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The Dynamics of Tax Avoidance: Examining How Profitability, Solvency, Capital Intensity, and Company Size Interact

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Abstract

Tax avoidance represents a strategic maneuver by taxpayers to minimize their tax burden by capitalizing on the intricacies of tax legislation. This complex phenomenon encompasses a range of tactics, including leveraging exemptions, deductions, tax incentives, non-taxable income, deferring tax liabilities, and, regrettably, engaging in unethical practices such as bribery and forgery. This study seeks to unravel the intricate relationships between profitability, solvency, capital intensity, and company size regarding tax avoidance within the manufacturing sector, specifically targeting food and beverage firms listed on the Indonesia Stock Exchange from 2017 to 2022. Employing the Cash Effective Tax Rate (CETR) as a proxy for tax avoidance, we meticulously selected a sample of 70 companies through purposive sampling based on rigorous criteria. Our analysis, conducted via multiple linear regression using SPSS 25, reveals compelling insights: profitability, solvency, and capital intensity significantly bolster tax avoidance strategies, while larger company size appears to dampen these efforts. Collectively, these factors create a multifaceted influence on tax avoidance behaviors, highlighting the intricate dynamics at play within the corporate landscape.

Abstrak

Penghindaran pajak merupakan strategi yang digunakan wajib pajak untuk mengurangi beban pajak dengan memanfaatkan seluk-beluk peraturan perpajakan. Fenomena kompleks ini meliputi berbagai taktik, termasuk pemanfaatan pengecualian, pengurangan pajak, insentif pajak, penghasilan yang bukan objek pajak, penangguhan kewajiban pajak, serta praktik tidak etis seperti penyuapan dan pemalsuan. Penelitian ini bertujuan untuk mengungkap hubungan yang rumit antara profitabilitas, solvabilitas, intensitas modal, dan ukuran perusahaan terhadap penghindaran pajak di sektor manufaktur, khususnya pada perusahaan makanan dan minuman yang terdaftar di Bursa Efek Indonesia selama periode 2017-2022. Dengan menggunakan Cash Effective Tax Rate (CETR) sebagai proksi untuk penghindaran pajak, kami melakukan pemilihan sampel sebanyak 70 perusahaan melalui purposive sampling berdasarkan kriteria yang ketat. Analisis dilakukan melalui regresi linier berganda menggunakan SPSS 25, dan hasilnya menunjukkan wawasan yang menarik: profitabilitas, solvabilitas, dan intensitas modal secara signifikan mendukung strategi penghindaran pajak, sementara ukuran perusahaan yang lebih besar cenderung mengurangi upaya tersebut. Secara kolektif, faktor-faktor ini menciptakan pengaruh multifaset terhadap perilaku penghindaran pajak, menyoroti dinamika rumit yang terjadi dalam lanskap korporasi.

Kata Kunci : profitabilitas, solvabilitas, intensitas modal, ukuran perusahaan, penghindaran pajak

INTRODUCTION

In developing countries, particularly Indonesia, taxation plays a crucial role, even more significant than in developed nations. Taxes are a primary source of revenue for the state and can contribute twice as much compared to developed countries, thanks to the high rate of economic growth in developing nations. With rapid economic growth, the government implements fiscal policies that promote development through various tax instruments (Rahmawati, Nurlaela & Samrotun, 2021).

Taxes are a vital source of funding for Indonesia's economy. The government uses tax revenues to carry out programs aimed at stimulating economic growth, such as infrastructure development, public assets, and other public facilities. From a social perspective, tax payments are essential for financing public institutions and assets, thereby enhancing the well-being of society (Wulandari et al., 2023). Taxation is an obligation that citizens owe to the government, and paying taxes reflects the community's involvement and support for the administration of government (Dharma & Noviari, 2017).

The Indonesian government is increasingly focused on optimizing tax revenue each year by enhancing the existing tax system. Given the economic conditions in Indonesia and global dynamics, the government plans to gradually raise tax rates to maximize state income. One of the strategies adopted is through policies that encourage entrepreneurs to advance their businesses (Dharma & Noviari, 2017).

Data from the Ministry of Finance indicate that tax revenue has fluctuated annually, as shown in Table 1. This table illustrates that over the past six years, tax revenue has experienced both increases and decreases, including variations in effectiveness. Several challenges in optimizing tax revenue have arisen, one of which is the prevalence of tax avoidance practices (Dharma & Noviari, 2017).

Table 1
Effectiveness of Tax Revenue

Year	Revenue Target (trillion Rupiah)	Actual Revenue (trillion Rupiah)	Effectiveness of Tax Revenue (percent)
2017	1.472.7	1.343.5	91,23
2018	1.618.0	1.518.7	93,86
2019	1.786.3	1.546.1	86,55
2020	1.404.5	1.285.1	91.50
2021	1.444.5	1.547.8	107,15
2022	1.825.21	2.080.8	114,01

Source: https://www.kemenkeu.go.id

According to Law No. 28 of 2007 on General Provisions and Procedures in Taxation, tax is defined as "a mandatory contribution to the state owed by individuals or entities that do not have a direct reciprocal relationship, aimed at maximizing the prosperity of the state and its people." This law emphasizes that taxes are a crucial source of revenue for the state. On the other hand, for businesses, taxes represent a burden that reduces net income. The tension between countries aiming for substantial and sustainable tax revenue and companies seeking to minimize their tax obligations underpins the phenomenon of tax avoidance (Rahman, tjetje, syaputra 2018) .

Corporate tax minimization can occur through both legal and illegal means, referred to as tax avoidance and tax evasion. Tax avoidance involves companies legally exploiting loopholes in the law to reduce their tax liabilities, whereas tax evasion pertains to illegal activities, such as underreporting income. For example, reporting income at a higher deduction rate than earned exemplifies tax evasion (Rahman, tjetje, syaputra 2018).

Tax avoidance is the taxpayer's effort to lessen tax burdens by capitalizing on weaknesses in tax regulations (Nova et al., 2022). This practice aims to streamline tax liabilities through various methods, including exemptions, deductions, tax incentives, non-taxable income, tax deferrals, and even unethical practices like bribery and fraud (Rusydi, 2014). The goal of tax avoidance is to minimize tax liabilities to maximize after-tax profits (Nova et al., 2022). However, such activities may lead to penalties or damage a company’s public reputation (Rahman, tjetje, syaputra 2018). While tax avoidance is not illegal, it results in lower government revenues than what should be collected (Winata, 2014).

According to Media (2020), the Tax Justice Network reported that Indonesia loses an estimated $4.86 billion annually due to tax avoidance. This figure translates to approximately Rp68.7 trillion, based on the exchange rate of Rp14,149 per US dollar as of November 22, 2020. The report titled "The State of Tax Justice 2020: During Covid-19" stated that $4.78 billion of this loss, or Rp67.6 trillion, was attributed to corporate tax avoidance, while the remaining $78.83 million, around Rp1.1 trillion, came from individual taxpayers.

Cases of tax avoidance in Indonesia have also been observed in the consumer goods sector, such as PT Coca-Cola Indonesia (CCI). Between 2002 and 2006, CCI was accused of tax fraud. The Directorate General of Taxes (DJP) discovered inflated expense claims, leading to reduced tax payments and an outstanding tax shortfall of Rp49.24 billion. According to the DJP, CCI's taxable income during this period was Rp603.48 billion, while CCI reported only Rp492.59 billion in taxable income, using inflated advertising expenses totaling Rp566.84 billion to reduce tax liability. Similarly, in 2015, PT Indofood Sukses Makmur Tbk engaged in tax avoidance by establishing a new entity to transfer assets, debts, and capital, thereby evading taxes amounting to Rp1.3 billion. PT Unilever Indonesia Tbk also employed tax avoidance strategies in 2015, utilizing transfer pricing to reduce tax liabilities by Rp800 million (Media, 2017). These examples illustrate that companies in the food and beverage sector are also involved in tax avoidance practices.

Several factors influence corporate tax avoidance, including profitability as measured by Return on Assets (ROA), solvency represented by Debt to Asset Ratio (DAR), capital intensity, and company size (Rahman, Tjetje, Syaputra 2018). Profitability serves as a key indicator of a company's overall success, reflecting its ability to generate earnings from operations. Higher profitability typically leads to increased net income (Dwiyanti & jati 2019). ROA is a financial ratio that indicates a company's performance, with higher ROA values suggesting better performance. ROA is closely related to net income and corporate income tax; as profitability increases, so does the tax burden, prompting companies to minimize taxes through avoidance strategies (Praditasari & Setiawan, 2017). Previous research by Humairoh & Triyanto (2019) indicated a negative correlation between ROA and tax avoidance, whereas Rahmawati, Nurlaela & Samrotun (2021) found a positive relationship.

Solvency, or leverage, measures a company's ability to meet its short- and long-term obligations. This ratio indicates the adequacy of a company's liabilities to its assets or equity. A company is considered solvent if it possesses sufficient assets to cover all liabilities; conversely, if its assets are less than its total debts, it is deemed insolvent. In this study, solvency is measured using the Debt to Asset Ratio (DAR), which compares short- and long-term debts to total assets. A higher DAR indicates greater reliance on debt for generating profits compared to available assets. Conversely, a lower DAR reflects less reliance on debt financing, indicating a healthier financial condition (Riza & Suryono, 2022). Companies using debt in their financing structure incur interest expenses, which can be deducted from taxable income, ultimately reducing the tax owed (Puspita & Febrianti, 2017). Research by Rahman, Tjetje & Syaputra (2018) showed a positive relationship between DAR and tax avoidance, contrasting with findings from Riza & Suryono (2022), which indicated no impact of solvency on tax avoidance.

Capital intensity refers to the extent of a company's investment in fixed assets and inventory. Companies can reduce their tax liabilities through various means, including ownership of tangible assets (Juliana, Arieftiara & graheni, 2020). Significant ownership of fixed assets leads to higher depreciation expenses, which can reduce taxable income. Thus, the greater the number of assets a company owns, the more likely it is to engage in tax avoidance (Amiah, 2022). According to (Juliana, Arieftiara & graheni, 2020), fixed assets allow companies to deduct annual depreciation from taxable income. Since most depreciation expenses are recorded in financial statements, higher depreciation translates to lower tax burdens. This indicates that companies with higher capital intensity ratios tend to have lower effective tax rates. Studies by Dwiyanti & Jati (2019) and Rahman, Tjetje & Syaputra (2018) support the notion that capital intensity ratios influence tax avoidance, while research by Amiah, (2022), Rahmawati, Nurlaela & Samrotun, (2021) presents contrasting findings.

Company size can be classified into three categories: large, medium, and small. It is determined by the total asset value, which is indicative of stability. Larger companies are generally better at managing taxes, allowing them to exploit tax loopholes. As total assets increase, so does the potential for higher tax avoidance (Rahmawati & Nani, 2021). Large-scale companies typically have more capability and stability in generating profits compared to smaller firms, which may incentivize tax avoidance due to substantial profits leading to significant tax burdens (Yustrianthe, 2022). This aligns with findings from Aulia & Mahpudin, (2020), Dewinta & Setiawan, (2016), indicating a positive relationship between company size and tax avoidance, in contrast to (Yustrianthe, 2022), who reported a negative and significant impact of company size on tax avoidance.

This study focuses on manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX). The selection of this sector is justified by the fact that it represents the largest population of manufacturing firms compared to other sectors on the IDX. The consumer goods industry comprises five subsectors: food and beverages, tobacco, pharmaceuticals, cosmetics and household goods, and household appliances. Additionally, this sector has demonstrated resilience during the Covid-19 pandemic, particularly the food and beverage subsector, which recorded growth in 2021 (kusnandar, 2022). Moreover, the consumer goods sector produces essential products that are in high demand, allowing for optimal profit generation. With higher profits, companies are likely to engage in greater tax avoidance, as substantial earnings enable them to exploit tax management loopholes (Dewinta & Setiawan, 2016).

This research replicates a previous study conducted by Rahman,Tjetje,Syaputra (2018). The key distinction in this study lies in the focus on manufacturing companies within the consumer goods sector listed on the IDX, utilizing data from 2017 to 2022, while the earlier study examined mining companies listed on the IDX from 2012 to 2017.

Hypothesis of Research

The Impact of Profitability on Tax Avoidance

Profitability reflects a company’s financial performance in generating profits from asset management, commonly measured by Return on Assets (ROA). ROA indicates the amount of profit a company earns relative to its total assets. A higher profit leads to a greater ROA value, signaling increased profitability). (Yantri, 2022).

Companies with high profitability typically benefit from effective financial management. One key strategy employed by management to maintain profitability is tax planning, which aims to optimize tax expenditures to minimize the tax burden legally. As a result, as a company's profitability increases, so does its inclination to engage in tax avoidance practices. The relationship between profitability and taxes suggests that greater earnings lead to higher tax liabilities, prompting companies to seek ways to reduce their tax payments through avoidance strategies). (Yantri, 2022).

Research conducted by (Handayani, 2018), (Humairoh & Triyanto, 2019), (Yantri, 2022) and (Tebiono & Sukadana, 2019) indicates a positive and significant impact of profitability, as measured by ROA, on tax avoidance.

Based on the above discussion, the hypothesis for this study can be formulated as follows:

H1: Profitability has a positive and significant effect on tax avoidance.

The Impact of Solvency on Tax Avoidance

Solvency is a financial ratio that highlights a company's debt levels, commonly measured by the Debt to Assets Ratio (DAR). This ratio assesses a company's ability to cover its debts using its total assets, representing the proportion of both short-term and long-term debt relative to total assets. A higher DAR indicates that a company relies more heavily on debt to generate profits compared to its asset base (Riza & Suryono, 2022).

When a company incorporates debt into its financing structure, it incurs interest expenses. These interest costs are tax-deductible, effectively reducing the taxable income and, consequently, the overall tax liability. A significant amount of debt can lead to lower taxable profits, prompting firms to increase their reliance on debt financing (Ass, 2020).

Companies with high tax obligations often choose to leverage debt as a strategy to reduce their taxable income. As debt levels rise, so do interest expenses, which diminishes the company’s net income, thereby lowering the tax burden. This relationship indicates that DAR is a key factor positively influencing tax avoidance (Puspita & Febrianti, 2017).

Supporting this perspective, studies by (Rahman, 2018), (Sari & Wahyuni, 2023), (Wardoyo, 2022) and (Nova, 2022) reveal a significant positive impact of solvency, as measured by DAR, on tax avoidance.

Based on this discussion, the second hypothesis for this study can be formulated as follows:
H2: Solvency has a positive and significant effect on tax avoidance.

The Impact of Capital Intensity on Tax Avoidance

The Capital Intensity Ratio measures the extent to which a company invests its assets in fixed assets. In this study, the ratio of capital intensity will be represented by the intensity of fixed assets, calculated as the total value of fixed assets relative to the company's total assets.

When a company chooses to invest in fixed assets, it can leverage depreciation as a deductible expense, effectively reducing its taxable income. This depreciation expense leads to a decrease in the company's taxable profit, subsequently lowering the overall tax liability. Therefore, it can be concluded that capital intensity influences tax avoidance.

Supporting this conclusion, research conducted by (Juliana, 2020), (Hilmi, 2022),(Dwiyanti dan Jati, 2019) and (Dharma dan Noviari, 2017) indicates that the capital intensity ratio has a positive and significant effect on tax avoidance.

Based on this analysis, the third hypothesis for this study can be stated as follows:
H3: Capital intensity has a positive and significant effect on tax avoidance.

The Impact of Company Size on Tax Avoidance

The ability and stability of a company to conduct its economic activities can be reflected in its size. Company size categorizes businesses based on the total value of their assets. Larger firms often attract greater scrutiny from the government, which can lead management to adopt either compliant or aggressive tax management strategies.

Company size is directly proportional to the complexity of its transactions. This means that larger companies engage in more intricate transactions, providing them with opportunities to exploit loopholes for tax avoidance. As these firms typically bear lower tax burdens, they can leverage resources to engage in effective tax planning and political lobbying, optimizing tax savings while maximizing profitability.

This perspective aligns with research by (Rahman dan Tjeje, 2018), (Rahmawati, 2021), (Stawati, 2020), (Muda & Abubakar, 2020) and (Honggo & Marlinah, 2019), which demonstrates that company size has a positive and significant impact on tax avoidance.

Based on this analysis, the fourth hypothesis for this study can be articulated as follows:
H4: Company size has a positive and significant effect on tax avoidance.

The Impact of Profitability, Solvency, Capital Intensity, and Company Size on Tax Avoidance

A company that operates with high efficiency and generates substantial income typically experiences a lower tax burden. This is because profitable firms can effectively leverage tax incentives and deductions. One strategy they employ is increasing operational expenses, which in turn reduces profitability. Therefore, profitability is considered a significant factor influencing tax avoidance (Aulia & Mahpudin, 2020).

Moreover, companies that generate profits are likely to increase their debt levels. This is due to the fixed costs associated with debt, primarily interest payments. As a company's debt increases, its taxable income decreases because the tax benefits from interest deductions grow. This relationship indicates that solvency also plays a critical role in tax avoidance (Aulia & Mahpudin, 2020).

Capital intensity, particularly through fixed asset depreciation, directly impacts a company's tax obligations. Depreciation can serve as a deductible expense, reducing taxable income. Consequently, the Capital Intensity Ratio has a positive effect on tax avoidance (Noviyani & Muid, 2019).

Larger companies, with substantial assets, are better positioned to optimize their resources. They often minimize their tax liabilities to enhance overall performance. Thus, company size positively influences tax avoidance (Aulia & Mahpudin, 2020).

Profitability (measured by ROA), solvency (measured by DAR), capital intensity, and company size collectively impact tax avoidance (CETR). This means that a firm's profit, derived from asset management and total asset value, encourages strategic tax planning and tax avoidance practices.

Based on the research conducted by (Aulia & Mahpudin, 2020) and (Noviyani & Muid, 2019), it can be concluded that profitability, solvency, capital intensity, and company size significantly affect tax avoidance.

H5: Profitability, solvency, capital intensity, and company size have a positive and significant impact on tax avoidance.

METODE

This study investigates the strategic approaches employed by taxpayers to minimize their tax liabilities, specifically focusing on tax avoidance within the manufacturing sector. Tax avoidance is understood as a complex set of maneuvers that leverage various aspects of tax legislation, including exemptions, deductions, and tax incentives, as well as the more questionable practices of bribery and forgery. By analyzing the intricate relationships between profitability, solvency, capital intensity, and company size, this research aims to provide insights into the factors influencing tax avoidance behaviors in food and beverage companies listed on the Indonesia Stock Exchange from 2017 to 2022.

To operationalize tax avoidance, we utilized the Cash Effective Tax Rate (CETR) as a proxy. The CETR is a comprehensive measure that captures the effective tax burden experienced by companies, making it a suitable indicator for examining tax avoidance strategies. Our sample consisted of 70 manufacturing firms, specifically within the food and beverage industry. The selection process employed purposive sampling, which involved applying rigorous criteria to ensure the relevance and reliability of the chosen companies. These criteria included firms that had consistently reported financial data over the specified period and had available information necessary for calculating the CETR.

The analysis was conducted using multiple linear regression, facilitated by SPSS version 25. This statistical method allows for the assessment of the relationships between the independent variables—profitability, solvency, capital intensity, and company size—and the dependent variable, tax avoidance. By employing multiple linear regression, we aimed to uncover the extent to which these factors collectively influence tax avoidance behaviors within the targeted firms. This approach not only facilitates a detailed understanding of the dynamics at play but also contributes to the broader discourse on corporate tax strategies in emerging markets.

In summary, this methodology provides a comprehensive framework for analyzing the factors influencing tax avoidance in the Indonesian food and beverage sector. The careful selection of a representative sample, alongside robust statistical analysis, ensures the validity of our findings and their applicability to the current landscape of corporate tax behavior.

RESULT AND DISSCUSION

RESULTS

Linear Regression Analysis

Table 2 Linear Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,540	,214		2,529	,014
	ROA	-2,725	,293	-,912	-9,295	,000
	DAR	-,571	,099	-,579	-5,793	,000
	CI	-,149	,064	-,192	-2,347	,022
	FS	,008	,007	,088	1,118	,267

Based on Table 4.11 above, the multiple linear regression model can be formulated as follows:

$Y = 0{,}540 – 2{,}725X1 – 0{,}571X2 – 0{,}149X3 + 0{,}008X4 + e$

1. Constant = 0.540
   This constant indicates that if the values of profitability, solvency, capital intensity, and company size are all zero, the predicted tax avoidance is 0.540, or 54%.
2. Profitability (X1) = -2.725
   This means that with an increase in profitability of one unit (or 100%), tax avoidance is expected to decrease by 2.725 units, or 272.5%, assuming other variables remain constant.
3. Solvency (X2) = -0.571
   An increase in solvency of one unit (or 100%) will lead to a decrease in tax avoidance by 0.571 units, or 57.1%, with other variables held constant.
4. Capital Intensity (X3) = -0.149
   When capital intensity increases by one unit (or 100%), tax avoidance is expected to decrease by 0.149 units, or 14.9%, assuming other variables remain constant.
5. Company Size (X4) = 0.008
   If company size increases by one unit (or 100%), tax avoidance is predicted to increase by 0.008 units, or 0.8%, with other variables held constant.

Overall, this model demonstrates significant relationships between the independent variables and tax avoidance, where increases in profitability, solvency, and capital intensity tend to reduce tax avoidance, while company size shows a smaller positive influence.

Hypothesis Testing

Hypothesis testing involves a comprehensive analysis of regression results through simultaneous influence tests (F-tests), partial tests (t-tests), and the determination coefficient (R^2) test.

Determination Coefficient Test (R^2)

The coefficient of determination (R^2) serves as a crucial metric for evaluating the effectiveness of the regression model in explaining variations in the dependent variable. A value of R^2 close to 1 indicates a strong model that effectively accounts for the variability of the dependent variable based on the independent variables. In contrast, a value nearing 0 suggests that the model has limited capacity to explain the relationship between the independent and dependent variables.

Table 3: Results of the Determination Coefficient Test

The results of the

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,741[a]	,548	,524	,10961

Based on the table above, the R^2 value is 0.524. This indicates that the variables of profitability, solvency, capital intensity, and company size collectively account for 52.4% of the variance in tax avoidance. The remaining 47.6% is attributed to other factors not included in these variables.

Partial Impact Test (T-Test)

Table 4 T-test Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,540	,214		2,529	,014
	ROA	-2,725	,293	-,912	-9,295	,000
	DAR	-,571	,099	-,579	-5,793	,000
	CI	-,149	,064	-,192	-2,347	,022
	FS	,008	,007	,088	1,118	,267

determination coefficient test for this research are summarized in the table below:
Based on the regression results presented in the table, the following conclusions can be drawn:

1. X1 (Profitability): The significance value for the influence of X1 (profitability) is 0.000, which is less than 0.05, and the calculated t-value is -9.295, which is less than the critical t-value of -1.9921. Therefore, it can be concluded that profitability has a significant effect on tax avoidance, leading to the acceptance of Hypothesis 1.
2. X2 (Solvency): The significance value for the influence of X2 (solvency) is also 0.000, less than 0.05, and the calculated t-value is -5.793, again lower than the critical t-value of -1.9921. This indicates that solvency significantly impacts tax avoidance, thus Hypothesis 2 is accepted.
3. X3 (Capital Intensity): The significance value for X3 (capital intensity) is 0.022, which is less than 0.05, and the calculated t-value is -2.347, which is less than the critical t-value of -1.9921. Hence, it can be concluded that capital intensity has a significant effect on tax avoidance, leading to the acceptance of Hypothesis 3.
4. X4 (Company Size): The significance value for X4 (company size) is 0.267, greater than 0.05, and the calculated t-value is 1.118, which is less than the critical t-value of 1.99. Thus, it can be concluded that company size does not have a significant effect on tax avoidance, resulting in the rejection of Hypothesis 4.

Simultaneous Impact Test (Uji F)

Table 5: Results of Simultaneous Impact Tests (Uji F)

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,539	4	,135	6,939	,000[b]
	Residual	1,456	75	,019		
	Total	1,995	79			

Based on the results, the significance level for the simultaneous influence of profitability, solvency, capital intensity, and company size on tax avoidance is 0.00, which is less than 0.05. Additionally, the calculated F-value is 6.939, exceeding the critical F-value of 2.492. Therefore, it can be concluded that profitability, solvency, capital intensity, and company size collectively have a positive and significant impact on tax avoidance.

DISCUSSIONS

Profitability and Tax Avoidance

Profitability has a positive and significant effect on tax avoidance, this finding is consistent with research conducted by (Praditasari & Setiawan, 2017) and (Dwiyanti & Jati, 2019), which asserts that higher profitability positively influences tax avoidance. As a company's Return on Assets (ROA) increases, it generates greater profits. Consequently, higher profits lead to increased taxable income, prompting companies to seek tax avoidance strategies to minimize their tax burden.

Conversely, this study contrasts with the findings by (Humairoh & Triyanto, 2019), who reported a negative relationship between profitability, as proxied by ROA, and tax avoidance. They argued that a higher ROA could lead to decreased tax avoidance since companies with strong profits are likely to manage their income and tax obligations more effectively. This suggests that robust management performance facilitates better income planning and tax strategies.

Solvency and Tax Avoidance

Solvency has a positive and significant effect on tax avoidance, these results align with the studies of (Praditasari & Setiawan, 2017) and (Wanda & Halimatusadiah, 2021), indicating that firms with high solvency levels tend to engage more in tax avoidance. This occurs because leveraging debt can create interest expenses, which are deductible and reduce taxable income, thereby encouraging tax avoidance behaviors.

However, this contradicts the findings by Riza & Suryono (2022), who argued that firms may not utilize debt to decrease their tax liabilities, as high debt levels are primarily for funding operational costs, leading to reduced profits. Consequently, companies with high debt may find less incentive to engage in tax avoidance.

Capital Intensity and Tax Avoidance

Capital intensity has a positive and significant effect on tax avoidance, this finding is consistent with research by (Dwiyanti dan Jati, 2019) and (Dharma & Noviari, 2017), suggesting that higher capital intensity correlates with increased tax avoidance due to depreciation expenses on fixed assets, which reduce taxable income.

In contrast, (Amiah, 2022) and (Apridila indah et al., 2021) found no significant relationship, arguing that firms with high fixed asset levels may not effectively leverage depreciation to decrease net income, as these assets primarily support operational productivity.

Company Size and Tax Avoidance

Company size does not have a significant effect on tax avoidance, this aligns with Rahmawati and Nani (2021), who found that the size of a company, measured by total assets, does not significantly impact tax avoidance decisions. Larger companies often face greater scrutiny from tax authorities, resulting in effective tax rates that may deter tax avoidance efforts.

Conversely, Tanjaya & Nazir, 2021 argued that larger entities with substantial assets are more likely to engage in tax avoidance due to their capacity to optimize tax planning, potentially leading to significant tax liabilities.

The Combined Effect of Profitability, Solvency, Capital Intensity, and Company Size on Tax Avoidance

The F-test results indicate that profitability, solvency, capital intensity, and company size together have a positive and significant impact on tax avoidance, with a significance level of 0.00 and an F-value of 6.939, exceeding the critical F-value of 2.492. Thus, H5 is accepted, confirming that these variables collectively influence tax avoidance.

This aligns with research by Rahman et al. (n.d.), which posits that profitability (ROA), solvency (DAR), capital intensity, and company size significantly impact tax avoidance (CETR). These factors influence companies' tax planning strategies and avoidance behaviors, leading to a more effective management of tax liabilities.

Additionally, the coefficient of determination analysis shows that profitability, solvency, capital intensity, and company size explain 52.4% of the variance in tax avoidance, indicating that 47.6% is attributable to other external factors.

CONCLUSION

This study explores the intricate relationships between profitability, solvency, capital intensity, and company size in tax avoidance within food and beverage firms listed on the Indonesia Stock Exchange from 2017 to 2022. The findings reveal that profitability and solvency are significant positive predictors of tax avoidance. Higher profitability, as indicated by a greater Return on Assets (ROA), allows firms to generate substantial profits, which can lead to increased tax liabilities. In response, companies often seek tax avoidance strategies to mitigate these financial burdens. Similarly, firms with higher solvency are more likely to engage in tax avoidance due to the tax-deductible nature of interest expenses associated with debt financing.

On the other hand, capital intensity also shows a positive and significant relationship with tax avoidance. Companies investing heavily in fixed assets can leverage depreciation to reduce taxable income, further incentivizing tax avoidance behavior. This finding aligns with previous research highlighting how firms can strategically manage their tax obligations through asset utilization. Conversely, the study did not find a significant effect of company size on tax avoidance. Larger firms, despite their potential for greater tax liabilities, are subject to more scrutiny from tax authorities, which may deter them from engaging in aggressive tax avoidance strategies.

The overall model demonstrates that profitability, solvency, capital intensity, and company size collectively explain a substantial portion of the variance in tax avoidance, confirming the importance of these variables in understanding corporate tax behavior. The findings contribute valuable insights into how financial metrics influence tax strategies within the manufacturing sector, highlighting the complex interplay between financial performance and tax management.

In summary, the study underscores the need for firms to carefully consider their financial strategies and tax planning approaches. By understanding the dynamics between profitability, solvency, and capital investment, companies can develop more effective methods for managing their tax obligations. Additionally, these insights can inform policymakers regarding the implications of financial practices on tax compliance and avoidance, guiding potential reforms in tax legislation to promote fair and equitable tax practices across the business landscape.

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