

The Influence Of Profitability Ratio, Leverage and Capital Intensity Ratio on Tax Avoidance Practices In Manufacturing Companies Listed On The IDX For The Period 2016-2020

Pengaruh Rasio Profitabilitas, Leverage, Dan Capital Intensity Ratio Terhadap Praktik Penghindaran Pajak Pada Perusahaan Manufaktur Yang Terdaftar di BEI Periode 2016-2020

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ABSTRACT

Tax avoidance practice is the act of organizing financial or business transactions to reduce tax liabilities legally without violating applicable tax laws. Testing the effect of profitability, leverage, and capital intensity ratio (CIR) on tax avoidance practices is the purpose of this study. The object of this research was conducted in the basic and chemical sub-sector manufacturing industries listed on the IDX in the 2016-2020 period. The sample used was 70 companies for five years with 184 companies observed. The technique of taking the sample uses purposive sampling whose method uses multiple linear regression. The type of data is secondary data such as financial and annual reports downloaded from the idx.co.id page and the company's official website. The results of this study show that the variables of profitability, leverage, and capital intensity have a positive influence on tax avoidance practices.

Keywords: Profitability, Leverage, Capital Intensity Ratio, Tax avoidance practices.

ABSTRAK

Praktik penghindaran pajak adalah tindakan mengatur keuangan atau transaksi bisnis untuk mengurangi kewajiban pajak secara legal tanpa melanggar undang-undang perpajakan yang berlaku. Menguji pengaruh profitabilitas, leverage, dan capital intensity ratio (CIR) terhadap praktik penghindaran pajak merupakan tujuan dari penelitian ini. Objek penelitian ini dilakukan pada industri manufaktur subsektor dasar dan kimia yang terdaftar di BEI pada periode 2016-2020. Sampel yang digunakan sebanyak 70 perusahaan selama lima tahun dengan 184 perusahaan yang diamati. Teknik pengambilan sampel menggunakan purposive sampling yang metodenya menggunakan regresi linier berganda. Jenis data berupa data sekunder seperti laporan keuangan dan laporan tahunan yang diunduh dari laman idx.co.id dan web/situs resmi perusahaan. Hasil dari penelitian ini menunjukkan bahwa variabel profitabilitas, leverage, dan capital intensity memiliki pengaruh positif terhadap praktik penghindaran pajak.

Kata Kunci: Profitabilitas, Leverage, Capital Intensity Ratio, Praktik Penghindaran Pajak.

1. Introduction

Recently, there was a case that became the center of attention of the Indonesian government related to tax evasion. This case was reported by (m.liputan6.com, 2021) on October 4, 2021, namely about the *Pandora Papers* in the United States, since October 3, 2021. *Pandora Papers* is a recent report related to a series of financial data leaks. In the *Pandora Papers* case, there is a collection of 12 million data documents leaked from 14 financial companies with different *offshore* ways of integrating and submitting the information. Several people and all companies in the world are involved in the *Pandora Papers* case. The method used in the *Pandora Papers* case is to secretly buy assets in other countries after being sent to foreign bank accounts. The secret assets

disclosed by *Pandora Papers* include 29,000 foreign bank *accounts*, including accounts belonging to individuals as many as >130 *billionaires*, 90 more countries involved, namely from hundreds of public officials, and 330 more belonging to people engaged in politics. These secret assets are held in *tax haven countries*. Companies in *tax haven countries* are an act of tax avoidance practices that can be carried out in a company, so that without paying taxes companies or individuals who have assets or assets are safe. (Susanti, 2019).

Not only that case, besides *Pandora Papers* there are several cases, namely at PT Google Indonesia. This case was reported (Kompas.com, 2016) on September 20, 2016. PT Google Indonesia is the largest / giant company and at that time PT Google Indonesia was indicated to have committed *tax avoidance* behavior, namely not paying taxes since its existence in Indonesia in 2011. According to a number of parties from PT Google Indonesia conducting a financial transaction in Indonesia. At that time PT Google Indonesia was a delegate company so that when conducting financial transactions it did not affect the increase in state income. Meanwhile, the financial transaction of *digital advertising* is the main business field of Google in 2015 earned \$850 million. PT Google Indonesia uses a legal entity by recognizing that it does not include BUT / Permanent Establishment and the transfer of recognition that the Google Indonesia company is a Foreign Investment company (PMA). The company as a PMA itself will not be subject to income tax on the company but, Google Indonesia remains evasive when an audit will be carried out regarding its legal entity status. Thus, according to the Income Tax Law Article 2 paragraph (5) letter N, Google Indonesia should be a legal entity of BUT, therefore, any income from Indonesia is eligible for income tax. Based on the description of the case of PT Google Indonesia, this is a form of company by practicing tax avoidance because Google Indonesia seeks to eliminate taxes that should be paid.

Tax avoidance is a company's effort to emphasize tax costs by taking advantage of shortcomings that are carried out legally / not violating existing tax regulations. There are other ways companies reduce taxes, namely tax evasion. tax evasion according to (Dr. Siti Kurnia Rahayu, 2018) states that efforts made by companies or individuals to manipulate either minimize or eliminate the company's tax burden illegally. Based on this definition, tax avoidance and tax evasion are different but have the same direction, namely reducing corporate taxes, however, the tax evasion is carried out illegally or not based on existing tax laws.

In this study, the authors measure the level of *tax avoidance* with *independent variables*, namely profitability, *leverage*, and *capital intensity ratio*. These three are some of the factors that can affect the *total* amount of *tax* charged by the company.

Over the past few years, studies on the effect of profitability on *tax avoidance* have provided unstable results. As researched by (Anggriantari & Purwantini, 2020; Azis & Widianingsih, 2021; Budiarti & Curry, 2018; Dewi & Noviari, 2017; Fauziah & Kurnia, 2021; Hidayat, 2018; Hutapea & Sinabutar, 2021; Nilasari & Arisyahidin, 2021; Rifai & Atiningsih, 2019; Rosdiana, 2018; Susanti, 2019) proved that the study profitability has a negative effect on *tax avoidance*. On the other hand, (Dwiyanti & Jati, 2019; Putra & Amanah, 2019; Rahmadani et al., 2020) the results of his study show that profitability can have a positive influence on *tax avoidance* practices. However, with those studied by (Simanjuntak, 2019) explained that *tax avoidance* practices are not influenced by profitability.

This is also the case with the second variable, namely *leverage*. From those studied by (Dewi & Noviari, 2017; Hutapea & Sinabutar, 2021; Nilasari & Arisyahidin, 2021) show the results of their study on leverage which has a negative effect on tax avoidance practices. showed the results of his study on *leverage* which had a negative effect on *tax avoidance* practices. The results of this study are not in one voice with other researchers who produce *leverage* as an independent variable that

has no effect on the dependent variable, namely *tax avoidance* practices, the research was conducted by (Anggriantari & Purwantini, 2020; Azis & Widianingsih, 2021; Fauziah & Kurnia, 2021; Hidayat, 2018; Putra & Amanah, 2019; Rifai & Atiningsih, 2019; Rosdiana, 2018; Susanti, 2019).. However, the results of other studies produced different results conducted in research (Rahmadani et al., 2020; Selviani et al., 2019; Simanjuntak, 2019; Wijayanti & Merkusiwati, 2017) proves that *leverage* has a positive influence on *tax avoidance* practices.

Meanwhile, the *capital intensity ratio* also has inconsistent results from research from the last few years. Research results from (Budianti & Curry, 2018; Rifai & Atiningsih, 2019) revealed that the *capital intensity ratio* proved a negative influence on *tax avoidance*. On the other hand, (Dwiyanti & Jati, 2019; Rosdiana, 2018; Sandra & Anwar, 2018) explained that this *capital intensity ratio* has a positive influence on *tax avoidance*. However, the study reviewed by (Susanti, 2019) and (Anggriantari & Purwantini, 2020) show the results of their research that the two variables, namely the *capital intensity ratio* and *tax avoidance*, do not affect each other.

The variety of inconsistent results from previous studies on the variables that influence *tax avoidance* has attracted the author's attention to investigate more deeply. This study aims to expand the literature by exploring the expected negative effect of profitability, as well as the positive effect of leverage and *capital intensity ratio* on *tax avoidance*. This analysis has the aim of enriching the accounting literature by providing empirical data on the effect of these three variables, which can be used as an academic reference and basis for further research.

This study is also expected to provide benefits for policymakers, especially the Directorate General of Taxes, to develop tax regulations that are more efficient in addressing loopholes that allow *tax avoidance*. Thus, this study offers insights that can support the formation of stronger and fairer tax policies, improving the understanding and effective management of taxation principles.

2. Literature Review

Agency Theory

Agency Theory explains the interaction between *shareholders/principals* who assign to *management/agents*, in order to carry out the interests of the *principal*, in order to achieve planned goals. (Jensen & Meckling, 1976) sees this as a partnership where the *agent* acts on behalf of the *principal*. Conflicts of interest between the two often arise when the *agent* does not act in accordance with the *principal's* expectations, a situation that can lead to *tax avoidance* as a strategy to maximize profits, which is consistent with the findings of (Fauziah & Kurnia, 1976). (Fauziah & Kurnia, 2021).

Tax Avoidance

Tax avoidance, as described by (Anggriantari & Purwantini, 2020) *Tax avoidance*, as described by (Anggriantari & Purwantini, 2020), is a legal and guaranteed tax reduction process for taxpayers because it is not against tax regulations, both the system and the method applied by utilizing the loopholes that exist in these regulations to minimize the total tax charged by the company. Based on the above definition, *tax avoidance* means a company's effort to avoid taxes with the aim of minimizing tax payments by using the weaknesses of the tax provisions in Indonesia. The *self-assessment* tax system in Indonesia, which according to (Simanjuntak, 2019) gives taxpayers full confidence to determine the amount of tax payable, is intended to build trust between taxpayers and the government. However, this system can also provide opportunities for taxpayers to manipulate financial statements in order to minimize the tax burden.

Effective Tax Rate (ETR)

According to (Rosdiana, 2018) ETR is the ratio applied in tax avoidance practices. ETR is used as an important indicator that shows the real tax burden borne by companies or individuals compared to their income. According to (Hutapea & Sinabutar, 2021). Calculation of ETR through the formula using *indicators of tax costs and profit before tax*.

$$ETR = \frac{\text{Beban Pajak}}{\text{Laba Sebelum Pajak (EBT)}}$$

Profitability

Profitability ratio is a company's capability to earn profits related to marketing, personal capital, and total assets, as described by (Fahmi, 2014), and is used to assess the company's effectiveness in using its assets to generate profits. (Kasmir, 2019). This profitability ratio is the most important ratio in a company's financial statements, it is also an indicator in knowing the extent to which the company is able to create profits from its operations. (Hery, 2016). So that the higher the profit of a company, the level of profitability is also high. (Susanti, 2019) The profitability ratio can be proportioned with the ROA ratio, namely by comparing profit before tax / EBT with total assets.

$$ROA = \frac{\text{Laba Sebelum Pajak (EBT)}}{\text{Total Aset}} \times 100\%$$

Leverage

Sjahrial (2017) defines the *leverage / solvency ratio* as the use of assets and company financial resources that have *fixed costs*, meaning that funding comes from loans because it has interest which becomes a *fixed cost*, so that the *principal's* potential profit increases. *Leverage* is calculated using the DAR ratio, which matches the amount of debt with *total assets*. It can also be interpreted as the amount of company assets paid with debt or corporate debt that affects asset management. The higher the funding of a company that is funded mostly from debt, the more difficult it will be for the company to get additional credit.

$$DAR = \frac{\text{Total Utang}}{\text{Total Aset}} \times 100\%$$

Capital Intensity Ratio

Capital Intensity Ratio, also known as fixed asset intensity, measures the proportion of funds a company invests in fixed assets. (Fernández-Rodríguez & Martínez-Arias, 2012) (Fernández-Rodríguez & Martínez-Arias, 2012) emphasizes that the ownership of fixed assets allows companies to reduce annual taxes through depreciation of these assets. (Harahap, 2001) classifies fixed assets divided into 2 (two), namely 1) non-depreciable assets such as land, 2) depreciable assets such as equipment, vehicles, and buildings, and others. (Susanti, 2019) explains that the *Capital Intensity Ratio* is measured by comparing *total fixed assets* with total assets, providing insight into the efficiency of the company in utilizing its assets.

$$\text{Capital Intensity Ratio} = \frac{\text{Total Aset Tetap}}{\text{Total Aset}}$$

Framework of Thought

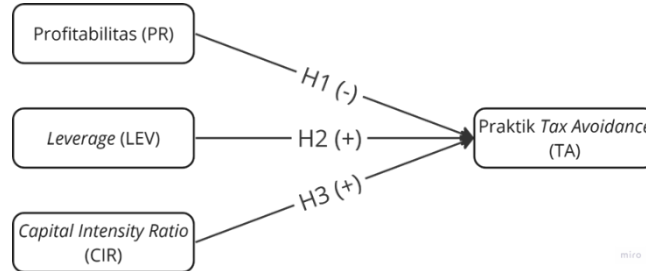


Figure 1. Framework of Thought
Source: Researcher (2023)

Hypothesis Development

Effect of Profitability on Tax Avoidance Practices

Profitability in assessing the profit earned by the company using the ROA method. The result of a high ROA value means that the profit earned is also high. This profit has a relationship between *agency theory* where the *agent* may manipulate the amount of profit obtained for the *principal's* needs. The higher the profit obtained, it will affect the *Effective Tax Rate (ETR)*, ETR is a measure of tax avoidance. If the company gets an increased profit, the ETR also increases. When the ETR increases, it indicates that the TA action taken by a company will decrease. Therefore, with high profitability, companies will tend to be more honest in reporting their taxes, so that tax avoidance will decrease. This study supports the previous findings (Anggriantari & Purwantini, 2020; Azis & Widianingsih, 2021; Budianti & Curry, 2018; Dewi & Noviari, 2017; Fauziah & Kurnia, 2021; Hidayat, 2018; Hutapea & Sinabutar, 2021; Nilasari & Arisyahidin, 2021; Rifai & Atiningsih, 2019; Rosdiana, 2018; Susanti, 2019).. The author's hypothesis is:

H1: Profitability has a negative effect on *tax avoidance* practices.

The Effect of Leverage on Tax Avoidance Practices

Leverage, which means the use of borrowed funds to increase investment returns, affects the company's fixed interest expense. A low *leverage* value indicates financing with own capital, while a high value indicates dependence on debt, increasing interest expense. One of the things that can reduce the company's profit is having an interest expense that is too high, related to *agency theory* to emphasize management's preference for low tax costs. Therefore, higher interest expenses tend to increase tax costs, thereby increasing the likelihood of *tax avoidance* practices. The research in this case is similar to that studied by (Rahmadani et al., 2020; Selviani et al., 2019; Simanjuntak, 2019) and (Wijayanti & Merkusiwati, 2017). The hypothesis proposed is:

H2: *Leverage* has a positive effect on *tax avoidance* practices.

Effect of Capital Intensity Ratio on Tax Avoidance Practices

Capital Intensity Ratio is a form of *financial decision*. Corporate tax costs can be influenced by *capital intensity* because there are depreciation costs inherent in *fixed assets*. If this ratio is related to the *agency theory*, it explains that in this *agent theory* it emphasizes the tax burden incurred by the company, so that unused capital in the company will invest in the form of fixed assets so that it is used as a tax reduction so that the profit subject to tax decreases/lows. This means that the higher the CIR value, the higher the indication that the company is avoiding taxes. As has

been proven in previous studies (Dwiyanti & Jati, 2019; Rosdiana, 2018; Sandra & Anwar, 2018).. Thus, the proposed hypothesis is:

H3: *Capital Intensity Ratio* has a positive effect on tax avoidance practices

3. Methods

This research, in terms of data sources, is quantitative, which is based on processing data in the form of numbers for analytical purposes. (Kasiram, 2008) explains that quantitative research is a methodology that utilizes data in numerical format as a mechanism of analysis and investigation. The method applied is an associative approach, which is explained by (Sugiyono, 2016) as an approach has the aim of identifying and understanding the relationship between two or more variables. The purpose of this research is to find out the effect of profitability, *leverage*, CIR on *tax avoidance* through data that has been collected in the form of numbers. Furthermore, the data is analyzed using a statistical testing process.

The population in this study includes all companies listed on the Indonesia Stock Exchange (IDX), this study also uses a sample, namely basic and chemical industry subsector companies from 2016 to 2020. The sample technique used is *purposive sampling* to select manufacturing companies with complete data from 2016-2020. (Dwiyanti & Jati, 2019). The sample selection process considers the relevance and availability of data, with priority on companies whose financial reports are publicly accessible for objective analysis. The research period 2016-2020 was chosen for the relevance and actuality of the data in analyzing the influence of financial variables on *tax avoidance* practices in the current business environment, ensuring valid and reliable *insights*.

Table 1. Sample selection process

Keterangan	Jumlah Perusahaan	Jumlah Data (2016-2020)
Perusahaan yang terdaftar	77	385
Data yang tidak lengkap		(44)
Sampel Awal	77	341
Data Outlier	(7)	(157)
Jumlah Sampel Akhir	70	184

In this study, the documentation observation method by collecting data involves analyzing the annual *financial statements* of companies listed on the IDX (2016-2020). This data is processed to meet the needs of the research variables. The research is also supported by the study of related literature.

To analyze the data, the authors used multivariate methods with *multiple linear regression* techniques with the support of the *Statistical Product Service Solution / SPSS* version 26 method. *Multiple linear regression* is a statistical standard that is used to assess the relationship of an *independent variable* with the proportion of ratios (Priyono, 2008), assess the potential and direction of the relationship (Anggriantari & Purwantini, 2020).. This pre-analysis requires classical assumption testing for valid regression results. (Irawati et al., 2020).

4. Results and Discussion

Normality Test

Table 2. Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		184
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,08187761
Most Extreme Differences	Absolute	,052
	Positive	,052
	Negative	-,045
Test Statistic		,052
Asymp. Sig. (2-tailed)		,200 ^{c,d}

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

Source: data processed by researchers (2023)

Referring to the results above, it can be seen that the normality test results after *outliers* with an asymp sig value. (2-tailed) is 0.200 where the results show that the normality test produces a regression model, meaning that the data is normally distributed, because the asymp sig value. (2-tailed) > 0.05.

Multicollinearity Test

Table 3. Multicollinearity Test Results
Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	PR	,936	1,068
	LEV	,920	1,087
	CIR	,959	1,043

a. Dependent Variable: TA

Source: data processed by researchers (2023)

Based on the analysis through SPSS *software*, the independent variables PR, LEV, and CIR in the regression model involving the dependent variable TA show a low level of multicollinearity. This is in accordance with the multicollinearity test criteria according to (Ghozali, 2018) where the tolerance value > 0.1 and VIF < 10 indicates insignificant multicollinearity. Specifically, PR has a tolerance of 0.936 and VIF 1.068, LEV with a tolerance of 0.920 and VIF 1.087, and CIR with a tolerance of 0.959 and VIF 1.043. These results confirm that there is no significant information redundancy among the independent variables, indicating that this regression model is stable and consistent.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,068	,017		4,130	,000
	PR	,001	,004	,019	,259	,796
	LEV	,004	,003	,088	1,186	,237
	CIR	-,026	,019	-,099	-1,345	,180

a. Dependent Variable: ABS_RES

Source: data processed by researchers (2023)

Referring to the results of the data analysis conducted, it is known that the *profitability ratio* (PR) variable at significance is 0.796, the significance of *leverage* (LEV) is 0.237, and the significance of the *capital intensity ratio / CIR* is 0.180. All of these variables do not show any symptoms of heteroscedasticity. This indicates that the regression model if applied in this study is stable and reliable, with no heteroscedasticity in the three independent variables studied.

Autocorrelation Test

Table 5. Autocorrelation Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,563 ^a	,317	,305	,0825571	1,993

a. Predictors: (Constant), CIR, PR, LEV

b. Dependent Variable: TA

Source: data processed by researchers (2023)

Based on the table that has been presented, the Durbin-Watson (DW) index is recorded as having a value of 1.993. Referring to the DW table, it has a value of $dL = 1.7257$ and a value of $dU = 1.7924$. To ensure there is no indication of autocorrelation, the DW value must be in the range $dU < DW < 4 - dU$. By doing the calculation, $4 - dL$ gives a result of 2.2743 and $4 - dU$ gives a result of 2.2076. Given that the DW value is located between dU and $4 - dL$, it means that the conclusion is that the data has met the criteria in testing autocorrelation. In more detail, this states that there is no correlation between the residuals of a certain period and the residuals of the period that precedes it. Therefore, it can be concluded from the table above that compliance with the autocorrelation test within the classical assumption framework has been successfully met, which further adds confidence in the integrity and reliability of the regression model that has been applied in this study.

Descriptive Statistical Analysis

Table 6. Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PR	184	-5,9355	14,7843	4,498056	4,5009162
LEV	184	,0301	100,0000	44,937349	22,6185812
CIR	184	,0000	,8152	,408802	,2196131
TA	184	-,0361	,4290	,212910	,0990500
Valid N (listwise)	184				

Source: data processed by researchers (2023)

Based on the table presented, it can be described in more detail as follows: For the Profitability (PR) variable, the minimum value is recorded as -5.9355 and the maximum is 14.7843, with an average of 4.4981 and a standard deviation of 4.5009. In the *leverage* variable (LEV), the minimum value is recorded at 0.0301 and the maximum is 100, with an average of 44.9373 and a standard deviation of 22.6186. Meanwhile, for the *capital intensity ratio* (CIR), the minimum value recorded is 0 and the maximum is 0.8152, with a *mean of* 0.4088 and a standard deviation of 0.2196. Finally, for *tax avoidance* (TA) practices, the minimum = -0.361 and *maximum* = 0.4290, with a *mean* = 0.21291 and standard deviation of 0.9905. This information provides a comprehensive picture of the distribution and variability of data for each of the variables studied.

Hypothesis Test (T Test)

Table 7. Hypothesis Test (t test)

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	,078	,022		3,579	,000
	PR	,012	,001	,547	8,596	,000
	LEV	,001	,000	,162	2,529	,012
	CIR	,118	,028	,262	4,161	,000

a. Dependent Variable: TA

Source: data processed by researchers (2023)

Referring to these results, it can be expressed through the formulation of the model in this study as follows:

$$TA = 0.078 + 0.012PR + 0.001 LEV + 0.118 CIR + e$$

The constant value (α) = 0.078 means that if the variables PR, LEV, CI are 0 or nonexistent, then the amount of *tax avoidance* (TA) practices is equal to a constant or 0.078. The β_1 value of 0.012 means an increase in PR by one unit which is expected to contribute to an increase in TA of 0.012 with the assumption that the other variables are constant. The β_2 value of 0.001 each increase in the LEV variable by one unit means that TA also increases by 0.001 with the other variables assumed constant. The β value₃ of 0.118 indicates that every increase in CIR by one unit will make TA increase by 0.118, which assumes other variables are constant. From the equation and *table* above, the results of the hypothesis test are known, namely:

1. The first hypothesis (H_1) is that profitability has a negative influence on *tax avoidance* practices. According to the t test table above, the sig. value for profitability / PR = 0.000 which means <0.05.

This proves that profitability affects the practice of *tax avoidance*. However, the regression coefficient value of profitability shows a positive value, namely 8.596. This means that profitability has a positive influence on *tax avoidance* practices. Therefore, **H₁ is rejected**.

2. The second hypothesis (H₂) is that *leverage* (LEV) can have a positive influence on *tax avoidance*/TA practices. Referring to the results of the data t test, the significance of *leverage* is 0.012, which means that *leverage* (LEV) has an influence on *tax avoidance* practices. The regression coefficient value is positive, amounting to 2.529. This proves that *leverage* has a positive influence on *tax avoidance* practices. Therefore, **H₂ is accepted**.
3. The third hypothesis (H₃) is that the *Capital Intensity Ratio / CIR* has a positive influence on TA practices. Referring to the results of the data t test, the significance is 0.000, meaning that CIR has an effect on *tax avoidance / TA*. The CIR regression coefficient value shows a positive value of 4.161. This proves that CIR affects in a positive direction on *tax avoidance* practices. So with that, **H₃ is accepted**

Effect of Profitability on Tax Avoidance (TA) practices

The results of the analysis of the research regression model show that profitability has a positive effect on *tax avoidance* practices. This is indicated by the value of Sig. 0.000 (less than 0.05) with a regression coefficient of 8.956. So, the first hypothesis is rejected.

The test results above mean that the higher the profit of a company, the higher the level of TA practices. The regression test results are not in accordance with the *agency theory* that there is cooperation between the *principal* and management (*agent*). This shows that the management or *agent* will control the company's tax costs in such a way as not to reduce the agent's *performance* reward as a result of decreasing company profits due to too large tax costs. The amount of profit earned by the company will affect the taxes that the company needs to pay. The greater the profit obtained, the more taxes the company must pay, therefore, the company has many opportunities to reduce its tax burden. This causes profitability to positively affect the practice of

The results of this study are in line with those studied (Dwiyanti & Jati, 2019; Putra & Amanah, 2019; Rahmadani et al., 2020), which shows that profitability has a positive influence on tax avoidance (TA) practices. The results showed that profitability has a positive influence on *tax avoidance* (TA) practices. However, not with the study tested by (Anggriantari & Purwantini, 2020; Azis & Widianingsih, 2021; Budianti & Curry, 2018; Dewi & Noviari, 2017; Fauziah & Kurnia, 2021; Hidayat, 2018; Hutapea & Sinabutar, 2021; Nilasari & Arisyahidin, 2021; Rifai & Atiningsih, 2019; Rosdiana, 2018; Susanti, 2019) which proves the findings that profitability has a significant negative effect.

The Effect of Leverage (LEV) on Tax Avoidance Practices (TA)

Referring to the previous data analysis *output*, leverage has a significant influence on TA practices with a positive direction. This result is reflected by the significance which shows 0.012 (<0.05) and the regression coefficient is 2.529. Thus, H₂ is accepted.

This means that a high *leverage* value means that the company only depends on corporate debt, which means that the resulting interest expense will also be large. The regression test results are in accordance with *agency theory* which occurs in the existence of cooperation between the *principal* and the *agent*. Based on *agency theory*, it can be seen from the *agent's* perspective that the company expects a small tax cost. If they are funded by corporate debt so that the interest expense generated will be greater, the amount of interest charged can affect the tax burden paid

by the company. Based on the results of this regression test, it shows that the high value of leverage means that the practice of *tax avoidance* is also high.

This research is in line with (Rahmadani et al., 2020; Simanjuntak, 2019; Wijayanti & Merkusiwati, 2017) and (Selviani et al., 2019) which shows *leverage* has a positive influence on *tax avoidance* practices. However, it is not in accordance with the findings studied by (Hutapea & Sinabutar, 2021; Nilasari & Arisyahidin, 2021) and (Dewi & Noviri, 2017) which shows that leverage has a negative influence on *tax avoidance* practices.

Effect of Capital Intensity Ratio on Tax Avoidance Practices

From the results of the data analysis that has been carried out, CIR has a significant effect on TA practices with a positive direction. This result is reflected by the significance which shows the number = 0.000 (<0.05) and the regression coefficient value = 4.161. Therefore, H₃ is accepted.

The conclusion that can be drawn is that the higher the CIR means that the indication of the company in practicing *tax avoidance* is increasing. A company that has a higher CIR value will dominantly invest large capital in the form of fixed assets which can be used as collateral or debt. Fixed assets each year have depreciation, where the depreciation will reduce the profit earned by the company. Based on *agency theory* the management will take advantage of the depreciation of fixed assets to emphasize the company's tax burden. However, in this case, it proves that CIR has a significant positive effect on TA practices.

This study is in line with research from (Dwiyantri & Jati, 2019; Rosdiana, 2018; Sandra & Anwar, 2018) which explains that CIR has a positive influence on TA. However, not with the findings studied by (Rifai & Atiningsih, 2019) and (Budianti & Curry, 2018) explained that CIR has a negative effect on TA

5. Conclusions

Based on the results of the research test, it can be concluded that the results of the study explain that profitability has a positive significant effect on *tax avoidance* / TA practices. Companies that get high profits are assumed to have a high level of *tax avoidance* (TA) practices. *Leverage* has a significant positive effect on *tax avoidance* practices. Companies that have increased interest costs, then the company operates more using debt, so the high interest expense can increase *tax avoidance* (TA) practices. *Capital intensity* ratio / CIR has a significant positive effect on *tax avoidance* practices. A company that has rising *fixed assets* can increase *tax avoidance* practices.

Referring to the results of the research reviewed by the researcher and on the basis of these conclusions, the suggestions to be given by the author are that it is hoped that further research will extend the sample used so that it can provide comprehensive results, further research will be better if it adds to the independent variables to be used because *tax avoidance* practices are largely influenced by independent variables outside the variables used by the author, expecting that further researchers can increase the research objects used, not only in manufacturing companies in the basic and chemical industry *subsectors*, but in other company sectors as well. Thus, it can provide a more optimal picture because the samples taken are more diverse

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