

What Drives Corporate Tax Avoidance in Indonesia's Basic Materials Sector?

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ABSTRACT

Tax avoidance remains a persistent challenge in emerging economies, particularly in Indonesia, where corporate tax compliance varies across industries despite continuous regulatory reforms. Empirical evidence on the effects of profitability, capital structure, and firm size on tax avoidance has produced inconsistent findings, indicating the need for further investigation. This study examines the influence of profitability, capital structure, and firm size on corporate tax avoidance among basic materials companies listed on the Indonesia Stock Exchange during 2020–2024. Tax avoidance is proxied by the Cash Effective Tax Rate (CETR), while capital intensity and financial distress are incorporated as control variables to improve model robustness. A quantitative research design was employed using balanced panel data from 38 firms, resulting in 190 firm-year observations selected through purposive sampling. Panel data regression analysis was conducted using EViews 13, with the Fixed Effect Model (FEM) identified as the most appropriate specification based on Chow and Hausman tests. The findings reveal that profitability has a significant negative effect on CETR, indicating that more profitable firms are more likely to engage in tax avoidance. Capital structure has no statistically significant influence on CETR, suggesting that leverage is not a primary determinant of corporate tax avoidance. Conversely, firm size has a significant positive effect on CETR, implying that larger firms exhibit lower tax avoidance and greater tax compliance. These findings extend agency theory by demonstrating how firm-specific characteristics shape corporate tax behavior and provide practical implications for policymakers in strengthening tax governance, regulatory oversight, and corporate compliance strategies in Indonesia's basic materials sector.

1. Introduction

Tax revenue constitutes the primary source of public finance in most developing economies and plays a fundamental role in supporting economic growth, infrastructure development, social welfare, and fiscal sustainability. In Indonesia, taxation contributes more than three-quarters of total state revenue, making corporate tax compliance a critical determinant of national fiscal capacity (Asqolani et al., 2024). Nevertheless, despite continuous improvements in tax administration, digitalization initiatives, and

regulatory reforms, corporate tax avoidance remains one of the most persistent challenges faced by tax authorities worldwide. Unlike tax evasion, which violates legal provisions, tax avoidance refers to legal strategies employed by firms to minimize tax liabilities by exploiting loopholes and ambiguities within existing tax regulations (Arianti & Soesila, 2025). Although legally permissible, aggressive tax avoidance reduces government revenue, weakens tax fairness, and undermines the effectiveness of fiscal policy.

The issue of corporate tax avoidance has attracted increasing attention from policymakers, researchers, and international organizations over the last decade. Global initiatives such as the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project have emphasized the importance of limiting aggressive tax planning practices conducted by multinational and domestic corporations. Nevertheless, evidence suggests that tax avoidance behavior remains prevalent, particularly in emerging economies characterized by relatively weaker institutional environments and evolving tax governance systems. Consequently, understanding the determinants of corporate tax avoidance has become an important research agenda in accounting, finance, and taxation literature.

Indonesia presents an interesting setting for examining tax avoidance because tax revenue remains highly dependent on corporate income tax, while tax compliance varies considerably across industries. According to the [Ministry of Finance \(2024\)](#), Indonesian tax revenue experienced considerable fluctuations during the 2020–2024 period. Tax realization exceeded government targets between 2021 and 2023 as economic activity gradually recovered following the COVID-19 pandemic. However, tax revenue in 2024 reached only IDR 1,932.4 trillion, representing approximately 97.2% of the targeted IDR 1,988.9 trillion. Although this decline may be attributed to broader macroeconomic adjustments, it also raises concerns regarding the effectiveness of corporate tax compliance and the potential persistence of tax avoidance practices. This situation highlights the necessity of identifying firm-specific characteristics that influence corporate tax behavior in Indonesia.

Among various industrial sectors, the basic materials sector occupies a strategic position within the Indonesian economy because it supplies essential raw materials for manufacturing, construction, infrastructure, and downstream industries ([Rosmanidar et al.,](#)

[2024](#)). During the observation period, the sector experienced continuous expansion, reflected in the increasing number of listed companies on the Indonesia Stock Exchange (IDX). The growth of this sector contributes significantly to industrial development and employment while simultaneously generating substantial corporate tax obligations. Consequently, tax compliance within this sector has important implications not only for government revenue but also for broader economic development.

Several recent corporate taxation cases further illustrate the relevance of investigating tax avoidance within Indonesia's basic materials industry. One of the most prominent cases involved PT Aneka Tambang Tbk. (ANTAM), where allegations emerged regarding the misuse of import classifications in gold import transactions valued at approximately IDR 47.1 trillion. According to [Tempo.co \(2024\)](#), the alleged manipulation of Harmonized System (HS) codes enabled imported gold to receive tax exemptions that were otherwise inapplicable, resulting in an estimated state revenue loss of approximately IDR 2.9 trillion. Although the legal process remains beyond the scope of this study, the case demonstrates how large corporations may exploit regulatory complexities to minimize tax obligations while formally remaining within legal boundaries. Such incidents reinforce concerns regarding the adequacy of existing tax regulations and highlight the importance of understanding firm characteristics associated with tax avoidance behavior.

Prior studies have identified several internal corporate characteristics as important determinants of tax avoidance. Among these, profitability has consistently received substantial scholarly attention. Firms with higher profitability generally generate larger taxable income, creating stronger incentives for management to reduce tax payments through various tax planning strategies ([Gumelar et al., 2024](#)). From an agency theory perspective, managers are expected to maximize shareholder wealth by increasing after-tax

earnings, potentially encouraging greater engagement in tax avoidance activities ([Jensen & Meckling, 1976](#)). Nevertheless, empirical findings remain inconclusive. Several studies report that profitability significantly increases tax avoidance ([Susilowati et al., 2024](#); [Gumelar et al., 2024](#); [Situmorang et al., 2025](#)), whereas others find insignificant relationships ([Adiguna & Ritonga, 2024](#); [Nyman et al., 2022](#); [Keryn et al., 2025](#)). These inconsistencies suggest that profitability may influence corporate tax behavior differently across industries and institutional environments.

Capital structure has also been recognized as an important determinant of tax avoidance because debt financing provides tax-deductible interest expenses that reduce taxable income. According to trade-off theory and corporate finance literature, firms may optimize their financing decisions by balancing the tax benefits of debt against bankruptcy costs ([Cuevas-Vargas et al., 2021](#)). Consequently, companies with higher leverage may possess greater opportunities to reduce corporate tax burdens. However, empirical evidence remains mixed. [Darma and Amelia \(2025\)](#) report that capital structure significantly affects tax avoidance, whereas [Arianti and Soesila \(2025\)](#) conclude that leverage has no significant influence. These conflicting findings indicate that debt financing may not always function as an effective tax planning mechanism, particularly in firms subject to tighter financial monitoring.

Firm size represents another characteristic frequently associated with tax avoidance. Larger firms generally possess greater financial resources, sophisticated tax planning capabilities, and access to professional tax consultants, potentially increasing opportunities to exploit tax regulations. Conversely, large corporations are often exposed to greater scrutiny from tax authorities, regulators, investors, and the public, thereby discouraging aggressive tax avoidance due to reputational concerns. Accordingly, previous empirical studies have produced inconsistent conclusions. Some

researchers find that larger firms exhibit greater tax avoidance ([Hossain et al., 2024](#)), while others report the opposite relationship or statistically insignificant effects ([Kalbuana et al., 2023](#); [Situmorang et al., 2025](#)). These divergent findings suggest that firm size may exert competing influences on corporate tax behavior depending on institutional contexts and governance quality.

Despite extensive literature on corporate tax avoidance, several important research gaps remain. First, previous studies have produced inconsistent empirical findings regarding the effects of profitability, capital structure, and firm size, indicating that the determinants of tax avoidance remain inconclusive. Second, relatively few studies specifically examine Indonesia's basic materials sector despite its strategic economic importance and increasing contribution to industrial growth. Most prior Indonesian studies focus on manufacturing, banking, mining, or consumer goods industries, leaving basic materials companies comparatively underexplored. Third, many earlier studies rely exclusively on independent variables without adequately controlling for other firm-specific characteristics that may simultaneously influence tax avoidance behavior.

To address these limitations, the present study incorporates capital intensity and financial distress as control variables. Capital intensity reflects the proportion of fixed asset investment that generates depreciation expenses capable of reducing taxable income ([Efendi & Winingrum, 2025](#)). Financial distress represents the firm's financial condition, which may influence managerial incentives regarding tax planning and liquidity management ([Kalbuana et al., 2023](#)). Controlling for these variables allows a more robust estimation of the relationships between profitability, capital structure, firm size, and tax avoidance while minimizing omitted-variable bias.

This study further contributes to the literature by employing panel data covering the 2020–2024 period, a unique timeframe characterized by post-pandemic economic

recovery, substantial regulatory adjustments, and considerable fluctuations in Indonesia's tax performance. This period provides an opportunity to examine corporate tax behavior under changing economic conditions and evolving fiscal policies. Furthermore, tax avoidance is measured using the Cash Effective Tax Rate (CETR), which captures actual cash tax payments relative to pre-tax income and provides a more direct indicator of corporate tax payment behavior than accrual-based tax measures. Under the CETR approach, lower values indicate higher levels of tax avoidance, whereas higher values reflect stronger corporate tax compliance.

The theoretical foundation of this study is agency theory, which explains the conflict of interests between shareholders (principals) and managers (agents) in corporate decision-making ([Jensen & Meckling, 1976](#)). Managers may pursue tax planning strategies to maximize after-tax profits and improve financial performance, thereby satisfying shareholder expectations while simultaneously increasing managerial incentives. However, these objectives may conflict with government interests in maximizing tax revenue, creating a multidimensional agency relationship involving firms, shareholders, and tax authorities. Consequently, agency theory provides an appropriate framework for explaining why firms differ in their tax avoidance behavior according to their financial characteristics.

Based on these considerations, this study aims to examine the effects of profitability, capital structure, and firm size on corporate tax avoidance among basic materials companies listed on the Indonesia Stock Exchange during the 2020–2024 period while controlling for capital intensity and financial distress. By focusing on an economically important yet relatively underexplored sector, this research contributes to the growing literature on corporate taxation in emerging markets. The findings are expected to enrich agency theory by providing empirical evidence regarding firm-specific determinants of tax avoidance and offer practical implications for policymakers, tax

authorities, investors, and corporate managers in strengthening tax governance, improving regulatory oversight, and promoting sustainable corporate tax compliance.

2. Literature Review

2.1 Agency Theory

Agency theory, introduced by [Jensen and Meckling \(1976\)](#), explains the contractual relationship between principals (shareholders) and agents (managers), in which decision-making authority is delegated to managers with the expectation that they will maximize shareholders' wealth. Nevertheless, because both parties pursue different objectives and possess asymmetric information, agency conflicts frequently arise. Managers may prioritize personal interests, such as compensation, reputation, or career advancement, rather than maximizing shareholder value. Consequently, monitoring mechanisms and governance structures become essential to reduce agency costs and align managerial decisions with organizational objectives.

Within the taxation context, agency theory provides a strong theoretical foundation for explaining corporate tax avoidance. Tax avoidance represents one of the strategic decisions made by managers to increase after-tax profits while remaining within the legal framework. From the shareholders' perspective, tax planning may improve firm value by reducing tax expenses and increasing cash flows. However, excessive tax avoidance may expose firms to regulatory sanctions, reputational damage, and higher compliance risks, creating a trade-off between financial benefits and long-term sustainability ([Ma'sum et al., 2023](#)).

Agency conflicts also extend to the relationship between corporations and tax authorities. Governments seek to maximize tax revenues to finance public expenditures, whereas firms attempt to minimize tax payments through legal tax planning strategies. This divergence creates an institutional agency conflict in which firms exploit regulatory

flexibility while governments continuously strengthen tax enforcement and compliance systems (Yohanes & Sherly, 2022). Therefore, agency theory remains one of the most appropriate theoretical perspectives for explaining why firm characteristics may influence tax avoidance behavior.

2.2 Tax Avoidance

Tax avoidance refers to corporate efforts to minimize tax liabilities by utilizing legal provisions, loopholes, or ambiguities in tax regulations without violating statutory laws (Arianti & Soesila, 2025). Unlike tax evasion, which constitutes illegal behavior, tax avoidance remains legally permissible despite often contradicting the spirit of taxation policy. Consequently, tax avoidance has become one of the most debated issues in taxation literature because it reduces government revenue while remaining difficult to regulate.

Previous studies suggest that tax avoidance is influenced by various firm-specific characteristics, governance mechanisms, financial conditions, and institutional environments (Kalbuana et al., 2023; Hossain et al., 2024). Companies generally perceive taxes as unavoidable business costs that reduce net income, encouraging management to develop tax planning strategies aimed at maximizing shareholder wealth (Sumartono & Puspasari, 2021).

This study measures tax avoidance using the Cash Effective Tax Rate (CETR), calculated as cash taxes paid divided by pre-tax income. Compared with accrual-based measures, CETR better reflects actual corporate tax payments and provides a more reliable indicator of firms' tax compliance behavior. Lower CETR values indicate more aggressive tax avoidance, whereas higher CETR values reflect stronger tax compliance (Rahmayani et al., 2023).

2.3 Profitability

Profitability reflects a firm's ability to generate earnings from its assets, investments, and operational activities and is widely regarded as one of the most important

indicators of financial performance (Situmorang et al., 2025). Firms with higher profitability generally possess greater financial flexibility and stronger incentives to engage in sophisticated tax planning because higher earnings also increase potential tax liabilities.

Agency theory suggests that managers are motivated to maximize after-tax profits to satisfy shareholders and improve firm valuation. As profitability increases, management may become more inclined to adopt tax planning strategies that legally reduce taxable income while preserving reported earnings (Gumelar et al., 2024).

Empirical findings, however, remain inconclusive. Several studies report that profitability positively influences tax avoidance because profitable firms possess more resources for tax planning (Susilowati et al., 2024; Gumelar et al., 2024). Conversely, other studies find insignificant relationships, arguing that highly profitable firms often maintain greater tax compliance due to reputational concerns and stronger regulatory scrutiny (Adiguna & Ritonga, 2024; Hossain et al., 2024). These inconsistencies indicate that profitability remains an important determinant requiring further empirical investigation, particularly within Indonesia's basic materials industry.

2.4 Capital Structure

Capital structure represents the proportion of debt and equity financing used to support corporate operations and investment activities (Septriani & Arianti, 2025). One of the principal theoretical arguments linking capital structure with tax avoidance is the tax shield effect, whereby interest expenses generated by debt financing reduce taxable income and consequently lower corporate tax obligations.

According to trade-off theory, firms attempt to determine an optimal capital structure that balances tax advantages against bankruptcy and financial distress risks. Agency theory further suggests that debt may reduce agency conflicts because creditors impose monitoring mechanisms that limit managerial discretion (Wibowo et al., 2021).

Prior empirical evidence regarding capital structure remains mixed. [Darma and Amelia \(2025\)](#) report that firms with higher leverage tend to engage in greater tax avoidance because debt generates tax-deductible interest expenses. In contrast, [Arianti and Soesila \(2025\)](#) conclude that leverage does not significantly affect tax avoidance, implying that firms primarily use debt for financing operational needs rather than tax minimization. These conflicting findings justify re-examining the relationship between capital structure and tax avoidance within different industrial settings.

2.5 Firm Size

Firm size reflects the overall scale of corporate operations and is commonly measured using the natural logarithm of total assets ([Hossain et al., 2024](#)). Larger firms generally possess more diversified business activities, stronger financial resources, better tax expertise, and more sophisticated internal control systems.

Two competing theoretical perspectives explain the relationship between firm size and tax avoidance. The political power hypothesis argues that large firms possess greater bargaining power and financial resources to implement sophisticated tax planning strategies. Conversely, the political cost hypothesis suggests that larger firms receive greater attention from regulators, investors, media, and tax authorities, encouraging stronger tax compliance to protect corporate reputation.

Empirical evidence likewise remains inconsistent. [Sari and Ramli \(2023\)](#) report that larger firms are more likely to undertake tax planning because they possess better financial and legal resources. Meanwhile, [Kalbuana et al. \(2023\)](#) demonstrate that larger companies tend to exhibit lower tax avoidance due to increased public scrutiny and stronger governance mechanisms. Therefore, firm size remains an important explanatory variable requiring additional investigation.

2.6 Control Variables

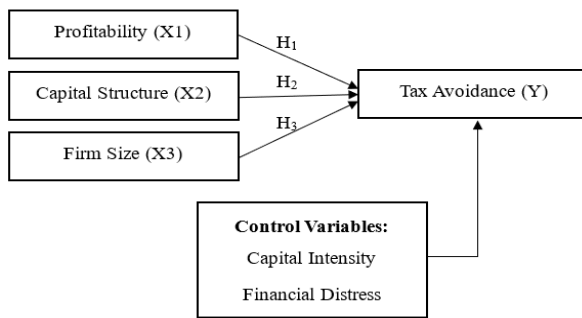
To improve the robustness of the regression model, this study incorporates capital intensity and financial distress as control variables.

Capital intensity reflects the proportion of corporate investment allocated to fixed assets relative to total assets ([Efendi & Winingrum, 2025](#)). Firms with greater fixed asset investment generally record larger depreciation expenses, which reduce taxable income and potentially influence tax avoidance behavior ([Hardana & Hasibuan, 2023](#)). Therefore, capital intensity is expected to capture differences in firms' operational asset structures that may indirectly affect effective tax payments.

Financial distress represents a firm's inability to fulfill its financial obligations because of declining profitability, liquidity constraints, or excessive leverage ([Kalbuana et al., 2023](#)). Companies experiencing financial distress may become more aggressive in tax planning to preserve liquidity and improve short-term cash flows. Conversely, financially distressed firms may also avoid aggressive tax strategies to minimize regulatory risks and maintain creditor confidence ([Yulianty & Sumanti, 2025](#)). Including these control variables allows the estimated effects of profitability, capital structure, and firm size to be interpreted more accurately.

2.7 Conceptual Framework

Based on agency theory and previous empirical findings, this study proposes that profitability, capital structure, and firm size influence corporate tax avoidance as measured by the Cash Effective Tax Rate (CETR). Profitability, capital structure, and firm size function as the independent variables, whereas capital intensity and financial distress are incorporated as control variables to improve model specification and reduce omitted-variable bias. The proposed conceptual framework is presented in Figure 1.

Figure 1. Conceptual Framework

Source: Researcher (2026).

2.8 Hypothesis Development

H1. Profitability and Tax Avoidance

Agency theory suggests that managers of highly profitable firms possess stronger incentives to maximize after-tax earnings through legal tax planning strategies. Since higher profitability increases taxable income, managers may seek opportunities to reduce tax payments while maintaining accounting performance. Because tax avoidance is measured using CETR, greater tax avoidance corresponds to lower CETR values. Accordingly, profitability is expected to negatively influence CETR.

H1: Profitability negatively affects the Cash Effective Tax Rate (CETR).

H2. Capital Structure and Tax Avoidance

Debt financing creates tax-deductible interest expenses that reduce taxable income through the tax shield mechanism. Firms with higher leverage therefore possess greater opportunities to minimize tax payments. Since lower CETR values indicate stronger tax avoidance, capital structure is theoretically expected to reduce CETR.

H2: Capital structure negatively affects the Cash Effective Tax Rate (CETR).

H3. Firm Size and Tax Avoidance

Large firms possess superior tax planning capabilities but simultaneously face greater regulatory oversight, public scrutiny, and reputational concerns. Consequently, larger firms are expected to demonstrate higher tax compliance despite having greater tax planning resources. Since higher CETR reflects lower tax

avoidance, firm size is expected to positively influence CETR.

H3: Firm size positively affects the Cash Effective Tax Rate (CETR).

3. Research Methods

3.1 Research Design

This study employs a quantitative research approach to examine the determinants of corporate tax avoidance among companies in the basic materials sector listed on the Indonesia Stock Exchange (IDX). A quantitative approach is considered appropriate because it enables hypothesis testing and examines the causal relationships between financial characteristics and corporate tax avoidance using objective numerical data.

The study utilizes balanced panel data covering the five-year period from 2020 to 2024, allowing the analysis to capture both cross-sectional differences among firms and longitudinal variations over time. Secondary data were obtained from audited annual reports and financial statements published on the official Indonesia Stock Exchange website (www.idx.co.id) and the respective corporate websites. Panel data analysis was conducted using EViews 13, which enables more efficient estimation by accounting for firm-specific heterogeneity and time effects.

3.2 Population and Sample

The population consists of all companies classified within the **basic materials sector** listed on the Indonesia Stock Exchange during the 2020–2024 observation period. According to IDX sector classification, 109 companies were listed in this sector by the end of 2024. The research sample was selected using **purposive sampling**, ensuring that only firms with complete and comparable financial information throughout the observation period were included. The sampling criteria were established as follows:

1. Companies consistently listed in the IDX basic materials sector during 2020–2024.

2. Companies publishing complete annual reports and audited financial statements throughout the observation period.
3. Companies reporting positive net income continuously from 2020 to 2024.

After applying these criteria, **38 companies** met all requirements and were included in the final sample. Since each company contributed observations over five consecutive years, the study employed a balanced panel dataset consisting of 190 firm-year observations (38×5).

3.3 Data Collection

This study relies exclusively on secondary data collected through documentation techniques. Financial information was extracted from annual reports and audited financial

statements downloaded from the official IDX website and each company's official website. In addition, an extensive literature review was conducted to establish the theoretical foundation and develop the research hypotheses. Relevant literature included peer-reviewed journal articles, books, government publications, and previous empirical studies concerning corporate taxation, agency theory, corporate finance, and tax avoidance.

3.4 Variable Measurement

The study examines one dependent variable, three independent variables, and two control variables. The operational definitions, measurement proxies, and supporting references are summarized in Table 1.

Table 1. Operational Definition of Variables

Variable	Proxy	Measurement Formula	Reference
Tax Avoidance (Dependent)	Cash Effective Tax Rate (CETR)	Cash Tax Payments / Pre-tax Income	Rahmayani et al. (2023)
Profitability	Return on Assets (ROA)	Net Income / Total Assets	Situmorang et al. (2025)
Capital Structure	Debt-to-Equity Ratio (DER)	Total Debt / Total Equity	Arianti & Soesila (2025)
Firm Size	SIZE	Natural Logarithm of Total Assets	Situmorang et al. (2025)
Capital Intensity (Control)	CI	Fixed Assets / Total Assets	Efendi & Winingrum (2025)
Financial Distress (Control)	Altman Z-Score	$1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$	Ningrum et al. (2025)

The dependent variable is measured using the Cash Effective Tax Rate (CETR), which represents the proportion of cash tax payments relative to pre-tax income. Lower CETR values indicate more aggressive tax avoidance, whereas higher CETR values reflect stronger tax compliance.

Profitability is measured using Return on Assets (ROA) because it represents management's efficiency in utilizing corporate assets to generate profits. Capital structure is proxied by the Debt-to-Equity Ratio (DER), reflecting the firm's financing composition between debt and equity. Firm size is measured

by the natural logarithm of total assets, which is widely adopted in accounting and finance research to reduce data skewness.

To improve model robustness, two control variables are incorporated. Capital intensity captures the proportion of investment allocated to fixed assets, while financial distress is measured using the Altman Z-Score, representing firms' financial health and bankruptcy risk. The Altman Z-Score is calculated as follows:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

where:

- X_1 = Working Capital / Total Assets
- X_2 = Retained Earnings / Total Assets
- X_3 = Earnings Before Interest and Taxes / Total Assets
- X_4 = Market Value of Equity / Total Liabilities
- X_5 = Sales / Total Assets

3.5 Data Analysis Techniques

The empirical analysis employs panel data regression, combining cross-sectional observations across firms with time-series observations over multiple years. Compared with ordinary least squares regression, panel data analysis provides more efficient estimators by controlling for unobservable firm-specific characteristics and temporal effects. The empirical model estimated in this study is formulated as follows:

$$CETR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 SIZE_{it} + \beta_4 CI_{it} + \beta_5 ZSCORE_{it} + \varepsilon_{it}$$

where:

- CETR = Cash Effective Tax Rate
- ROA = Profitability
- DER = Capital Structure
- SIZE = Firm Size
- CI = Capital Intensity
- ZSCORE = Financial Distress
- β_0 = Constant
- β_1 – β_5 = Regression coefficients
- ε = Error term

The regression analysis was performed using EViews 13 following several sequential procedures. First, descriptive statistics were generated to summarize the characteristics and distribution of each research variable. Second, three alternative panel regression models were estimated, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Third, the most appropriate regression model was selected

through a series of specification tests. The Chow test was employed to compare the Common Effect Model and the Fixed Effect Model. Subsequently, the Hausman test determined whether the Fixed Effect Model or Random Effect Model was more appropriate. Finally, the Breusch–Pagan Lagrange Multiplier (LM) test was conducted to compare the Common Effect Model with the Random Effect Model whenever necessary. Fourth, before estimating the final regression model, several classical assumption tests were conducted to ensure model validity. These included the Jarque–Bera normality test, correlation matrix test for multicollinearity, heteroskedasticity test, and Durbin–Watson test for autocorrelation.

Finally, hypothesis testing was performed using partial t-tests to examine the individual effects of each independent variable, F-tests to evaluate the simultaneous significance of the model, and the coefficient of determination (R^2 and Adjusted R^2) to assess the explanatory power of the regression model. The significance level adopted throughout the analysis was 5% ($\alpha = 0.05$).

4. Results and Discussion

This research looks into the effects of several factors on tax avoidance behavior among companies in the basic materials sector 2020–2024 period. It focuses on profitability, capital structure, and firm size. In addition, this study incorporates capital intensity and financial distress as control variables. The inclusion of control variables is intended to guarantee that the outcomes are more reliable and devoid of any bias.

4.1 Descriptive Statistics

Using measurements such as the highest value, minimum value, standard deviation, mean, and median, this analysis seeks to offer a broad overview about the data. Table 1 displays the findings of this analysis:

Table 1. Descriptive Statistics

	CETR	ROA	DER	SIZE	CI	Z-SCORE
Mean	0.385806	0.056660	0.623193	28.31363	0.385257	209.8071
Median	0.235860	0.046460	0.512515	28.27416	0.364965	3.832250
Maximum	4.976350	0.313400	4.561360	32.06740	0.814420	8962.831
Minimum	-1.552500	0.001140	0.033760	24.20472	0.015860	0.426060
Std. Dev.	0.656387	0.048548	0.534180	1.806808	0.224650	1029.099
Skewness	3.266692	1.791232	2.599727	-0.131504	0.059158	6.582816
Kurtosis	21.40685	7.668104	17.37683	2.765767	1.932415	48.18650

Source: Researcher, data processed (2026)

Considering Table 1, the mean value of CETR proxy of tax avoidance is 0.385806, indicating that firms pay about 38.58% of their pre-tax income as taxes on average. The median of 0.235860 is lower than the mean, suggesting a right-skewed distribution. The maximum of 4.976350 and minimum of -1.552500 indicate extreme variations, where the negative minimum suggests some firms report negative effective tax rates, while the standard deviation of 0.656387 reflects high variability

Profitability (ROA) has a mean of 0.056660 and a median of 0.046460, indicating moderate and fairly consistent profitability among firms. The maximum of 0.313400 and minimum of 0.001140 show that all firms maintain at least minimal profitability, while the standard deviation of 0.048548 reflects low dispersion across firms.

Capital structure (DER) has a mean of 0.623193 and a median of 0.512515, indicating moderate reliance on debt financing. The maximum of 4.561360 and minimum of 0.033760 suggest considerable differences in financing strategies, while the standard deviation of 0.534180 reflects significant variation across firms..

Firm size (SIZE) shows a mean of 28.31363 and a median of 28.27416, indicating a homogeneous distribution of firm sizes. The

maximum of 32.06740 and minimum of 24.20472 show a moderate range, with the standard deviation of 1.806808 confirming low dispersion among sampled firms.

Capital intensity (CI) has a mean of 0.385257 and a median of 0.364965, indicating firms allocate around 38.53% of total assets to fixed assets on average. The maximum of 0.814420 and minimum of 0.015860 reflect differences in asset utilization, while the standard deviation of 0.224650 shows moderate variation across firms.

Financial distress (Z-SCORE) exhibits a mean of 209.8071, drastically higher than the median of 3.832250, signaling a severely right-skewed distribution driven by extreme outliers. The maximum of 8962.831 and minimum of 0.426060 highlight substantial differences in financial health, while the standard deviation of 1029.099 confirms extremely high variability across firms.

4.2 Panel Data Model Selection Test

This test objective is to ascertain if the CEM, FEM, or REM panel data regression model is best for this particular investigation. The selection process involves three stages of testing, the outcomes of which are displayed as in Table 2:

Table 2. Panel Data Model Selection Test

Type of Testing	Model Tested	Probability	Selected Model
Uji Chow	CEM or FEM	0.0001 < 0.05	FEM
Uji Hausman	REM or FEM	0.0260 < 0.05	FEM
Uji Langrange Multiplier	CEM or REM	0.1749 > 0.05	CEM

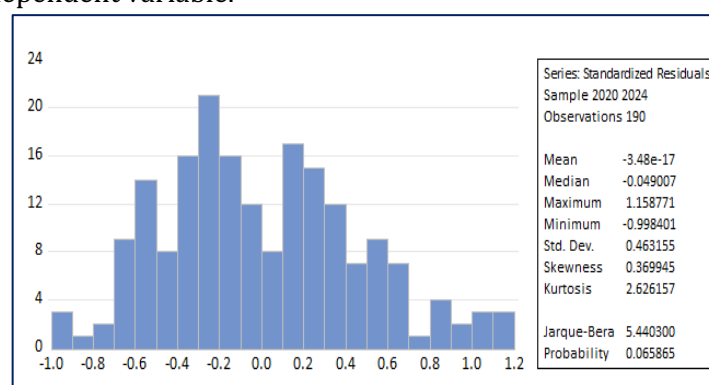
Source: Researcher, data processed (2026)

The FEM is the best option and pertinent this study's model, according to the total test results displayed in Table 2. Consequently, compared to other panel data regression models, FEM is thought to be able to provide more accurate estimates when examining the connection between the independent components and the dependent variable.

4.3 Classical Assumption Tests

4.3.1 Normality Test

To make that the model's residuals are regularly dispersed, this test is performed. This test employs the Jarque-Bera method, given the outcomes in Figure 2 as follows:

**Figure 2. Normality Test**

Source: Researcher, data processed (2026)

Figure 2 reports a Jarque-Bera value of 5.440300 alongside a probability of 0.065865. Because this probability surpasses the 0.05 threshold, the residuals can be considered normally distributed. This confirms the normality assumption, allowing the dataset to proceed to subsequent regression analysis.

4.3.2 Multicollinearity Test

This test seeks to ascertain if the independent factors have a strong linear connection. Table 3 presents the detailed results as follows:

Table 3. Multicollinearity Test

	ROA	DER	SIZE	CI	Z-SCORE
ROA	1.000000	-0.282376	-0.100830	-0.230003	0.200144
DER	-0.282376	1.000000	0.222561	0.101061	-0.145424
SIZE	-0.100830	0.222561	1.000000	0.199605	-0.641863
CI	-0.230003	0.101061	0.199605	1.000000	-0.020270
Z-SCORE	0.200144	-0.145424	-0.641863	-0.020270	1.000000

Source: Researcher, data processed (2026)

Table 3 indicates that the independent variables do not exhibit multicollinearity. The fact that none of the correlation values between

the independent variables come close to the widely recognized cutoff point of 0.85 serves as proof of this.

4.3.3 Heteroskedasticity Test

This test is employed to ascertain if the variance divergence exists across the residuals

throughout data in the regression model. The outcomes are displayed in Table 4:

Table 4. Heteroskedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.074794	0.064467	1.160198	0.2478
ROA	-0.000163	0.000682	-0.239732	0.8109
DER	-0.001321	0.001227	-1.076353	0.2835
SIZE	-0.001828	0.002301	-0.794755	0.4280
CI	0.000142	0.002406	0.059029	0.9530
Z-SCORE	-0.002813	0.001548	-1.817116	0.0712

Source: Researcher, data processed (2026)

Based on Table 4, there are five probability values obtained from the independent and control variables, which can be clarified as follows: (1) Probability value of ROA is 0.8109, which exceeds 0.05, indicating no heteroskedasticity; (2) Probability value of DER is 0.2835, which also exceeds 0.05, indicating no heteroskedasticity; (3) Probability value of SIZE is 0.4280, which exceeds 0.05, indicating no heteroskedasticity; (4) the probability value of CI is 0.9530, which exceeds 0.05, indicating no heteroskedasticity; and (5)

Probability value of Z-SCORE is 0.0712, which is also above 0.05, indicating no heteroskedasticity.

4.3.4 Autocorrelation Test

Finding a correlation between residuals over time is the objective of this test. This is important to ensure that the model does not contain systematic residual patterns across time periods. Table 5 displays the test findings as follows:

Table 5. Autocorrelation Test

R-squared	0.909509	Mean dependent var	1.404191
Adjusted R-squared	0.883654	S.D. dependent var	2.029100
S.E. of regression	0.525169	Sum squared resid	40.54290
F-statistic	35.17769	Durbin-Watson stat	1.988773
Prob(F-statistic)	0.000001		

Source: Researcher, data processed (2026)

Table 5 indicates that the Durbin-Watson value is 1.988773. The upper bound (dU) is 1.8168 and the value of $4 - dU$ is 2.1832 with a total sample size (n) of 190 and five independent and control variables. The Durbin-Watson statistic, which is $1.8168 < 1.988773 < 2.1832$, falls within the interval $dU < d < 4 - dU$, according to the test results. This, it may be said that the model does not contain autocorrelation.

4.4 Panel Data Regression Analysis

To uncover the connections between influencing factors and outcomes, panel data regression is utilized. The analysis weaves together variables such as tax avoidance, profitability, capital structure, firm size, capital intensity, and financial distress are among the variables. The FEM guides the approach, with insights revealed in Table 6:

Table 6. Panel Data Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-13.52882	2.105167	-6.426483	0.0001
ROA	-0.186095	0.023314	-7.982009	0.0001
DER	-0.058498	0.038068	-1.536664	0.1265
SIZE	0.464009	0.075670	6.132027	0.0001
CI	-0.040859	0.068153	-0.599528	0.5497
Z-SCORE	0.036379	0.048257	0.753859	0.4521

Source: Researcher, data processed (2026)

Based on Table 6, the values in the Coefficient column are used to construct this equation. Therefore, this equation can be formulated as follows:

$$\text{CETR} = -13.52882 - 0.186095 \cdot \text{ROA} - 0.058498 \cdot \text{DER} + 0.464009 \cdot \text{SIZE} - 0.040859 \cdot \text{CI} + 0.036379 \cdot \text{Z-SCORE} + \varepsilon$$

Where:

CETR	= Tax avoidance
ROA	= Profitability
DER	= Capital structure
SIZE	= Firm size

CI	= Capital intensity
Z-SCORE	= Financial distress
ε	= Error term

4.5 Hypothesis Testing

4.5.1 Parsial Test (t)

Each independent variable's unique contribution to shaping the dependent variable in the regression model is explored using a partial test (t). Table 7 displays this test results as follows:

Table 7. Parsial Test (t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-13.52882	2.105167	-6.426483	0.0001
ROA	-0.186095	0.023314	-7.982009	0.0001
DER	-0.058498	0.038068	-1.536664	0.1265
SIZE	0.464009	0.075670	6.132027	0.0001
CI	-0.040859	0.068153	-0.599528	0.5497
Z-SCORE	0.036379	0.048257	0.753859	0.4521

Source: Researcher, data processed (2026)

Table 7 presents this test findings can be understood according to the predetermined criteria as follows:

1. Profitability (ROA) shows a p-value of 0.0001, below the 0.05 significance threshold, with a t-value of -7.982009 indicating a negative direction, revealing a meaningful inverse impact on tax avoidance. Consequently, H_1 is recognized.
2. Capital structure (DER) shows a p-value of 0.1265, which is greater than the significance level of 0.05, with a t-value of -1.536664 indicating a negative direction, suggesting no

meaningful influence on tax avoidance. Hence, H_2 is turned down.

3. Firm size (SIZE) shows a p-value of 0.0001, below the 0.05 threshold of significance, with a t-value of 6.132027 indicating a positive direction, indicating a direct effect on tax avoidance. Therefore, H_3 is recognized.

4.5.2 Simultaneous Test (F)

This test's goal is to assess how each independent variable affects the dependent variable in the regression. The corresponding outcomes are illustrated in Table 8 below:

Table 8. Simultaneous Test (F), R-squared (R²), and Adjusted R-squared

R-squared	0.909509	Mean dependent var	1.404191
Adjusted R-squared	0.883654	S.D. dependent var	2.029100
S.E. of regression	0.525169	Sum squared resid	40.54290
F-statistic	35.17769	Durbin-Watson stat	1.988773
Prob(F-statistic)	0.000001		

Source: Researcher, data processed (2026)

With a probability of 0.000001 falling under the 0.05 benchmark, Table 8 reveals that the independent variables, when combined, substantially impact the dependent variable.

4.5.3 R-Squared (R²)

The R² test looks at the degree to which the independent factors describe the dependent variable. According to Table 8, the R² value is 0.909509, indicates that 90.95% of the variation in the dependent variable is explained by the model's independent variables. In the meantime, the remaining 9.05% is made up of variables that are not part of the study model. The regression model's great explanatory ability in characterizing how the independent and dependent variables are related is suggested by this high R-squared value.

4.5.4 Adjusted R-Squared

As stated by Table 8 results, the amount of adjusted R² is 0.883654, indicating that approximately 88.37% of the variation in the dependent variable is explained by the independent variables included in the regression model. Factors not incorporated into the research model have an impact on the remaining 11.63%. The regression model appears to have great accuracy and explanatory power based on this high Adjusted R-squared value.

4.6 Discussion

4.6.1 The Effect of Profitability on the Cash Effective Tax Rate (CETR)

The empirical findings demonstrate that profitability has a significant negative effect on the Cash Effective Tax Rate (CETR), thereby supporting Hypothesis 1. Since a lower CETR

indicates a higher level of tax avoidance, the negative coefficient implies that firms with higher profitability are more likely to engage in tax avoidance activities. This finding suggests that increasing corporate profitability strengthens management's incentives to implement tax planning strategies aimed at minimizing tax payments while remaining within the legal framework.

From the perspective of agency theory, profitable firms face greater pressure to maximize shareholder value by improving after-tax earnings. Managers, acting as agents, may therefore adopt more sophisticated tax planning strategies to reduce corporate tax expenses and increase net income. This behavior reflects the agency conflict described by Jensen and Meckling (1976), whereby managers seek to satisfy shareholders' expectations for higher returns while simultaneously maximizing managerial performance indicators. Consequently, tax avoidance becomes one mechanism through which managers attempt to enhance firm value without directly violating tax regulations.

The findings also indicate that profitability provides firms with greater financial resources to employ professional tax consultants, optimize tax planning, and exploit available fiscal incentives. Higher earnings generate larger taxable income, making the potential benefits of tax planning increasingly attractive. Accordingly, profitable firms tend to invest more heavily in tax management practices than firms with relatively low profitability.

These findings are consistent with previous studies conducted by Gumelar et al. (2024) and Situmorang et al. (2025), which

conclude that profitability positively encourages corporate tax avoidance. However, the present study extends previous evidence by focusing specifically on Indonesia's basic materials sector during the post-pandemic recovery period (2020–2024), indicating that profitability remains a dominant determinant of tax avoidance despite changes in tax regulations and economic conditions. The results therefore reinforce the proposition that financial performance plays a central role in shaping corporate tax behavior in emerging markets.

4.6.2 The Effect of Capital Structure on the Cash Effective Tax Rate (CETR)

The regression results reveal that capital structure has no statistically significant effect on the Cash Effective Tax Rate (CETR), leading to the rejection of Hypothesis 2. Although the estimated coefficient is negative, its statistical insignificance indicates that variations in debt financing do not materially influence corporate tax avoidance among basic materials companies.

The absence of a significant relationship suggests that debt financing is primarily employed to support operational activities, investment expansion, and liquidity management rather than as an instrument for reducing tax liabilities. While interest expenses generated by debt create tax-deductible benefits under the tax shield concept, these benefits appear insufficient to substantially alter firms' tax avoidance behavior within the observed sample.

From the perspective of agency theory, debt may function as a governance mechanism that reduces managerial discretion through increased monitoring by creditors. Firms with higher leverage are generally subject to stricter contractual obligations and closer supervision from lenders, limiting managers' opportunities to engage in aggressive tax planning. Consequently, agency conflicts associated with tax avoidance become less pronounced when firms rely heavily on external financing.

Another possible explanation relates to Indonesia's taxation environment, where

interest deductibility is subject to regulatory limitations, including thin capitalization rules and transfer pricing regulations. These policies may reduce the effectiveness of debt as a tax planning instrument, thereby weakening the association between leverage and tax avoidance. As a result, firms may prioritize financial stability over aggressive tax-saving strategies.

These findings are consistent with Arianti and Soesila (2025), who report that capital structure does not significantly affect corporate tax avoidance. However, they differ from Darma and Amelia (2025), who find that leverage significantly increases tax avoidance through interest tax shields. This inconsistency suggests that the influence of capital structure on tax avoidance may depend on industry characteristics, financing patterns, and institutional environments, highlighting the importance of contextual analysis in corporate taxation research.

4.6.3 The Effect of Firm Size on the Cash Effective Tax Rate (CETR)

The empirical results indicate that firm size has a significant positive effect on the Cash Effective Tax Rate (CETR), supporting Hypothesis 3. Because higher CETR values indicate lower tax avoidance, the findings imply that larger firms tend to exhibit higher levels of tax compliance than smaller firms. Although large corporations possess greater financial capacity and more sophisticated tax planning resources, they appear less likely to engage in aggressive tax avoidance practices.

This finding can be explained by the greater visibility and accountability faced by large firms. Companies with substantial assets typically receive more intensive scrutiny from tax authorities, investors, financial analysts, regulators, and the public. Consequently, maintaining corporate reputation and regulatory compliance becomes increasingly important, reducing management's willingness to pursue aggressive tax avoidance strategies that could expose the firm to legal, financial, or reputational risks.

From an agency theory perspective, larger firms generally possess more developed governance systems, stronger internal controls, and more effective oversight mechanisms. These governance structures constrain managerial opportunism and encourage tax strategies that balance tax efficiency with regulatory compliance. Rather than maximizing tax savings at all costs, managers in larger firms tend to adopt more conservative tax policies that support long-term corporate sustainability.

The findings also support the political cost hypothesis, which argues that larger firms face greater political and regulatory pressure because of their economic significance. Consequently, these firms tend to demonstrate greater transparency and higher tax compliance to minimize public criticism and regulatory intervention. In contrast, smaller firms often receive less regulatory attention, providing greater flexibility in implementing tax planning strategies.

These results are consistent with Kalbuana et al. (2023) and Sari and Ramli (2023), who conclude that larger companies generally exhibit lower levels of tax avoidance. The present study further contributes to the literature by demonstrating that, within Indonesia's basic materials sector, corporate size serves as an important governance-related characteristic influencing tax behavior. The findings therefore suggest that regulatory oversight and reputational considerations may outweigh the financial capability of large firms to engage in aggressive tax planning.

5. Conclusion

The research centers on analyzing how profitability, capital structure, and company size influence tax avoidance practices. In addition, capital intensity and financial distress are included as control variables to minimize any bias in the findings. The research object consists of basic materials sector companies on IDX 2020–2024. The sample selection employs a purposive sampling technique, resulting in 38 companies with a total of 190 observations.

EViews 13 program is used for panel data regression data analysis.

5.1 Summary of Key Findings

This study investigates the effects of profitability, capital structure, and firm size on corporate tax avoidance among basic materials companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Tax avoidance is measured using the Cash Effective Tax Rate (CETR), while capital intensity and financial distress are incorporated as control variables to improve model robustness. Using a balanced panel dataset comprising 38 companies (190 firm-year observations) and panel data regression analysis, the Fixed Effect Model (FEM) was identified as the most appropriate estimation model.

The empirical findings reveal three important conclusions. First, profitability has a significant negative effect on CETR, indicating that firms with higher profitability tend to engage in greater tax avoidance activities. Second, capital structure does not significantly influence CETR, suggesting that leverage is not a primary determinant of tax avoidance behavior among Indonesian basic materials companies. Third, firm size has a significant positive effect on CETR, implying that larger firms exhibit higher levels of tax compliance and lower levels of tax avoidance.

Collectively, these findings demonstrate that corporate financial characteristics play different roles in shaping tax planning decisions, with profitability and firm size emerging as the most influential determinants. Overall, the study confirms that tax avoidance behavior is influenced not only by firms' financial performance but also by organizational characteristics and governance-related factors. These findings contribute to a better understanding of corporate tax behavior in Indonesia's basic materials sector during the post-pandemic economic recovery period.

5.2 Theoretical Contributions

This study contributes to the corporate taxation and accounting literature by extending the application of agency theory in explaining tax avoidance behavior within an emerging market context. The findings demonstrate that managerial incentives associated with higher profitability encourage tax planning strategies aimed at maximizing after-tax earnings, whereas larger firms tend to adopt more conservative tax strategies because of stronger governance mechanisms, regulatory oversight, and reputational concerns.

Unlike many previous studies that focus solely on manufacturing or mining industries, this research provides empirical evidence from Indonesia's basic materials sector, an industry that remains relatively underexplored despite its strategic contribution to national economic development. Furthermore, the inclusion of capital intensity and financial distress as control variables enhances the robustness of the empirical model and provides a more comprehensive explanation of firm-level determinants of tax avoidance.

5.3 Practical Implications

The findings offer several practical implications for policymakers, tax authorities, corporate managers, and investors. For tax authorities, the results suggest that highly profitable firms deserve greater attention in tax monitoring because they possess stronger incentives to implement sophisticated tax planning strategies. Strengthening risk-based tax audits, improving data analytics, and enhancing corporate tax governance may help reduce aggressive tax avoidance practices.

For corporate managers, the findings emphasize the importance of balancing tax efficiency with regulatory compliance and corporate reputation. While tax planning may improve after-tax profitability, excessive tax avoidance may expose firms to legal, financial, and reputational risks that ultimately reduce long-term firm value. For investors, profitability and firm size may serve as useful indicators when evaluating firms' tax behavior and

governance quality. Companies demonstrating stronger tax compliance may be perceived as having lower regulatory risk and more sustainable long-term financial performance.

5.4 Limitations of the Study

Despite providing meaningful empirical evidence, this study has several limitations. First, the analysis is limited to companies operating within Indonesia's basic materials sector, thereby restricting the generalizability of the findings to other industries. Second, the observation period covers only five years (2020–2024), which may not fully capture longer-term changes in corporate tax behavior under different macroeconomic and regulatory environments. Third, tax avoidance is measured solely using the Cash Effective Tax Rate (CETR), which primarily reflects cash tax payments and may not comprehensively capture all dimensions of corporate tax planning. Finally, although two control variables are incorporated, other governance-related, institutional, and macroeconomic factors that may influence tax avoidance are beyond the scope of this study.

5.5 Directions for Future Research

Future research is encouraged to expand this study in several directions. First, subsequent studies may investigate multiple industrial sectors or conduct cross-country comparisons to improve the external validity of the findings. Second, extending the observation period would allow researchers to examine the long-term impact of changes in tax regulations, economic cycles, and corporate governance reforms on tax avoidance behavior. Future studies may also employ alternative tax avoidance measures, such as the GAAP Effective Tax Rate (GAAP ETR), Book-Tax Differences (BTD), Long-run Cash Effective Tax Rate, or discretionary permanent differences, to obtain a more comprehensive assessment of corporate tax planning.

Furthermore, incorporating corporate governance variables—such as board independence, audit quality, institutional

ownership, executive compensation, environmental, social, and governance (ESG) performance, or digital tax governance—may provide deeper insights into the mechanisms through which firms manage their tax obligations. Such extensions would enrich the growing literature on corporate taxation and strengthen policy recommendations for improving corporate tax compliance in emerging economies.

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