amount of investment in fixed assets. Depreciation of fixed assets can reduce tax payments, which in turn lowers the total amount of tax paid by taxpayers. This can encourage companies to avoid paying taxes.

Companies that prioritize fixed asset investment will have a lower effective tax rate, according to Gupta and Newberry (1997). Therefore, the potential for companies to engage in tax avoidance methods increases with their capital intensity. Empirical evidence that capital intensity influences tax avoidance can be found in studies by Nugraha & Mulyani (2019), Sandra & Anwar (2018), Dharma & Noviari (2017), Apsari and Supadmi (2018), and Widya et al. (2020).

H3: Capital intensity influences tax avoidance

The Influence of Earning Power on Tax Avoidance

Earning power reflects the conditions under which a company achieves its desired profit. Companies with high profits tend to have the opportunity to engage in tax avoidance by increasing costs/expenses to meet company needs, resulting in increased costs and decreased profitability, resulting in a reduced tax burden. Research by Sunarsih et al. (2019), Sumartono et al. (2021), and Maulida et al. (2021) provides empirical evidence that earning power influences tax avoidance.

H4: Earning power influences tax avoidance.

The Effect of Sales Growth on Tax Avoidance

An increase in sales volume over time is referred to as sales growth. A company's profits increase along with the sales volume generated. Higher income tax burdens result from higher profits. Sales growth has a negative impact on businesses because it encourages careless taxpayer behavior regarding tax payments.

Conversely, businesses use tax avoidance strategies to attempt to reduce their tax liabilities. Empirical research by Payanti et al. (2020), Syura et al. (2020), and Fauzan et al. (2019) shows that tax avoidance is influenced by sales growth.

H5: Sales growth influences tax avoidance

The Effect of Company Size on Tax Avoidance

A company's size indicates its size. Large companies receive greater public and market attention. Therefore, to maintain their reputation, management typically avoids tax avoidance. However, because their transactions are more complex, large companies can exploit legal loopholes to avoid paying taxes on each transaction. According to research by Fauzan (2019) and Nawang (2020), corporate size impacts tax avoidance.

H6: Company size influences tax avoidance.

RESEARCH METHODS

The activity design, scope or object of the study, primary materials and tools, research location, data collection methods, operational definitions of research variables, and data analysis procedures are all included in this research approach.

The purpose of this study is to analyze the impact of independent variables on the dependent variable using quantitative methodology and a causality design. Based on the research criteria, companies listed on the Indonesia Stock Exchange (IDX) within a specific time period served as the research objects. Secondary data were obtained from other relevant sources and the companies' annual financial reports uploaded to the IDX's official website.

The independent variable in this study is financial performance, measured through several indicators: profitability using the financial indicator return on equity (ROE); thin capitalization proxied by the debt-to-equity ratio (DER); capital intensity proxied by fixed assets to total assets (FATA); earning power proxied by return on assets; sales growth measured by relative sales; and company size proxied by the natural logarithm of total assets. The dependent variable is tax avoidance, measured using the effective tax rate (ETR). The operational definition of each variable was formulated based on previous literature to fit the research context.

Data collection techniques were conducted through documentation, namely by downloading and recording data obtained from company financial reports and other official publications. The population consisted of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. They were then selected based on specific criteria: completeness of financial reports, consistency of reporting periods, and availability of information needed to measure the research variables.

The data analysis process consisted of several stages. First, the characteristics of the research data were described using descriptive statistical tests. Second, to ensure the data met the prerequisite requirements for regression analysis, traditional assumption tests were conducted, such as autocorrelation, heteroscedasticity, multicollinearity, and normality. Third, multiple linear regression analysis was used to evaluate the hypotheses and determine how the independent variables influence the dependent variable. All data analysis was conducted using relevant statistical software, namely SPSS.

RESULTS AND DISCUSSION

This study aims to analyze the factors influencing tax avoidance practices using the Effective Tax Rate (ETR) indicator as the dependent variable. The independent variables used include profitability (ROE), thin capitalization (DER), capital intensity (FATA), earning power (ROA), sales growth (SG), and company size (LnTA). The analysis was conducted using multiple regression methods, accompanied by a series of classical assumption tests to ensure model validity, and significance tests both simultaneously and partially.

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Tabel 1: Hasil Uji Statistik Deskriptif

Variables	N	Minimum	Maximum	Mean	Std. Dev.
Profitability	159	0,00005	69,19199	3,77016	18,61577
Thin Capital	159	0,06730	10,61420	0,91114	0,98815
Capital Intensity	159	0,04500	0,84910	0,438174	0,14786
Earning Power	159	0,00041	0,60720	0,066235	0,08691
Sales Growth	159	-0,65742	1,04364	0,056140	0,20394
Company Size	159	21,35070	32,82040	29,07937	1,84108
Tax Avoidance	159	0,11848	1,21669	0,59117	0,22003

Based on data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period, 159 units met the criteria for analysis. Descriptive analysis results show that profitability, as measured by ROE, has an average value of 3.770, with a very wide range, reflecting extreme disparities in profitability between companies. The companies' ability to generate net income is 3.770% of their equity.

Thin capital, as measured by DER, has an average value of 0.911, indicating that 91.1% of the company's financing comes from foreign capital (liabilities), while the remaining 8.9% comes from equity. Capital intensity (FA/TA) has an average value of 0.438, indicating that almost half of the assets are fixed assets, providing opportunities for depreciation as a tax planning instrument, although the variation is still moderate.

Earning power, as measured by ROA, has an average value of 6.623%, with small deviations, indicating relatively homogeneous asset efficiency. However, limited profits limit the scope for tax planning practices. Sales growth (SG) averaged 5.614%, trending positively, indicating an increase in sales compared to the previous year, with an average growth of 5.614%. The distribution of negative to positive sales growth indicates inconsistent growth, which has implications for profit stability and tax avoidance strategies. The average company size of 29,079 confirms the dominance of large companies, which have greater capacity for tax planning, despite the accompanying pressure of public legitimacy.

Tax avoidance, proxied by the ETR, had an average value of 0.59, or 59%, compared to the 2020-2021 tax rate of 22%, or 25%, or 24%, for the three-year average tax rate in 2019. This indicates a low level of tax avoidance, even suggesting companies are bearing a larger effective tax burden (possibly due to fiscal corrections, penalties, or failure to utilize tax incentives). The deviation of 0.220 indicates significant variation in tax avoidance practices.

The normality test results indicate that the residual distribution approximates a normal curve with a mean of 7.99E-16 (≈ 0) and a standard deviation of 0.981 (≈ 1). The histogram pattern is bell-shaped, with most residuals distributed around the midpoint and symmetrically distributed to both sides.

There is no linear relationship between the independent variables, based on the multicollinearity test results, which show tolerance values of 0.810 to 0.992 (greater than 0.10) and VIF values of 1.008 to 1.235 (less than 10). Consequently, multicollinearity is absent in the regression model, and the coefficient estimates are interpretable.

Based on the autocorrelation test results, the Durbin-Watson value is 1.927, which is higher than the upper limit (du = 1.819) and falls between 1.5 and 2.5. These results indicate that the regression model has independent, randomly distributed residuals and is free from autocorrelation, thus maintaining model validity and allowing for reliable interpretation of the coefficient estimates.

The F-test yielded a value of 55.886 with a significance level of 0.000 (less than 0.05), confirming that the regression model is suitable for use. Thus, the research model can be considered fit, and the estimated regression coefficients can be interpreted validly according to the analysis objectives.

The coefficient of determination showed an R-square value of 0.690 and an Adjusted R-square of 0.677. This indicates that approximately 67.7% of the variation in ETR can be explained by the independent variables, while the remaining 33.3% is influenced by factors outside the model. The closeness of the Adjusted R-square value to the R-square value confirms that the regression model has good stability and is sufficiently robust in explaining the phenomenon of tax avoidance in the sample companies.

Tabel 2: Hasil Uji Hipotesis

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Stand. Coef. Beta	t	Sig
1	(Constant)	-0,240	0,175		-1,371	0,172
	ROE	-0,001	0,001	-0,097	-2,028	0,044
	DER	0,004	0,011	0,017	0,342	0,733
	FATA	0,951	0,069	0,639	13,796	0,000
	ROA	0,801	0,134	0,276	5,957	0,000
	SG	0,430	0,049	0,400	8,790	0,000
	LnTA	0,012	0,006	0,099	1,965	0,051

Coefficient^s a

a. Dependent Variable: ETR

ETR = – 0,240 – 0,001 ROE + 0,004 DER + 0,951 FATA + 0,801 ROA + 0,430 SG + 0,012LnTA + e

The constant of -0.240 reflects the baseline ETR when all independent variables are zero. Profitability has a negative coefficient of -0.001, which can be interpreted as higher profitability, lower ETR, indicating a relatively smaller effective tax burden paid by the company, indicating increased tax avoidance. A significance value of 0.044 (less than 0.05) indicates that profitability has a significant negative effect on tax avoidance.

Thin capital has a positive coefficient of 0.004, indicating a higher DER ratio, a higher ETR, indicating a relatively larger effective tax burden paid by the company, indicating a lower tax avoidance rate. A significance value of 0.733 (greater than 0.05) indicates that thin capital has no effect on tax avoidance.

Capital intensity has a positive coefficient of 0.951, which can be interpreted as higher capital intensity, as indicated by a high FATA ratio, a higher ETR, indicating a relatively larger effective tax burden paid by the company, indicating a lower tax avoidance rate. A significance value of 0.000 (less than 0.05) indicates that capital intensity influences tax avoidance.

Earnings power has a positive coefficient of 0.801, which can be interpreted as a higher earning power, as indicated by a high ROA ratio, leading to a higher ETR value, indicating a relatively greater effective tax burden paid by the company, indicating a lower tax avoidance rate. A significance value of 0.000 (less than 0.05) indicates that earning power has a positive effect on tax avoidance.

Sales growth has a positive coefficient of 0.430, which can be interpreted as a higher sales growth, as indicated by positive growth, leading to a higher ETR value, indicating a relatively greater effective tax burden paid by the company, indicating a lower tax avoidance rate. A significance value of 0.000 (less than 0.05) indicates that sales growth has a positive effect on tax avoidance.

Company size has a positive coefficient of 0.012, which can be interpreted as the larger the company size, indicated by a high Ln total assets, the higher the ETR value, which means the effective tax burden paid by the company is relatively larger, indicating that tax avoidance is getting smaller. A significance value of 0.05 (smaller than 0.10) indicates that company size has a marginally significant positive effect on tax avoidance.

Discussion

Profitability's Impact on Tax Avoidance

The findings of this study indicate that tax avoidance is significantly negatively affected by profitability. These results indicate that a company's ETR decreases as its profitability increases. In other words, companies with high profits tend to engage in more aggressive tax avoidance. Agency theory provides a theoretical explanation for this finding (Jensen & Meckling, 1976).

In an agency relationship, managers are mandated to maximize firm value for shareholders (Farooq, 2025). One way to do this is by reducing

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the tax burden to increase after-tax profits. Taxes are viewed as a cost that can be minimized through various tax planning strategies, both legal (tax avoidance) and aggressive ones that border on tax evasion (Jiang & Jiang, 2025; Nofitasari, 2025).

Several previous studies support this finding. Chris Monica Levia & Ickhsanto Wahyudi (2025) and Feller & Schanz (2017) found that high profitability tends to encourage companies to engage in more intensive tax avoidance. Payne & Raiborn (2018) also emphasized that companies with high profits are more likely to seek regulatory loopholes to reduce tax liabilities. Conversely, companies with low profitability focus more on business continuity than tax efficiency (Niemimaa et al., 2019).

The implication of this finding is that profitability can signal the intensity of tax avoidance practices. For tax authorities, companies with high ROEs deserve closer scrutiny. Meanwhile, for investors, high profitability requires further analysis to determine whether it is supported by operational efficiency or is due to aggressive tax avoidance strategies.

Thin capital has no effect on tax avoidance

Thin capital has no effect on tax avoidance. This result is interesting because, in theory, the use of debt provides a tax shield in the form of tax reductions from interest expenses (Clemente-Almendros & Sogorb-Mira, 2018). If the tax shield mechanism works optimally, highly leveraged companies should have a lower ETR. The trade-off theory in capital structure by Modigliani & Miller (1963) states that companies balance the tax benefits of debt with the risk of bankruptcy. However, the insignificant effect of thin capital may indicate that companies do not use debt as a primary instrument for tax avoidance by reducing their tax burden (Ahmad, 2021).

This finding is consistent with research by Prabowo (2020) and Yanti & Hartono (2019), which found that DER (thin capital) has no effect on tax avoidance. This is likely due to thin capitalization rules in Indonesia, which limit the amount of interest expense that can be deducted as an expense (Sukma Alfandia, 2024). With these regulations, the strategy of using debt for tax avoidance purposes becomes less effective (Platikanova, 2017).

The implication is that government policies limiting loan interest deductions have proven effective in reducing excessive tax shield practices. For financial managers, debt financing decisions are based more on risk considerations and liquidity flexibility, rather than solely on tax incentives (Gryglewicz, 2011).

Capital Intensity Affects Tax Avoidance

Capital intensity has a significant positive effect on tax avoidance. This means that companies with a high proportion of fixed assets tend to pay more taxes, not the other way around (Okuyama et al., 2025). This is quite surprising because, in theory, investment in fixed assets can generate depreciation expenses that reduce taxable income (Hussain et al., 2022). However, this result can be explained by legitimacy theory. Companies with high capital intensity generally have higher financial report transparency due to the scrutiny of investors, creditors, and regulators (Hoti & Krasniqi, 2022). High transparency makes companies more cautious about tax avoidance.

This research is consistent with research by Darsani & Sukartha (2021) and Panda & Nanda (2021), which supports the findings that capital intensity actually increases the ETR. The explanation is that companies with high fixed assets typically have operational stability and are more likely to comply with tax obligations to maintain social legitimacy. Thus, capital intensity can be viewed not as an instrument of tax avoidance, but as an indicator of tax compliance. Companies with large investments in fixed assets prefer to maintain long-term reputation rather than gain short-term benefits from tax avoidance.

Earning Power Influences Tax Avoidance

It has been shown that the ability to generate income significantly reduces tax evasion. Therefore, companies with a high return on assets (ROA) generally pay more taxes (Mocanu et al., 2021). This finding aligns with legitimacy theory (Suchman, 1995), which states that companies strive to maintain public trust by fulfilling their social responsibilities, such as paying taxes on time. Companies with a high ROA are more cautious about tax evasion because they have a reputation to uphold.

Because they actively avoid tax evasion, companies with high capital intensity have higher ETRs, according to research by Khuong et al.

(2020), which aligns with our study's findings. Furthermore, Ababio & Gnonsio Mangueye (2021) emphasize that successful companies generally maintain their legitimacy by complying with tax laws.

The implication is that earning power plays a role in driving tax compliance. Companies with a high ROA can serve as examples of good corporate governance practices, integrating financial performance and fiscal responsibility.

Sales Growth Affects Tax Avoidance

Sales growth has a significant positive effect on tax avoidance, meaning that companies with positive (tending to increase) sales growth will pay higher taxes. Theoretically, this result can be explained by the political cost theory perspective (Watts & Zimmerman, 1986). Companies with rapid growth are often under public and regulatory scrutiny, making them more cautious about arousing suspicion through tax avoidance practices.

Gangl & Torgler (2020) found that growing companies exhibit higher tax compliance because they need a good reputation to attract investors and external funding. Sustainable growth also makes companies prefer maintaining long-term legitimacy over engaging in tax avoidance by aggressively reducing their tax burden (Gomez-Trujillo et al., 2024).

The implication of these results is that positive sales growth can be an indicator of tax compliance. The government may view companies with positive (increasing) growth as potential tax subjects that need to be supported, not just monitored. Meanwhile, managers need to ensure that rapid growth strategies are accompanied by fiscal compliance to avoid damaging the company's reputation.

Company Size Influences Tax Avoidance

According to the ETR, company size has a positive impact on tax avoidance; the larger the organization, the higher the level of tax compliance. This finding supports the political cost theory (Slemrod et al., 1996). Large companies are more cautious about tax avoidance because they are under public scrutiny and scrutinized by the media and authorities. According to Watts & Zimmerman (1986), political pressure on large companies to demonstrate fiscal compliance is stronger.

This study's findings align with research by Mascagni & Mengistu (2019) and Delgado et al. (2018), which provides empirical support for the idea that company size influences tax avoidance. Compared with small companies, large corporations generally pay taxes more compliantly. However, several other studies, such as Knuutinen (2014) and Bauer et al. (2020), found the opposite, with larger companies having more resources to engage in aggressive tax planning.

The implication of these results is that company size can function as a moderating variable in tax compliance studies. The larger the company, the more important it is for management to maintain fiscal legitimacy through tax compliance.

In general, this study reveals that internal company factors play different roles in determining ETR. Equity-based profitability (ROE) actually encourages tax avoidance, while asset-based profitability (ROA), capital intensity (FATA), sales growth (SG), and firm size (LnTA) tend to increase tax compliance. Meanwhile, capital structure or thin capital (DER) has no evidence of influencing ETR. These findings reinforce the view that tax avoidance is not merely a technical tax issue, but also a corporate strategy influenced by the financial context, asset structure, and the need for social legitimacy.

Research Implications

The implications of this study are divided into three categories: (1) For management and policy: for company management, the results of the study indicate the need to balance tax efficiency strategies with long-term reputation. Excessive tax avoidance practices can increase reputational risk and regulatory scrutiny; (2) For investors, high ROE needs further analysis to determine whether profitability stems from operational efficiency or tax avoidance practices; (3) For the government and tax authorities, these results emphasize the importance of regulations such as limiting loan interest deductions to suppress debt-based tax avoidance. In addition, large and profitable companies can be targeted for tax education to increase voluntary compliance.

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CONCLUSION

This study provides a comprehensive understanding of the factors influencing corporate tax avoidance practices. Key findings indicate that equity-based profitability (ROE) is actually associated with a tendency to increase tax avoidance. This reflects that even though companies are able to generate high returns for shareholders, some still exploit loopholes to reduce their tax burden.

Asset-based profitability (ROA), fixed asset intensity (FATA), sales growth (SG), and company size (Ln TA) show the opposite tendency, encouraging increased tax compliance through a high effective tax rate.

When companies emphasize asset efficiency and increase the proportion of long-term investments, the incentive to engage in tax avoidance tends to diminish. The leverage factor (DER) does not show a strong influence on variations in the effective tax rate. This condition indicates that capital structure (thin capital) is not a primary determinant in explaining tax avoidance behavior in the context of this study.

Thus, it can be concluded that internal characteristics directly related to operational profitability, investment strategy, sales dynamics, and company size play a more dominant role than external factors such as financing. Theoretically, these results enrich the literature on corporate tax avoidance by highlighting the differences in influence between equity-based and asset-based profitability indicators.

Practically, this study emphasizes the importance of fiscal oversight of companies with high profit performance, as they are potentially more aggressive in exploiting tax loopholes. Companies with high capital intensity and sales growth tend to be more compliant, so regulations can be directed to maintain the sustainability of this compliance pattern.

This study is limited by the observation period and the scope of the variables examined. Other factors such as governance quality, managerial ownership, and institutional pressure from regulators may also be important determinants not captured in this model. Therefore, future research is recommended to integrate governance variables and external factors to provide a more holistic picture of the determinants of tax avoidance practices across various industrial sectors.

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