

TAXATION STUDIES | RESEARCH ARTICLE

# The Effect of Profitability, Leverage, Liquidity, Capital Intensity, and Corporate Social Responsibility in Tax Avoidance

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## ABSTRACT

Tax avoidance has emerged as a critical concern due to its potential impact on state revenue. This research investigates the influence of profitability, leverage, liquidity, capital intensity, and corporate social responsibility on tax avoidance. The study utilizes financial reports from manufacturing companies listed on the Indonesia Stock Exchange (IDX). Using the purposive sampling method, where the sample was selected based on several predetermined criteria, the research chose 63 company samples from a total population of 207. The study period spanned from 2021 to 2024. Data analysis was conducted using multiple linear regression, processed with IBM SPSS 25 software. The findings show that leverage significantly affects tax avoidance, where high debt produces interest rates that reduce tax burdens. Liquidity has a significant influence, as high liquidity increases tax avoidance through the flexibility of assets. In contrast, profitability, capital intensity, and corporate social responsibility do not have a significant effect on tax avoidance. The company manages strategic liquidity and leverage, prioritizes fiscal compliance, and strengthens CSR for long-term reputation, not just for tax purposes.

**Keywords:** Profitability, Leverage, Liquidity, Capital Intensity, Corporate Social Responsibility, Tax Avoidance.

**JEL Code:** H26, H25, G32, M41, M14

## I. Introduction

The economic development of a nation is often gauged by its national income. A primary source of government revenue is the taxation sector, which plays a crucial role in funding public services and national development. As stipulated by the Indonesian (Law of the Republic of Indonesia Number 7 of 2021), taxes are mandatory contributions to the state, utilized to the fullest extent for the welfare of the populace. Consequently, optimizing tax revenue is a vital indicator of national development

effectiveness. However, in practice, an inherent conflict of interest exists between the government, as the tax collector, and corporations, which are also taxpayers. For the government, taxation is an essential fiscal instrument. Conversely, companies often perceive taxes as a burden that diminishes net profit. This divergence of interests prompts some companies to engage in tax efficiency strategies, including tax avoidance. Tax avoidance involves legally exploiting loopholes or ambiguities within tax regulations (Shantikawati, 2020). Although legally permissible, this practice can significantly reduce state revenue.

Numerous tax avoidance cases in Indonesia highlight this as a serious challenge. For instance, PT Bentoel Internasional Investama, a subsidiary of British American Tobacco, reportedly utilized offshore debt schemes and royalty payments to reduce its tax burden, resulting in millions of dollars in annual state losses (Nasional.Kontan.co.id, 2019). Another case involved PT Susanto Dwi Rejeki, which issued fictitious tax invoices to reduce its VAT obligations, resulting in nearly IDR 4 billion in state losses (Kumparan.com, 2025). Even large corporations, such as PT Indofood Sukses Makmur Tbk, have been implicated in business restructuring activities that have led to tax avoidance (Gres News, 2013). Based on the phenomenon of tax avoidance cases carried out by several companies, as described, several factors influence tax avoidance, including profitability, leverage, liquidity, capital intensity, and corporate social responsibility (CSR). The difference in the results of previous research, which is the one that has been in this study, namely, (Irianto et al., 2017) found a positive effect of profitability on tax avoidance, while (Handayani et al, 2024) reported an adverse effect, and (Nafik Hadi Ryandono et al., 2020) found no significant effect. Similar inconsistencies are observed for leverage, liquidity, and CSR variables, with research outcomes varying depending on the context and industry sector.

Profitability reflects a company's ability to generate profit. Higher profits generally lead to a greater potential tax burden, thus incentivizing companies to avoid taxes (Handayani et al., 2024). Leverage, indicating a company's debt structure, can reduce tax liabilities as interest expenses are tax-deductible (Darsani & Sukartha, 2021). Meanwhile, liquidity measures a company's ability to meet short-term obligations. Liquid companies tend to manage their tax burdens strategically. Capital intensity reflects the proportion of fixed assets to total assets, where fixed assets provide tax benefits through depreciation (Abdullah, 2020). Lastly, corporate social responsibility (CSR) refers to a company's obligations to its stakeholders and the broader public. Companies actively engaged in CSR tend to be more cautious in their tax avoidance strategies, considering their reputation and social legitimacy (Darius Sidauruk et al., 2024). Based on this explanation, this study is important for analyzing the impact of profitability, leverage, liquidity, capital intensity, and corporate social responsibility on companies' tax avoidance efforts aimed at reducing their legally mandated tax payments to the government. Research focuses on manufacturing companies, which possess complex operational characteristics and financial reporting, and are considered to have significant potential for tax avoidance strategies.

## II. Literature Review and Hypothesis Development

### 2.1. Agency Theory

Agency theory describes a contractual relationship between a principal (shareholder) and an agent (manager), who is employed to perform services and delegated specific decision-making authority (Jensen & Meckling, 1976). This theory explains the emergence of information asymmetry between the agent (the manager) and the principal (the shareholder), which can lead to conflicts within the company due to differing objectives and interests. Principals seek to maximize profits, while agents

may prioritize personal interests, such as performance-based compensation. Managers may be motivated to reduce their tax burden to demonstrate good performance, but this can be detrimental to the government by reducing tax revenues (Anggreny Bangsawan et al., 2025). Tax avoidance can occur through the use of strategies that are considered legal and safe for taxpayers, because they use weaknesses or 'grey areas' in tax laws and regulations to maintain corporate profits, which are then used by managers to secure compensation from principals for their performance (Shantikawati, 2020)

## 2.2. Tax avoidance

Tax avoidance refers to actions undertaken by taxpayers, whether individuals or corporations, to minimize their tax liabilities legally. This is achieved by leveraging loopholes or weaknesses in tax regulations without violating applicable provisions. (Setyawan, 2021). This practice, which involves strategies or transaction schemes designed to reduce the tax burden to the lowest possible level (Kusuma Wardani et al., 2019) It operates within legal boundaries, thus avoiding criminal sanctions. However, despite being legal, tax evasion raises serious concerns for tax authorities because it can significantly reduce state revenue.

With increasing business complexity and economic globalization, tax evasion practices are on the rise, particularly in capital-intensive sectors like manufacturing. This has prompted the Directorate General of Taxes (DGT) to implement policy reforms and strengthen regulations to curb such practices. The tax-as-cost theory suggests that taxes affect a company's net profit, while the tax-as-profit-distribution approach emphasizes that taxes affect the rate of return on investment. (Sutrisno et al., 2020). Therefore, a thorough understanding of the factors influencing tax avoidance is crucial for formulating more targeted and effective tax policies. Indicators for Measuring Tax Avoidance:

- a. Effective Tax Rate (ETR) – A high ETR may indicate a lack of tax avoidance strategy and budgetary efficiency, but at the same time, it can reduce financial performance due to higher tax expenses (Saffanah & Pratama, 2025) The ratio of tax expense to pre-tax income. A lower ETR indicates a higher likelihood of tax avoidance practices. (Pandapotan, 2023)
- b. Cash Effective Tax Rate (CETR) – The ratio of cash paid for taxes compared to pre-tax income. CETR is used to assess the aggressiveness of a company's tax planning strategies (Mulyati et al., 2019).

## 2.3. Profitability

Agency theory explains the relationship between principals (owners or shareholders) and agents (managers or company executives), where managers strive to increase company profit and value, indirectly benefiting shareholders. Shareholder satisfaction is the primary goal for managers to receive awards in the form of bonuses, allowances, facilities, and other benefits. Company profit can be observed through profitability, which illustrates the relationship between financial growth and the acquisition of company profit (Sutrisno et al., 2020). One ratio that can be used to determine a company's profitability level is Return on Assets (ROA). ROA refers to the profit generated by the company and the amount of income tax that can be imposed on the company. A high ROA value indicates a high level of profit generated by the company, leading to a high amount of tax payable, which compels agents to increase their efforts to reduce tax from profit by engaging in tax avoidance

(Gultom, 2021). Research by Irianto et al. (2017) found a positive relationship between profitability and tax avoidance. Based on the explanation provided, the hypothesis in this study is:

*H1: Profitability has a positive effect on Tax Avoidance.*

#### 2.4. Leverage

Agency theory elucidates the relationship between shareholders and company managers. Company managers strive to maximize profits by minimizing tax payments, often engaging in tax avoidance by incurring expenses that can reduce the company's overall profit. One such tax-reducing expense is leverage. Leverage can serve as a disciplinary tool for managers by limiting the availability of unrestricted funds that could be misused. Leverage is a ratio indicating the extent of a company's debt. It demonstrates the relationship between the amount of debt and the amount of company equity used to finance investments (Gultom, 2021). If operations are financed through debt, interest must be paid, which reduces taxable income, consistent with research conducted by Irianto et al. (2017), who found a negative relationship between leverage and tax avoidance. Based on the explanation provided, the hypothesis in this study is:

*H2: Leverage hurts Tax Avoidance.*

#### 2.5. Liquidity

Liquidity refers to a company's ability to pay short-term liabilities that have reached their due date, as indicated by its liquidity (Gultom, 2021). According to Darius Sidauruk et al. (2024), liquidity is a measure of an organization's ability to meet its immediate debt obligations. An organization's ability to utilize assets that are readily convertible into cash can serve as an indicator of its financial health. A company's capacity to meet its financial obligations, especially short-term debt, is crucial. If the company's finances are in good condition and there are no cash flow issues, the business entity can still cover its expenses, such as taxes. Therefore, tax avoidance for companies is relatively small, often referred to as liquidity (Sutrisno et al., 2020).

Liquidity refers to a company's ability to settle short-term debts within a period of less than one year (Putri et al., 2023). The current ratio, quick ratio, cash ratio, and net working capital to total assets ratio are key components of liquidity. These aspects indicate management performance and the extent to which a company can meet its short-term obligations using assets readily convertible into cash (Akbar, 2018) If a company has adequate short-term liquid assets, it can quickly meet its short-term obligations, and if the company faces difficulties in paying them, they tend to use tax avoidance strategies because their liquidity can be used for other operations. This explanation is supported by research from Handayani et al. (2024), which demonstrates that liquidity has a positive impact on tax avoidance. Based on the explanation provided, the research hypothesis is:

*H3: Liquidity has a positive effect on Tax Avoidance.*

## 2.6. Capital Intensity

Agency theory forms the basis for the differing interests between shareholders and managers. Company managers strive to maximize profits by minimizing tax payments, often engaging in tax avoidance by incurring expenses that can reduce company profits. One such tax-reducing expense is through the measurement of capital intensity. Capital intensity is a ratio that measures a company's capital utilization, which can reduce its tax burden by converting depreciation expenses into a tax deduction, thereby lowering the company's taxable income in tax calculations (Anggreny Bangsawan et al., 2025). The more fixed assets a company possesses, the greater the depreciation, which in turn reduces the company's tax burden. This is reinforced by research conducted by Irianto et al. (2017), which states that capital intensity negatively affects tax avoidance, indicated by a low ETR value. Based on the explanation provided, the hypothesis in this study is:

*H4: Capital Intensity hurts Tax Avoidance.*

## 2.7. Corporate social responsibility (CSR)

Corporate social responsibility (CSR) is a mutually beneficial relationship between a business entity and the social community to build a positive image, through social and environmental programs, companies demonstrate their commitment to realizing sustainable development through the integration of economic, social, and environmental dimensions, regulations, and governance, implemented in an integrated, systematic, measurable, and accountable manner (Kiswanto et al., 2020). (Undang-Undang Republik Indonesia Nomor 40 Tahun 2007, n.d.) Concerning Limited Liability Companies/CSR, the government requires limited liability companies to implement CSR activities; failure to do so risks administrative sanctions. CSR is a form of commitment by a business entity to carry out business activities and contribute to economic growth (Somya Lasmana et al., 2019). In addition, CSR encompasses efforts to promote improved welfare for workers, as well as positive social impacts for local communities and the broader public. (Darius Sidauruk et al., 2024) define CSR as actions taken by companies to improve the company's image by re-engaging with the community through social responsibility programs that are concrete implementations to realize facility progress. CSR activities are not exempt from taxation in accordance with current tax regulations (Setyawan, 2021). Regarding Limited Liability Companies that regulate TJSL/CSR, the government requires limited liability companies to implement CSR programs. If companies fail to implement these two activities, they may face administrative sanctions. CSR activities represent an expenditure subject to tax according to applicable regulations, where companies expense CSR activities to reduce taxable profit (Darius Sidauruk et al., 2024), consistent with research conducted by Setyawan (2021) and Darius Sidauruk et al. (2024). Based on the explanation provided, the research hypothesis is:

*H5: Corporate social responsibility hurts Tax Avoidance*

## III. Research Method

This study employs secondary data, specifically annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2024. Data collection was

conducted through documentation, including access to the official IDX website ([www.idx.co.id](http://www.idx.co.id)) and relevant company websites. The sampling technique utilized was purposive sampling. (Sugiyono, 2013), with the following criteria:

- a. Companies operating in the manufacturing sector and listed on the Indonesia Stock Exchange (IDX) during the 2021-2024 period.
- b. Companies that were actively profitable for four consecutive years throughout the 2021-2024 period.
- c. Companies that consistently published financial reports in Indonesian Rupiah during the 2021-2024 period.
- d. Companies that provided complete financial reports required for the 2021-2024 period.

The data collected from a total population of 207 companies, resulting in a sample of 63 manufacturing companies, were analyzed using a quantitative method with a multiple linear regression approach to test the effect of profitability, leverage, liquidity, capital intensity, and corporate social responsibility on tax avoidance.

- a. Tax Avoidance is measured using the Effective Tax Rate (ETR) indicator, which is the ratio of income tax expense to after-tax profit.
- b. Profitability is calculated using the Return On Assets (ROA) indicator, which is the ratio of after-tax profit to total assets.
- c. Leverage is measured using the Debt to Equity Ratio (DER) indicator, which is the ratio of total liabilities to total equity.
- d. Liquidity is calculated using the Current Ratio (CR) indicator, which is the ratio of current assets to current liabilities.
- e. Capital Intensity is measured using the Capital Intensity Ratio (CIR) indicator, which is the ratio of fixed assets to total company assets.
- f. Corporate Social Responsibility is calculated using the CSRIj indicator, which is the ratio of the extent to which companies disclose their corporate social responsibility activities towards the environment, based on GRI Index standards.

Descriptive statistical analysis was performed to collect, summarize, sample, process, and review the data, enabling informed decision-making regarding the research problem. The measures used include mean, maximum value, minimum value, and standard deviation. Classical assumption tests, including multicollinearity (to determine how much the independent variables in a regression model are linearly connected), autocorrelation (in order to evaluate the existence of a relationship between prediction errors, whether the error at a time is correlated with previous errors), heteroscedasticity (useful to ensure that the variance of the disturbance varies unevenly between observations), and normality tests (normality test to ensure model validity), were conducted to assess the feasibility of the regression model. Subsequently, a multiple linear regression analysis was performed to determine the influence of multiple independent variables on a single dependent variable. The F-test (simultaneous) was used to examine the collective influence of all independent variables, and the coefficient of determination ( $R^2$ ) value of 1 indicates a strong model that explains the dependent variable (Ghozali, 2021). Hypothesis testing for validity was based on statistical data obtained from the research sample,

and t-tests were conducted to examine the individual influence of each independent variable on tax avoidance. If the p-value  $\leq 0.05$ , then  $H_0$  is rejected and  $H_a$  is accepted. If  $p > 0.05$ , then  $H_0$  is accepted and  $H_a$  is rejected. All tests were conducted using IBM SPSS 25 software (Ghozali, 2021).

#### IV. Results and Discussion

##### 4.1. Descriptive Statistics Result

**Table 1. Descriptive Statistics**

Indikator	Minimum	Maximum	Mean	Std. Deviation
<i>Tax Avoidance</i>				
2021	.74	.93	.7810	.04433
2022	.74	.97	.7668	.04021
2023	.74	1.15	.7806	.06364
2024	.74	1.07	.7858	.05665
<i>Profitability</i>				
2021	.01	.73	.0975	.12192
2022	.01	.73	.1045	.11473
2023	.00	1.60	.1130	.20622
2024	.00	1.58	.1223	.21839
<i>Leverage</i>				
2021	.01	3.88	.7579	.76743
2022	.01	3.75	.7220	.73596
2023	.01	3.93	.6507	.64652
2024	.01	6.47	.6748	.94952
<i>Liquidity</i>				
2021	.02	13.31	2.4199	2.25462
2022	.02	13.87	2.6628	2.79034
2023	.04	14.68	2.7367	2.90794
2024	.01	15.69	2.8439	3.26467
<i>Capital Intensity</i>				
2021	.02	.90	.3611	.20738
2022	.02	6.75	.5378	1.09194
2023	.02	.86	.3924	.21190
2024	.02	3.50	.4314	.44803
<i>Corporate Social Responsibility (CSR)</i>				
2021	.03	.37	.2238	.06099
2022	.01	.32	.2150	.05668
2023	.02	2.14	.2615	.25199
2024	.02	183.04	3.1264	23.03200

The Tax Avoidance variable had average values ranging from 0.76 to 0.78, with relatively small standard deviations, indicating that the level of tax avoidance among companies did not exhibit significant year-to-year deviations. However, there was an increase in standard deviation in 2023 and 2024, suggesting a growing diversity in tax avoidance levels among companies. The Profitability variable showed relatively low averages, below 0.13, reflecting that most companies in the sample had a small net profit relative to total assets. Nevertheless, a maximum value of up to 1.6 in 2023 indicates the presence of outliers or companies with exceptionally high performance in that year. Leverage tended to fluctuate and increased sharply in 2024, reaching a maximum of 6.47, signifying that some companies were highly dependent on debt for their operational financing. Conversely, Liquidity also gradually increased, meaning more companies had current assets exceeding their current liabilities. However, the significant standard deviation indicates a considerable spread in liquidity values among companies. Capital Intensity, which measures the proportion of fixed assets to total assets, indicates that most companies had moderate capital intensity, although there were significant fluctuations, particularly in 2022. The Corporate Social Responsibility (CSR) variable experienced an extreme surge in value in 2024 (maximum 183.04), which likely reflects one or several companies disclosing CSR very comprehensively compared to others, or possibly a recording error that needs further review.

#### 4.2. Classical Assumption

**Table 2. Classical Assumption Test Results**

Test Type	Method	Result	Criteria	Conclusion
Normality	Kolmogorov-Smirnov	Asymp. Sig = 0.200	Sig > 0.05	Data is normally distributed
Heteroscedasticity	Glejser Test (Sig. > 0.05)	All variables Sig > 0.05	Sig > 0.05	No heteroscedasticity
Autocorrelation	Durbin-Watson	DW = 1.727	Value close to 2	No autocorrelation
Multicollinearity	VIF and Tolerance	VIF < 10 and Tolerance > 0.10	VIF < 10 and Tolerance > 0.10	No multicollinearity

Based on the classical assumption tests, the regression model in this study is deemed suitable for further analysis as it satisfies all prerequisite statistical assumptions. First, the normality test using the Kolmogorov-Smirnov method shows a significance value of 0.200 (> 0.05), indicating that the residuals are normally distributed. Second, the heteroscedasticity test using the Glejser method reveals that all independent variables have significance values greater than 0.05, indicating no evidence of heteroscedasticity in the model. Third, the Durbin-Watson test yields a value of 1.727, which is close to 2, indicating that there is no autocorrelation among the residuals. Lastly, the multicollinearity test results show that all independent variables have VIF values below 10 and Tolerance values above 0.10, indicating the absence of multicollinearity. Therefore, the model meets the classical assumptions and is appropriate for further regression analysis.

#### 4.3. Data Analysis Techniques

##### a. Multiple Linear Regression Analysis

**Table 3. Regression Test Results**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collie nearity Tolerance	Statistics VIF
		B	Std. Error	Beta				
1	(Constant)	2.953	.060		49.360	.000		
	Profitability	.001	.194	.001	.005	.996	.983	1.017
	Leverage	-.091	.033	-.292	-2.763	.008	.852	1.174
	Liquidity	.033	.005	.639	6.122	.000	.872	1.147
	Capital intensity	.000	.002	-.027	-.241	.810	.735	1.360
	CSR	-.014	.010	-.141	-1.419	.161	.958	1.044
a. Dependent Variable: <i>Tax Avoidance</i>								

Multiple linear regression analysis was employed to determine the extent of the simultaneous and partial influence of independent variables on the dependent variable (tax avoidance)(Ghozali, 2021) . This model enables the testing of five independent variables: profitability, leverage, liquidity, capital intensity, and corporate social responsibility (CSR).

The resulting regression equation is:

$$Y = 2.953 + 0.001 (\text{profitabiliy}) + 0.091 (\text{leverage}) + 0.033 (\text{liquidity}) + 0.000 (\text{capital intensity}) + 0.014 (\text{csr}) + e$$

Constant (2.953). When all independent variables are 0, the predicted value of the dependent variable is 2.953. Based on Table 4.3, the regression results indicate that:

- 1) The leverage variable has a regression coefficient of -0.091 with a significance of 0.008 (< 0.05), which means it has a negative and significant effect on tax avoidance. This implies that higher leverage leads to a lower tendency for companies to engage in tax avoidance.
- 2) The liquidity variable shows a positive and significant effect on tax avoidance, with a coefficient of 0.033 and a significance of 0.000. This indicates that companies with high liquidity levels tend to have greater flexibility in managing their tax obligations.
- 3) Meanwhile, the profitability, capital intensity, and CSR variables do not have a significant effect on tax avoidance, as their significance values are > 0.05, specifically 0.996, 0.810, and 0.161, respectively.

These results suggest that only leverage and liquidity significantly influence tax avoidance, while the other three variables do not have a statistically strong enough influence in this model.

b. R<sup>2</sup> Test Results

**Table 4. R<sup>2</sup> Test Results**

Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate
1	.677 <sup>a</sup>	.458	.410	.11177

The coefficient of determination test is conducted to measure how well the regression model explains the variation in the dependent variable. Based on Table 4.4, the following was obtained:

- 1) An R Square value of 0.458, meaning that 45.8% of the variation in tax avoidance can be explained by the five independent variables in the model.
- 2) An adjusted R Square value of 0.410 indicates an adjustment for the number of independent variables in the model, and still shows that the model has moderate explanatory power.
- 3) The remaining 54.2% is explained by other factors outside this regression model, which may originate from external variables or managerial and strategic factors not included in this study.

c. Hasil Uji F

**Tabel 5. Hasil Uji f**

Anova <sup>a</sup>						
	Model	Sum Of Squares	Df	Mean Square	F	Sig.
1	Regression	.602	5	.120	9.631	.000 <sup>b</sup>
	Residual	.712	57	.012		
	Total	1.314	62			

The F-test is used to determine whether all independent variables in the model simultaneously influence the dependent variable. Based on Table 4.5, the significance value is 0.000 (< 0.05), indicating that, simultaneously, profitability, leverage, liquidity, capital intensity, and corporate social responsibility (CSR) together have a significant effect on tax avoidance. This reinforces that the regression model used is statistically viable and relevant in explaining the variation of the dependent variable.

d. Hypothesis Test Results

**Table 6. Partial t-Test Results**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.953	.060		49.360	.000
	Profitability	.001	.194	.001	.005	.996
	Leverage	-.091	.033	-.292	-2.763	.008
	Liquidity	.033	.005	.639	6.122	.000
	Capital intensity	.000	.002	-.027	-.241	.810
	CSR	-.014	.010	-.141	-1.419	.161

The t-test is used to examine the partial influence of each independent variable on the dependent variable. Based on Table 4.6, it can be concluded:

- 1) Profitability does not significantly affect tax avoidance ( $p = 0.996$ ). Although profitability is theoretically related to tax avoidance strategies, no supporting evidence was found in this model.
- 2) Leverage has a significant adverse effect on tax avoidance ( $p = 0.008$ ). This result is consistent with agency theory, which states that companies with high debt tend to be more transparent and fiscally disciplined, thereby reducing tax avoidance.
- 3) Liquidity has a significant positive effect on tax avoidance ( $p = 0.000$ ). High liquidity provides management with the flexibility to implement tax avoidance strategies.
- 4) Capital intensity does not significantly affect tax avoidance ( $p = 0.810$ ). This means that the proportion of fixed assets does not show a strong relationship with tax avoidance practices in this sample.
- 5) Corporate Social Responsibility (CSR) also does not have a significant effect ( $p = 0.161$ ). This may indicate that CSR disclosure in companies is not strong enough to influence corporate tax decisions, or that CSR is not undertaken as a strategy to reduce tax burdens.

Overall, the hypothesis test results indicate that only leverage and liquidity are important factors influencing tax avoidance practices, while other variables are not significant in this model.

#### 4.4. Discussion

##### a. Effect of Profitability on Tax Avoidance

Agency theory posits that the relationship between company owners (principals) and managers (agents) is often characterized by conflicting interests. Managers tend to focus on increasing company profit and value as a form of loyalty to shareholders, while also creating opportunities for greater compensation. One way to maintain or increase profit is through tax avoidance, especially when the company's profitability is high. Profitability, as indicated by the Return on Assets (ROA) ratio, reflects a company's ability to generate profit from its assets. (Sutrisno et al., 2020). Higher profits generally lead to a greater potential tax burden. Therefore, managers may be incentivized to seek strategies to reduce tax burdens, such as engaging in tax avoidance. (Gultom, 2021) dan (Irianto et al., 2017). However, the analysis results in this study indicate that profitability does not have a significant effect on tax avoidance. This suggests that the level of profitability is not a primary factor in determining companies' tax avoidance levels. Although theoretically there is an incentive for managers to avoid taxes when profits are high, companies in this research sample may prioritize fiscal compliance, financial report transparency, or adherence to strict tax regulations.

##### b. Effect of Leverage on Tax Avoidance

In the context of agency theory, leverage or debt financing structure is utilized as a control mechanism over managers. With increasing debt burdens, managers have more limited discretion in using profits freely due to interest payment obligations. These interest expenses become a component that reduces taxable income, thereby legally lowering the tax payable. Leverage reflects the extent to which a company finances its operations through debt compared to its own capital (Gultom, 2021).

According to Irianto et al. (2017), companies with high leverage tend to have lower tax avoidance practices because interest expenses already reduce taxable income. The findings of this study support the observation that leverage has a negative and significant effect on tax avoidance. This means that the greater the proportion of debt in a company's capital structure, the lower the company's tendency to engage in tax avoidance. This suggests that leverage can serve as a limiting factor for opportunistic managerial actions, including tax obligation manipulation.

c. Effect of Liquidity on Tax Avoidance

Liquidity describes a company's ability to meet its short-term obligations using its current assets. In agency theory, managers who possess more internal information than capital owners can utilize excess liquidity as a tool to manage the company's tax burden. When a company has substantial cash reserves or current assets, managers have the flexibility to formulate aggressive or conservative tax strategies. High liquidity provides companies with room to meet their fiscal obligations or even defer them for operational efficiency. (Putri et al., 2023). Research by (Handayani et al., 2024) This suggests that liquidity has a positive impact on tax avoidance, as companies with abundant cash are more likely to engage in tax avoidance due to their financial security. The findings of this study support this argument. Liquidity has been proven to have a positive and significant impact on tax avoidance. This means that companies with high liquidity levels have a greater tendency to engage in tax avoidance. This reinforces the view that high financial flexibility allows managers to implement tax burden efficiency strategies.

d. Effect of Capital intensity on Tax avoidance

Capital intensity refers to the extent to which a company allocates its funds to fixed assets, such as buildings, equipment, and machinery. In agency theory, capital intensity can be utilized by managers to reduce tax burdens through legally permissible depreciation mechanisms. The larger the fixed assets a company owns, the greater the depreciation expense that can be used to lower its taxable income. (Anggreny Bangsawan et al., 2025) Explain that capital intensity creates opportunities for tax burden reduction through depreciation. (Irianto et al., 2017) Additionally, it is noted that capital intensity negatively affects tax avoidance, as depreciation on fixed assets can reduce the tax base. However, the results of this study indicate that capital intensity does not have a significant effect on tax avoidance. This means that the amount of fixed assets owned by a company does not necessarily encourage tax avoidance practices. This could be due to the uniformity of accounting treatment for depreciation or the lack of managerial flexibility in using fixed assets for tax efficiency purposes.

e. Effect of Corporate Social Responsibility on Tax Avoidance

Corporate social responsibility (CSR) refers to a company's commitment to addressing social, environmental, and economic aspects that involve all stakeholders. CSR often incurs financial burdens that can be recognized as deductions from pre-tax income, thereby indirectly potentially reducing the company's tax burden. According to Darius Sidauruk et al. (2024), the implementation of CSR activities constitutes an expenditure subject to tax under applicable regulations; however, it can still be utilized as a strategy to reduce taxable income. (Setyawan, 2021) and (Darius Sidauruk et al., 2024) show that CSR can hurt tax avoidance, where a greater company commitment to CSR leads to a lower tendency for the company to avoid taxes aggressively. However, in this study, CSR does not show a significant effect on tax avoidance. This means that even if companies engage in CSR activities, it does not

necessarily have a direct impact on tax avoidance practices. This could be because CSR implementation in some companies may still be symbolic or not systematically integrated into the company's tax strategy.

## V. Conclusion

This study aims to analyze the effect of profitability, leverage, liquidity, capital intensity, and corporate social responsibility on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange from 2021 to 2024. This study shows that profitability has no significant effect on tax avoidance. Incentives for managers to avoid taxes when profits are high may lead companies in this research sample to prioritize fiscal compliance and transparency in financial reports, or to be subject to strict tax regulations. In contrast, leverage has a significant adverse effect on tax avoidance, where companies with large debts tend to experience a reduction in taxable income due to interest expenses. Liquidity shows a significant positive effect, with highly liquid companies utilizing their financial flexibility for tax avoidance strategies. Meanwhile, capital intensity does not affect because companies with high capital intensity often incur substantial fixed costs associated with their investments in fixed assets. This can lead to a focus on maintaining operational efficiency rather than engaging in aggressive tax avoidance strategies. The need to cover these costs may prioritize financial stability over tax minimization. Corporate social responsibility does not appear to have a significant effect on tax avoidance. The complexity of tax laws and regulations may be the reason companies struggle to navigate tax avoidance strategies effectively, so they focus more on straightforward tax compliance and practices.

This study contributes to the tax accounting literature by confirming that leverage and liquidity have a significant relationship with tax avoidance, supporting the agency theory regarding the conflict of interest between managers and shareholders. These findings also provide empirical evidence on the relationship between financial variables and social responsibility in relation to tax avoidance in the Indonesian manufacturing sector. For corporate management, the results of this study are important for designing effective fiscal strategies, as high liquidity can attract the attention of tax authorities, and leverage management must be carried out carefully. Management is advised not to focus too much on tax avoidance, which can harm the company's reputation, and to strengthen social responsibility to improve fiscal compliance and long-term reputation.

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