Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

# Moderation Of Firm Size On The Effect Of Financial Performance On Tax Avoidance

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***Submitted*** *17-02-2024* ***Reviewed*** *08-03-2024* ***Revised*** *11-03-2024* ***Accepted*** *15-03-2024* ***Published*** *30-09-2024*

**Abstract:** This research was conducted to determine the influence of profitability, leverage, capital intensity, CSR, and firm size on tax avoidance and how firm size moderates this influence. The data in the research was taken using purposive random sampling by determining criteria from companies in the energy, basic materials, industrial, primary and secondary consumer goods sectors listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021. The data were processed and analysed using multiple regression and moderated regression analysis using Eviews 10. The research results show that profitability has a positive and significant influence on tax avoidance, and leverage has a negative and significant influence on tax avoidance. Capital intensity, CSR activities and firm size do not influence tax avoidance. The research results also show that firm size can moderate the influence of leverage and capital intensity on tax avoidance.
**Keywords:** Corporate Social Responsibility; Financial Performance; Tax Avoidance.

**Abstrak:** Penelitian ini dilakukan untuk mengetahui pengaruh profitabilitas, leverage, *capital intensity*, CSR, dan ukuran perusahaan terhadap tindakan penghindaran pajak, dan moderasi ukuran perusahaan terhadap pengaruh tersebut. Data dalam penelitian diambil secara *purposive random sampling* dengan menentukan sejumlah kriteria tertentu dari perusahaan sektor energi, material dasar, perindustrian, barang konsumsi primer dan sekunder yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2019 sampai 2021. Data diolah dan dianalisis menggunakan analisis regresi berganda dan analisis regresi moderasi menggunakan *eviews* 10. Hasil penelitian menunjukkan bahwa profitabilitas memiliki pengaruh positif dan signifikan terhadap *tax avoidance* dan *leverage* memiliki pengaruh negatif dan signifikan terhadap *tax avoidance*. *Capital intensity*, tingkat pengungkapan aktivitas CSR dan ukuran perusahaan tidak memiliki pengaruh terhadap *tax avoidance*. Hasil penelitian juga menunjukkan ukuran perusahaan dapat memoderasi pengaruh *leverage* dan *capital intensity* terhadap *tax avoidance*.
**Kata Kunci:** *Corporate Social Responsibility*; Kinerja Keuangan; Penghindaran Pajak.

## INTRODUCTION

Taxes received by the government are the largest source of state revenue that will be used to meet routine state financing and expenditures for development activities (Nawangsari et al., 2022). The government has made many efforts to maximise tax revenue from the public, but the realisation of tax revenue is still not as expected. Companies, as taxpayers, have different views on taxes from those of the government. For the government, tax payments from companies are a source of state financing. However, the government's efforts to increase tax payments, especially from the business world, have encountered many


DOI: [http://dx.doi.org/10.24912/ja.v28i3.2068](http://dx.doi.org/10.24912/ja.v28i3.2068)

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

obstacles. Meanwhile, company owners consider that paying taxes to the government is a tax burden that will reduce their welfare. Tax avoidance allows companies to reduce their tax burden by exploiting loopholes in tax regulations but not directly violating them (Kim & Im, 2017).

**Figure 1** shows Indonesia's target and realisation of tax revenue from 2013 to 2022. From 2013 to 2018, tax realisation showed an increasing trend, although it was still below the government/APBN target. During the COVID-19 pandemic, there was a decline in 2020, namely 1,285.200 trillion rupiah. However, the realisation occurred in 2021 is 1,547.800 trillion rupiahs exceeded government targets of 1,444.500 trillion rupiahs, which is 107.148 per cent of the targets, and in 2022 is 2,034.540 trillion rupiahs of 1,783.990 trillion rupiahs, which is 114.044 per cent of the targets.

The COVID-19 pandemic is one of the triggers for Indonesia's low realisation of tax revenue in 2020. The Covid-19 pandemic has caused a stagnation in economic activities not only in Indonesia but also globally. Meanwhile, the low tax revenue before the pandemic was due to the provision of tax amnesty and tax holidays (Nawangsari et al., 2022). Before the COVID-19 pandemic, the realisation of tax revenues in Indonesia that were below the state budget target was also suspected due to taxpayers' low awareness and motivation to carry out tax reporting due to the self-assessment system.

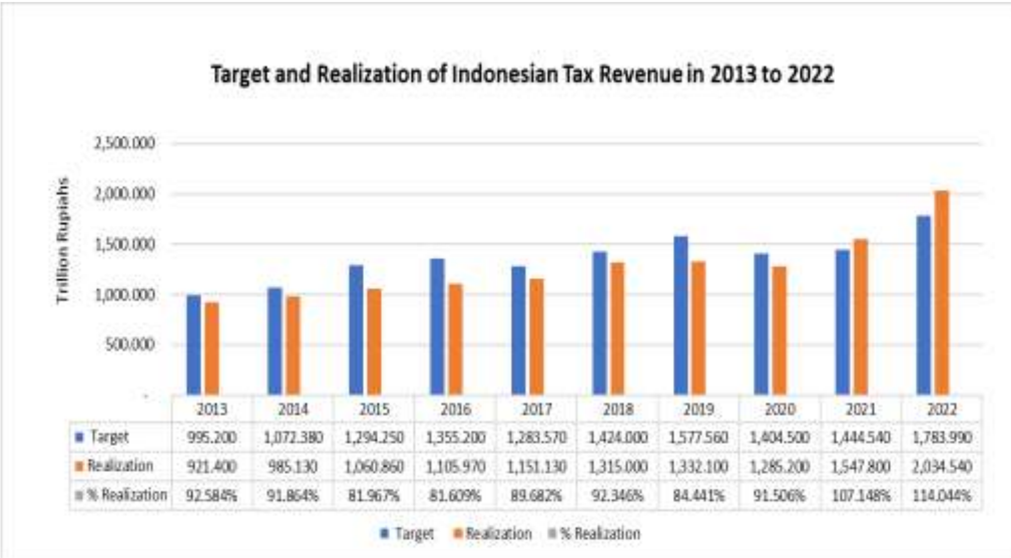


**Figure 1**. Target and Realization of Indonesian Tax Revenue from 2013 to 2022
Source: Data Processed (2023)

Tax avoidance can be measured by the Effective Tax Rate (ETR) ratio. **Figure 2** shows the ETR of sample companies.

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e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

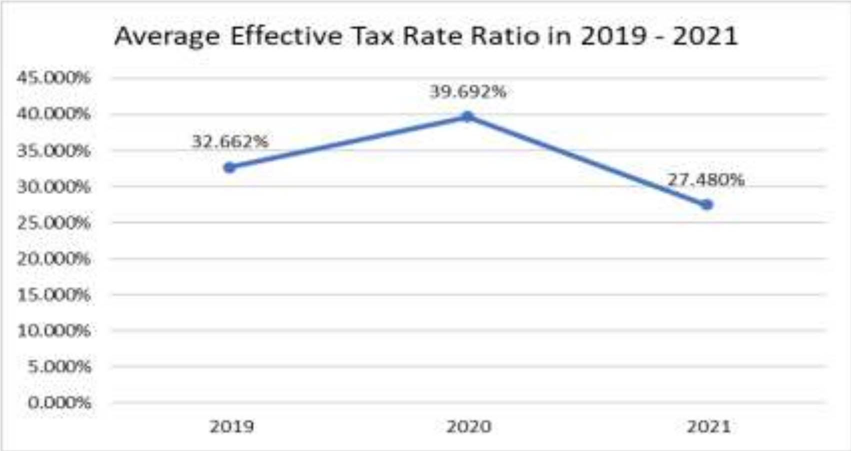


**Figure 2**. Average Effective Tax Rate Ratio of Sample Companies in 2019 to 2021
Source: Data Processed (2023)

The data in **Figure 2** showed the average level of tax avoidance as measured by the average ETR of the sample companies. In 2019, before the COVID-19 pandemic, the average ETR level was 32.662 per cent and increased to 39.692 per cent in 2020 during the pandemic. An increase in the ETR level indicates that the sample companies are avoiding tax avoidance practices. This is possible as part of the sample company's efforts to maintain the stability of its business during the pandemic by maintaining its good name and fulfilling its tax obligations. However, the average ETR level has decreased in 2021, which is lower than in 2019. A decrease in the ETR level means a decrease in the tax paid to the government and may indicate high tax avoidance practices.

Tax avoidance can damage a company's reputation even though it does not have legal consequences. CSR activities are a tool to reduce the negative impact of tax avoidance actions carried out by companies. In Law 36/2008, a number of CSR costs incurred by companies can be deducted from income tax. However, this provision can be a loophole that companies exploit to avoid tax by using CSR costs as income tax deductions.

Several studies have found that tax avoidance behaviours can be influenced by several factors, namely profitability, leverage, capital intensity, Corporate Social Responsibility (CSR) activities, and firm size. (Gulzar et al., 2018; Kasim & Saad, 2019) One study found that high profitability levels correlate with low ETR levels, meaning profitability positively influences tax avoidance. The company's management will try to reduce its tax burden or take tax avoidance when its profits increase (Kim & Im, 2017).

Companies with a high level of leverage will take advantage of the low tax burden due to high-interest expenses as a form of tax avoidance. (Fitri & Munandar, 2018; Kasim & Saad, 2019) High leverage correlates with low ETR rates, meaning leverage positively influences tax avoidance.

Companies with many fixed assets utilise depreciation expense to reduce the fulfilment of their tax obligations. This condition decreases profit before tax and the tax burden that the company must pay. (Utomo & Fitria, 2020) Found that companies with a high level of capital intensity are negatively correlated with the value of ETR or indicate an increase in tax avoidance.

(López-González et al., 2019; Susanto & Veronica, 2022) Obtain the result that CSR can lower the tax avoidance measures shown from high ETR values. The company's obligation to meet its tax burden is one part of CSR activities that show social responsibility so that the company will avoid actions that can damage its reputation (Susanto & Veronica, 2022).

Large companies will avoid tax avoidance because they want to maintain their reputation and have sufficient resources to be considered capable of paying taxes. (Kasim & Saad, 2019; López-González et al., 2019; Susanto & Veronica, 2022) The larger a company, the lower its desire to take tax avoidance actions, indicated by a high ETR value.

(Hutapea & Herawaty, 2020) His research found that the larger the firm size, the more positive the influence of profitability on tax avoidance is because large companies will try to maintain their reputation by fulfilling their tax obligations. (Hermanto & Puspita, 2022) Their research results found that the larger the firm size, the weaker the influence of leverage on tax avoidance. (Utomo & Fitria, 2020) His research concluded that large companies with high capital intensity will avoid tax. However, (Fitri & Munandar, 2018) found that company size cannot moderate the effect of CSR activities on tax avoidance because large and small companies will carry out CSR activities to fulfil their tax obligations. Based on several previous research results, large companies tend to avoid tax avoidance to maintain their good name and reputation in the eyes of all stakeholders.

Tax avoidance causes losses not only for the government but can also damage the company's reputation. Based on this reason and the results of previous studies that are outside the line, this research was conducted to obtain empirical evidence of the influence of social performance and financial performance proxied by profitability, leverage, capital intensity and company size on tax avoidance. This research was also conducted to determine whether the firm size can moderate these influences. The results of this research can be an additional reference for further research related to tax avoidance in Indonesia. This research can also be a reference for the Indonesian government to determine the factors that influence companies to conduct tax avoidance and whether Law 36/2008 is a loophole that companies exploit to carry out tax avoidance.

## THEORETICAL REVIEW

**Agency Theory.** In this theory, management is required to produce good company performance and maintain the company's good reputation in the eyes of all external and internal stakeholders. Meanwhile, company owners want management to make decisions that will maximise the welfare of company owners. One way to increase the owner's welfare is to increase the net income generated by the company. This condition could trigger management to avoid taxes, as shown by low tax payments to the government and increased net profit.

**Stakeholder Theory.** In the traditional business world, companies are responsible to shareholders and owners. Meanwhile, in stakeholder theory, the company has a responsibility to stakeholders. As one of the stakeholders, the government requires companies to fulfil their tax obligations. However, company management as an agent must meet the interests of some stakeholders, namely shareholders and owners, to engage in tax avoidance to fulfil their desire to obtain a high level of profitability or return that will improve their welfare.

**Legitimacy Theory.** The legitimacy theory comes from a social contract between society and companies (Ilham et al., 2022). Companies can gain legitimacy or recognition from society by conducting CSR activities. Fulfilling tax obligations and not avoiding the tax is one way for companies to fulfil their social responsibilities. Companies highly committed to CSR activities can avoid losses to the company's reputation caused by irresponsible actions (López-González et al., 2019).

**Tax Avoidance.** (Kim & Im, 2017) mentioned that efforts to reduce the tax burden can be done legally and illegally. Efforts to reduce the tax burden illegally are referred to as tax evasion. If the attempt is made deliberately, it will lead to tax fraud (tax crime), and criminal sanctions can be imposed on taxpayers who do it (Kim & Im, 2017). Efforts to reduce taxes legally are carried out by tax planning or tax avoidance, both of which are efforts to reduce the tax burden that does not violate the provisions of the tax law. Tax avoidance is a tax reduction action halfway between tax violations and tax planning (Kim & Im, 2017). Tax avoidance allows companies to reduce their tax burden by exploiting loopholes in tax regulations but not directly violating them (Kim & Im, 2017). Tax avoidance does not have legal consequences for taxpayers who do so because taxpayers continue to make tax payments to the government but at a lower amount.

**Profitability and Tax Avoidance.** A high level of profitability indicates good management performance, and management will try to make efficiency by reducing tax payments. High levels of profitability correlate with low levels of ETR, which means companies with high levels of profitability will engage in high tax avoidance practices. The positive effect of profitability on tax avoidance was found in research (Dewanti & Sujana, 2019; Kasim & Saad, 2019; Nailufaroh et al., 2022; Nawangsari et al., 2022; Putra & Jati, 2018; Rahayu et al., 2022; Sonia & Suparmun, 2018).

**Ha1**: Profitability has a positive influence on tax avoidance.

**Leverage and Tax Avoidance.** Financing sourced from debt provides tax advantages to companies because leverage has consequent interest costs that can reduce the company's tax burden. Companies with a high level of leverage can avoid taxes by taking advantage of the low tax burden due to the high-interest tax shield. Thus, companies with a large amount of debt tend to have a low ETR value because the company will treat interest expense as tax-deductible (Gulzar et al., 2018). (Fitri & Munandar, 2018; Gulzar et al., 2018; Hutapea & Herawaty, 2020; Kasim & Saad, 2019; Susanto & Veronica, 2022) high leverage correlates with low ETR rates, meaning leverage positively influences tax avoidance practices.

**Ha2:** Leverage has a positive influence on tax avoidance.

**Capital Intensity and Tax Avoidance.** Companies with a high level of capital intensity will have tax-saving benefits from the recognition of depreciation expenses for the current period (Kasim & Saad, 2019). The more significant the proportion of fixed assets and depreciation expense, the lower the company's ETR rate. The company will use this condition as a form of tax avoidance. Thus, capital intensity has a positive influence on tax avoidance practices carried out by companies. (Utomo & Fitria, 2020). Their research found that high capital intensity correlates with low ETR levels, meaning companies with high capital intensity will engage in tax avoidance practices.

**Ha3**: Capital intensity has a positive influence on tax avoidance.

**Corporate Social Responsibility and Tax Avoidance.** This study measures the company's CSR activities using disclosures presented in the company's Sustainability Report (SR) by the Global Reporting Initiative (GRI) Standard 2016. The behaviour of tax avoidance practices by corporate taxpayers has consequences that will have a negative impact on the company's reputation (Daoud, 2022). The negative impact of tax avoidance practices can be reduced by companies carrying out CSR activities (Susanto & Veronica, 2022). In legitimacy theory, companies can show their social responsibility by fulfilling their tax obligations and not committing to tax avoidance to get public recognition.

Companies that have a high commitment to CSR activities will try to reduce tax avoidance practices (López-González et al., 2019). In stakeholder theory, tax payment is essential in a company's CSR activities. The company's obligation to meet its tax burden will be one part of CSR activities that show social responsibility so that the company will avoid actions that can damage its reputation (Susanto & Veronica, 2022). (López-González et al., 2019; Susanto & Veronica, 2022) CSR could lower the tax avoidance measures shown by high ETR values.

**Ha4**: CSR has a negative influence on tax avoidance.

**Firm Size and Tax Avoidance.** Large companies will avoid tax avoidance practices because they want to maintain their reputation, and large companies have sufficient resources to be considered capable of paying taxes. This is related to political cost theory, in which large companies will be the focus of external parties to avoid tax avoidance. (Kasim & Saad, 2019; López-González et al., 2019; Susanto & Veronica, 2022) Their research found that the larger a company, the lower its desire to take tax avoidance actions indicated by a high ETR value.

**Ha5**: Firm size has a negative influence on tax avoidance.

**Firm Size as Moderation Variable.** Companies with a high level of profitability will take tax avoidance actions to minimise their tax burden. However, the larger the company, the will avoid tax avoidance. So, firm size will weaken the positive influence of profitability on tax avoidance practices. (Hutapea & Herawaty, 2020; Putra & Jati, 2018; Yuni &

Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

Setiawan, 2019) Found that firm size was able to moderate by weakening the positive influence of profitability on tax avoidance actions.

The high level of leverage is an opportunity for companies to practice tax avoidance by utilising high-interest expenses as deductible tax expenses. Large companies will avoid tax avoidance despite having a high level of leverage to avoid external attention and a hostile corporate reputation. Research conducted by (Hermanto & Puspita, 2022) proving that firm size weakens the effect of leverage on tax avoidance. A high level of capital intensity is indicated by a large proportion of fixed assets and significant depreciation expenses that can be used as tax avoidance efforts. With the increasing size of the company, the company will reduce tax avoidance practices. Thus, firm size could weaken the positive influence of capital intensity on tax avoidance. (Utomo & Fitria, 2020) Found that large companies with high capital intensity will reduce tax avoidance.

In agency theory, large companies will seek to reduce agency costs by making broader and more transparent disclosure of information because large companies tend to have higher demands on providing information to the public. Companies with CSR activities will utilise the fulfilment of their tax obligations as a form of fulfilling information related to social responsibility. However, research conducted by (Fitri & Munandar, 2018) stated that firm size could not moderated or weaken the influence of CSR on tax avoidance.

**Ha6$_a$**: Firm size moderates the influence of profitability on tax avoidance.

**Ha6$_b$**: Firm size moderates the influence of leverage on tax avoidance.

**Ha6$_c$**: Firm size moderates the influence of capital intensity on tax avoidance.

**Ha6$_d$**: Firm size moderates the influence of CSR on tax avoidance.

The research model is presented in **Figure 3** below.

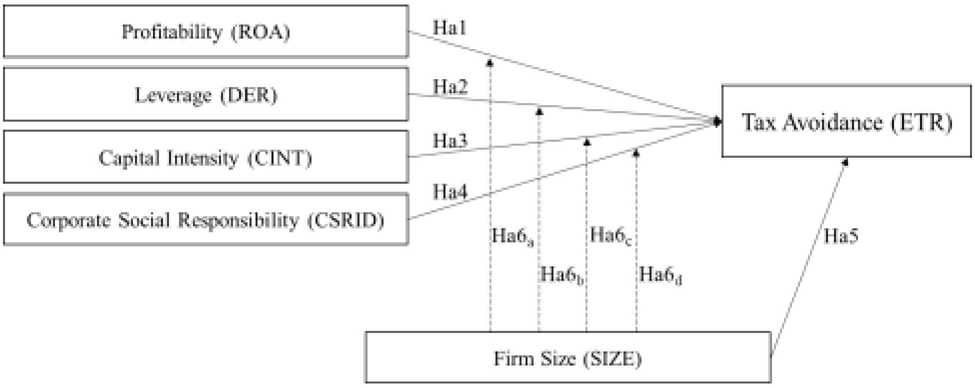


**Figure 3**. Research Model

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Jurnal Akuntansi
e-JA
E-ISSN 2549-8800
P-ISSN 1410-3591

## METHODS

The independent variables in this study consisted of profitability, leverage, capital intensity, CSR activities, and firm size. The dependent variable consists of 1 variable, namely tax avoidance. Firm size is also a moderation variable. The data processed in this study are secondary data obtained from companies in the energy, basic materials, industrial, primary consumer goods, and secondary consumer goods sectors listed on the IDX in 2019-2021, companies that did not delist, did not conduct an IPO, reported successive Sustainability Reports, and had all variables tested during the observation year. The data in the study were processed and analysed using multiple regression analysis and moderation regression analysis for panel data using Eviews 10. The measurement of all variables tested in this study can be seen in **Table 1**.

This study used two regression equations. The first equation is:

$$ETR = \alpha + \beta_1 ROA + \beta_2 DER + \beta_3 CINT + \beta_4 CSRID + \beta_5 FSIZE + \varepsilon \quad (1)$$

The second equation is:

$$ETR = \alpha + \beta_1 ROA + \beta_2 DER + \beta_3 CINT + \beta_4 CSRID + \beta_5 FSIZE + \beta_6 ROA*SIZE + \beta_7 DER*SIZE + \beta_8 CINT*SIZE + \beta_9 CSRID*SIZE + \varepsilon \quad (2)$$

$\alpha$ indicates the value of the constant, $\beta 1$ to $\beta 9$ indicates the regression coefficient, and $\varepsilon$ indicates an error.

**Table 1**. Research Variables

| Variable | Name of Variable | Measurement Scale | Variable Measurement | Source |
|---|---|---|---|---|
| ETR | Tax Avoidance | Ratio | Effective Tax Rate (ETR) $= \frac{\text{Income Tax Expense}}{\text{Income Before Taxes}}$ | (Fitri & Munandar, 2018; Kasim & Saad, 2019) |
| ROA | Profitability | Ratio | Return on Assets (ROA) $= \frac{\text{Net Income}}{\text{Total Assets}}$ | (Fitri & Munandar, 2018; Hutapea & Herawaty, 2020; Susanto & Veronica, 2022) |
| DER | Leverage | Ratio | Debt to Equity Ratio (DER) $= \frac{\text{Total Liabilities}}{\text{Total Equity}}$ | (Fitri & Munandar, 2018; Hutapea & Herawaty, 2020; Susanto & Veronica, 2022) |

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E-ISSN 2549-8800
P-ISSN 1410-3591

| | | | | |
|---|---|---|---|---|
| CINT | Capital Intensity | Ratio | Capital Intensity (CINT) = $\frac{\text{Tangible Fixed Assets}}{\text{Total Assets}}$ | (Kasim & Saad, 2019; Susanto & Veronica, 2022) |
| CSRID | CSR | Ratio | CSR Index (CSRID) = $\frac{\sum X_i}{n}$ <br> $X_i$ = disclosures presented in SR <br> n = $\sum$ disclosures in GRI Standards | (Fitri & Munandar, 2018; Susanto & Veronica, 2022) |
| SIZE | Firm Size | Ratio | Firm Size (SIZE) = ln Total Assets | (Fitri & Munandar, 2018; Kasim & Saad, 2019; Susanto & Veronica, 2022; Utomo & Fitria, 2020) |

Source: Data Processed (2023)

## RESULTS

The results of descriptive statistical tests, multicollinearity tests, model selection tests, multiple regression tests, and moderation regression tests.

**Descriptive Statistical Test Results. Table 2** shows the data processing results for descriptive statistical tests.

**Table 2**. Descriptive Statistical Test Results

| | ETR | ROA | DER | CINT | CSRID | SIZE |
|---|---|---|---|---|---|---|
| Mean | 0.333 | 0.071 | 0.960 | 0.304 | 0.475 | 27.771 |
| Median | 0.257 | 0.047 | 0.770 | 0.246 | 0.463 | 29.820 |
| Maximum | 2.909 | 0.349 | 3.413 | 0.719 | 0.819 | 33.537 |
| Minimum | 0.029 | -0.020 | 0.115 | 0.019 | 0.262 | 20.192 |
| Std. Dev. | 0.345 | 0.075 | 0.734 | 0.174 | 0.125 | 4.460 |
| Observations | 69 | 69 | 69 | 69 | 69 | 69 |

Source: Data Processed (2023)

**Table 2** shows that tax avoidance (ETR) and profitability (ROA) have an average value lower than their standard deviation, so it can be interpreted that these two variables have high variation. Meanwhile, average (DER), capital intensity (CINT), CSR activities (CSRID), and firm size (FSIZE) have a standard deviation value
that is lower than the average value. This value indicates that all of these variables have low variation.

The average value of tax avoidance is that the sample company has an average effective tax rate of 33.300 per cent. The minimum tax avoidance value of 0.029 indicates that the sample company has the lowest effective tax rate of 2.900 per cent, and the maximum value of 2.909 indicates the highest effective tax rate of 290.900 per cent. These results can be interpreted as meaning that the average contribution of the sample company in paying income tax to the government is 33.300 per cent of its income before tax, the lowest is 2.900 per cent of its income before tax, and the highest is 290.900 per cent of its income tax.

The average profitability value means that the sample company generates a net profit of 7.100 per cent of total assets. Every 1 rupiah of asset utilisation by a sample company can generate 0.071 rupiah in profit. The maximum profitability value of 0.349 means that the sample company can generate a profit of 34.900 per cent from the utilisation of assets, which means that every 1 rupiah of asset utilisation by a company can generate 0.349 rupiahs in profit. The lowest profitability value is -0.020, which means that the sample company has a negative profitability level and suffered a loss of 2.000 per cent from the utilisation of assets; it means that every 1 rupiah of asset utilisation by a company causes a loss of 0.020 rupiahs.

The average leverage value showed that the sample company has an average external financing rate of 96.000 per cent of internal financing. This value shows that, on average, the sample company's financing sources from internal sources are almost equal to financing from external sources. The lowest leverage level was 0.115, and the external financing was 11.500 per cent of internal financing. The highest leverage level of the sample company was 3.413, which is the external financing, which was 341.300 per cent of internal financing. Leverage above 100 per cent indicates a higher risk level for the sample company because it depends a lot on external financing, and they have an increasing responsibility to pay off its obligations.

The average capital intensity value of 0.304 showed that 30.400 per cent of the total assets of the sample companies are tangible fixed assets. This value shows that, on average, 30.400 per cent of the assets of the sample companies are non-liquid assets, which can affect the company's liquidity. The capital intensity or the amount of tangible fixed assets is at least (minimum), which is 0.019 or 1.900 per cent of total assets. Meanwhile, the highest number of tangible fixed assets amounted to 0.719 or 71.900 per cent of total assets. The greater the non-liquid assets the company owns, the more it will affect its liquidity because non-liquid assets require a long time to be converted into cash to meet its liquidity.

The average disclosure rate of CSR activities from sample companies is 0.475 or 47.500 per cent of the total disclosures, according to GRI Standards in 2016. The highest level of disclosure of CSR activities was 0.819 or 81.900 per cent, and the lowest was 0.262 or 26.200 per cent of the amount of disclosure of GRI Standards 2016 that should be. By SEOJK 51/2017, companies in Indonesia are required to prepare sustainability reports. The results of this research show that the sample companies have implemented these provisions with the average level of disclosure of CSR activities according to GRI Standards 2016 of 47.500 per cent, the lowest level of disclosure of 26.200 per cent and the highest level of disclosure of 81.900 per cent.

The average firm size measured by the natural logarithm of total assets, 27.771, is greater than the standard deviation of 4.460. For sample companies with firm size or natural logarithms, the highest total assets was 33.537, and the lowest was 20.192.

**Multicollinearity Test Results. Table 3** shows the multicollinearity test results.

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E-ISSN 2549-8800
P-ISSN 1410-3591

**Table 3**. Multicollinearity of Observation Period 2019 – 2021

| | ROA | DER | CINT | CSRID | SIZE |
|---|---|---|---|---|---|
| ROA | 1.000 | 0.310 | -0.006 | -0.014 | 0.195 |
| DER | 0.310 | 1.000 | 0.096 | -0.104 | 0.215 |
| CINT | -0.006 | 0.096 | 1.000 | -0.044 | 0.208 |
| CSRID | -0.014 | -0.104 | -0.044 | 1.000 | -0.286 |
| SIZE | 0.195 | 0.215 | 0.208 | -0.286 | 1.000 |

Source: Data Processed (2023)

**Table 3** shows that all independent variables in this study were not correlated, as indicated by the value of the correlation coefficient, which is smaller than 0.800, so it can be concluded that multicollinearity does not occur.

**Estimation Model Selection. Table 4** shows the results of the Chow test and the Hausman test.

**Table 4**. Estimation Model

| | Chow Test | | Hausman Test | |
|---|---|---|---|---|
| | Cross-section chi-square | Results | Cross-section random | Results |
| Regression equation without moderation | 0.000 | Fixed Effect Model | 0.000 | Fixed Effect Model |
| Regression equation with moderation | 0.000 | Fixed Effect Model | 0.000 | Fixed Effect Model |

Source: Data Processed (2023)

**Table 4** shows that the model test results for the two regression equations obtain Cross-section chi-square values and Random cross-section below 0.050. it can be concluded that this study uses the fixed effect model as the best estimation model for regression equations without moderation and with moderation.

**Regression Test Results. Table 5** below shows the results of regression tests without moderation with fixed effect models.

**Table 5**. Regression Test Results Without Moderation

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -8.126 | 9.981 | -0.814 | 0.420 |
| ROA | -1.890 | 0.913 | -2.070 | 0.045 |
| DER | 0.908 | 0.159 | 5.697 | 0.000 |
| CINT | 1.447 | 1.125 | 1.287 | 0.205 |
| CSRID | 0.042 | 0.397 | 0.107 | 0.916 |
| SIZE | 0.261 | 0.357 | 0.732 | 0.469 |
| R-squared | 0.749 | | | |
| Adjusted R-squared | 0.584 | | | |
| F-statistic | 4.531 | | | |
| Prob(F-statistic) | 0.000 | | | |

Source: Data Processed (2023)

The regression test results in **Table 5** can be presented as an equation as follows:

ETR = -8.126 – 1.890*ROA + 0.908*DER + 1.447*CINT + 0.042*CSRID + 0.261*SIZE + ε ………………………………………………………………………………… (3)

The constant value in the regression equation without moderation shows a negative value of 8.126, which means tax avoidance will increase, as indicated by the effective tax rate (ETR), which has decreased by 8.126 points, assuming all independent variables, namely profitability, leverage, capital intensity, CSR activities, and firm size, have zero or fixed values.

The regression coefficient of profitability is negative at 1.890, which means that if the company's profitability level increases by 1 point, tax avoidance will increase because the effective tax rate (ETR) decreases by 1.890 points, assuming all other independent variables have zero or fixed values. Conversely, suppose the company's profitability level decreases by 1 point. In that case, tax avoidance will decrease because the effective tax rate (ETR) increases by 1.890 points, assuming all other independent variables are zero or unchanged.

The results also showed a significance level lower than 0.050, which is 0.045. This means that changes in profitability significantly affect the effective tax rate. As the negative coefficient on ETR indicates, profitability positively influences tax avoidance. Thus, Ha1 in this study is acceptable.

The leverage measured by DER has a coefficient value of 0.908. This value indicates that when the company's leverage level increases by 1 point, the ETR will increase by 0.908 points. This means that tax avoidance practices decrease, assuming all other independent variables have a fixed or zero value. Suppose the leverage level decreases by 1 point. In that case, the ETR will decrease by 0.908 points, which means tax avoidance practices increase, assuming all other independent variables have a constant or zero value.

This coefficient value result has a significance level of 0.000, lower than 0.050. It means that the level of leverage has a significant negative influence on tax avoidance. Thus, Ha2, which mentions leverage has a significant positive effect on tax avoidance, is rejected.

Capital intensity has a regression coefficient value of 1.447, which can be interpreted that when the company's capital intensity level increases by 1 point, the ETR will increase by 1.447 points, indicating tax avoidance has decreased, assuming all other independent variables have not changed or zero. Instead, ETR will decrease by 1.447 points if the company's capital intensity level decreases by 1 point, which means tax avoidance will increase, provided all other independent variables have a value of zero or unchanged. However, the significance level for this result is 0.205, which is greater than 0.050, where the effect is insignificant. Therefore, it can be concluded that capital intensity has a negative direction towards tax avoidance but with an insignificant influence. Thus, Ha3, which states that capital intensity significantly influences tax avoidance, was rejected.

CSR activities in this study have a regression coefficient value of 0.042. It can be interpreted that an increase in CSR activities by 1 point will increase the ETR level by 0.042 points, assuming that all other independent variables have an unchanged value. Conversely, a decrease in CSR activities by 1 point will decrease the ETR level by 0.042 points, assuming all other independent variables are unchanged. A positive regression coefficient

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value means that the higher the level of disclosure of CSR activities, the higher the ETR level and reduced tax avoidance. The significant value for this result is 0.916, which is greater than 0.050, which means that the level of disclosure of CSR activities does not affect tax avoidance practices. Thus, Ha4, in this study, states that the level of disclosure of CSR activities has a significant negative effect and is unacceptable.

Firm size has a regression coefficient value of 0.261, which means that the ETR will increase by 0.261 points if the company size increases by 1 point or tax avoidance decreases, assuming all other independent variables are zero or constant. Conversely, if the firm size decreases by 1 point, the ETR will decrease by 0.261 points or tax avoidance increases, assuming there is no change in value on all other independent variables. This negative direction did not have a significant effect, indicated by a significance level greater than 0.050, which is 0.469. Ha5, which states that firm size significantly negatively affects tax avoidance, is unacceptable. It can be concluded that firm size has a negative effect on tax avoidance, but the effect is not significant.

**F Test Result.** The probability level for the F test in **Table 5** showed a value of 0.000, which is lower than 0.050. These results can be interpreted as the regression model without moderation in this study meeting the feasibility of the model. This result can also be interpreted as profitability, leverage, capital intensity, CSR activities, and firm size significantly influencing tax avoidance.

**They adjusted the $R^2$ Test Results.** The adjusted $R^2$ in **Table 5** showed a value of 0.584. These results indicate that 58.400 per cent of tax avoidance practices could be explained by profitability, leverage, capital intensity, CSR activities, and firm size. 41.600 per cent of tax avoidance practices were explained or influenced by other factors not proxied in this study.

**Moderation Regression Test Results.** The moderation regression equation with the fixed effect model is presented as follows:

ETR = – 19.168 – 1.126*ROA + 1.646*DER + 4.847*CINT – 1.413*CSRID
+ 0.789*FSIZE – 0.036*ROA*SIZE – 1.472*DER*SIZE – 0.914*CINT*SIZE
+ 0.575*CSRID*SIZE + e ...………......……………………………………..………… (4)

The results of the moderation regression test are presented in **Table 6**.

**Table 6**. Moderation Regression Test Results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -19.168 | 10.039 | -1.909 | 0.064 |
| ROA | -1.126 | 0.654 | -1.723 | 0.093 |
| DER | 1.646 | 0.140 | 11.721 | 0.000 |
| CINT | 4.847 | 2.081 | 2.329 | 0.025 |
| CSRID | -1.413 | 1.246 | -1.134 | 0.264 |
| SIZE | 0.789 | 0.368 | 2.143 | 0.039 |
| ROA*SIZE | -0.036 | 0.043 | -0.832 | 0.410 |
| DER*SIZE | -1.472 | 0.195 | -7.542 | 0.000 |
| CINT*SIZE | -0.914 | 0.285 | -3.203 | 0.003 |
| CSRID*SIZE | 0.575 | 0.613 | 0.939 | 0.354 |

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P-ISSN 1410-3591

| | |
|---|---|
| R-squared | 0.908 |
| Adjusted R-squared | 0.832 |
| F-statistic | 11.842 |
| Prob(F-statistic) | 0.000 |

Source: Data Processed (2023)

**Table 6** showed that firm size, as a moderation variable, could moderate the influence of leverage and capital intensity on tax avoidance practices, indicated by a significance level lower than 0.050. Meanwhile, firm size could not moderate the influence of profitability and CSR activities on tax avoidance, indicated by a significance level greater than 0.050.

The results of the moderation regression test in Table 6 showed that profitability without interaction with firm size has a regression coefficient value of -1.126 with a significance level of 0.093, and profitability after interaction with firm size has a lower regression coefficient value of -0.036 with a significance level of 0.411. This result indicated that the larger the company's size, the ETR level will decrease or weaken the positive direction of profitability towards tax avoidance. However, this result has a significance level greater than 0.050, so it does not have a significant effect. It can be concluded that firm size cannot moderate the effect of profitability on tax avoidance; thus, $Ha6_a$ is rejected.

**Table 6** shows that the regression coefficient value for leverage without interaction with firm size is 1.646, and the significance level is 0.000. The value of the leverage regression coefficient after interaction with firm size becomes -1.472 with a significance level of 0.000, which is lower than 0.050. Firm size could moderate the effect of leverage on tax avoidance. $Ha6_b$ stated that firm size moderates the influence of leverage on tax avoidance.

Based on the moderation regression model data results, the coefficient of capital intensity level without moderation of firm size is 4.847, with a significance level of 0.025. The effect of the level of capital intensity with moderation of firm size has a coefficient value of -0.914, with a significance level of 0.003. Thus, it can be concluded that firm size could moderate the effect of capital intensity on tax avoidance, and $Ha6_c$ is accepted.

**Table 6** shows that CSR activities before interacting with firm size have a coefficient value of -1.413 with a significance level of 0.264. With the interaction of firm size, the coefficient value becomes -0.914, with a significant level of 0.354 greater than 0.050. This result can be interpreted as having no significant effect on firm size in moderating the positive direction of CSR disclosure rates on tax avoidance; thus, $Ha6_d$ is rejected.

## DISCUSSION

**Profitability and Tax Avoidance.** The data processing results showed that profitability positively influences tax avoidance, as indicated by the negative coefficient on ETR. The results of this study support the agency theory, which states that agents are required to be able to increase company profits, one of which is through tax avoidance. A high level of profitability indicates good management performance, but the greater the profit before tax, the consequences of a high tax burden as well. When the company's profit increases, the company's management will take tax avoidance actions (Kim & Im, 2017) to generate high net profit so that the dividend rate of return for the principal increases. The results of this study support the research (Dewanti & Sujana, 2019; Kasim & Saad, 2019; Nailufaroh et al., 2022; Nawangsari et al., 2022; Putra & Jati, 2018; Rahayu et al., 2022; Sonia & Suparmun, 2018) which has a significant positive effect of profitability on tax avoidance.

However, this study's results differ from the results of the study (Dirman & Frizky, 2022; Hutapea & Herawaty, 2020; Susanto & Veronica, 2022; Yuni & Setiawan, 2019). Their research found that high profitability levels correlate with high ETR levels, which can mean that companies with high profitability levels will avoid tax avoidance. The results of this study are also different from (Fitri & Munandar, 2018; and Utomo & Fitria, 2020), which found that profitability levels did not influence tax avoidance.

**Leverage and Tax Avoidance**. Financing activities and corporate investment decisions can influence tax avoidance practices (Kim & Im, 2017). The results of this study concluded that leverage has a significant negative influence on tax avoidance. Companies with a high level of leverage can take tax avoidance actions by taking advantage of the low tax burden due to the high-interest tax shield. However, the results of this study provide empirical evidence to the contrary, where the higher the level of leverage, the higher the level of ETR, which can be interpreted as a decrease in tax avoidance practices in the company. This can happen because the company does not want to risk damaging the company's good name to avoid tax avoidance. This condition will be positive information for stakeholders, especially external stakeholders, making it easier for companies to get additional external financing.

Companies need to carry out activities that can maintain their good name and reputation to get all stakeholders' support. One way to do this is by fulfilling the company's tax obligations by applicable laws. This study's results align with research (Hermanto & Puspita, 2022), which found that companies with high leverage levels avoid the tax avoidance practices shown by high ETR rates.

The results obtained in this study are not in line with those (Fitri & Munandar, 2018; Gulzar et al., 2018; Hutapea & Herawaty, 2020; Kasim & Saad, 2019; Putra et al., 2018; Susanto & Veronica, 2022) which found that high leverage correlated with low ETR rates meaning leverage had a positive influence on tax avoidance practices. Meanwhile, the results of the study (Dewanti & Sujana, 2019; Rahayu et al., 2022; Saputra et al., 2017; Sonia & Suparmun, 2018) concluded that the level of leverage does not affect the company's practice of tax avoidance.

**Capital Intensity and Tax Avoidance.** (Kasim & Saad, 2019) mentioning that the company will have tax-saving benefits if it has a high capital intensity due to recognising depreciation expense. However, the data processing results in this study found that the greater the capital intensity, the greater the company's effective tax rate, which means the company does not engage in tax avoidance practices. This result is the same as the result obtained in the leverage. By stakeholder theory, companies avoid tax avoidance because they want to maintain the company's good name and reputation. However, the data processing results also showed no significant effect of the level of capital intensity on tax avoidance practices. Thus, the more significant or smaller the amount of tangible fixed assets and their depreciation costs are not a factor companies use to carry out tax avoidance practices. The results of this study support the findings of (Gulzar et al., 2018; Hermanto &

Puspita, 2022 Saputra et al., 2017 Sonia & Suparmun, 2018; Susanto & Veronica, 2022), which find that tax avoidance practices are not influenced by the level of capital intensity in the company.

The results of this study do not support the results of the study (Utomo & Fitria, 2020), which found that high capital intensity correlated with low ETR levels, meaning companies engaged in tax avoidance practices. The results of this study are also not in line with the research (Kasim & Saad, 2019) that a high level of capital intensity correlates with a high ETR rate or that the company avoids tax avoidance practices.

**Corporate Social Responsibility (CSR) and Tax Avoidance.** (López-González et al., 2019) Companies with a high commitment to CSR activities will try to reduce tax avoidance practices. However, the data processing results in this study show that the level of disclosure of CSR activities does not significantly affect tax avoidance practices, even though the level of disclosure of CSR activities has a negative direction towards tax avoidance. (Park, 2017) mentioned that stakeholders are increasingly aware of the importance of corporate social responsibility. In stakeholder theory, tax payment is essential in a company's CSR activities. Meanwhile, in the theory of legitimacy, it is stated that companies need support and trust from stakeholders. The company's obligation to meet its tax burden is one of the CSR activities that can maintain its good name and reputation so that the company can maintain the support and trust of stakeholders. Based on the results of this study, it can be concluded that the primary purpose of the company carrying out CSR activities is not to carry out tax avoidance but to maintain the good name and reputation of the company in the long run. This result can also be interpreted as the sample companies not taking advantage of the implementation of Law 36/2008 as a loophole to carry out tax avoidance.

The results of this study support what was found in the study (Ilham et al., 2022; Nawangsari et al., 2022), which found that CSR activities do not affect tax avoidance. These results can also interpreted that there is no. However, the results of this study are contrary to the research (López-González et al., 2019; Susanto & Veronica, 2022), which states that CSR can reduce tax avoidance. While (Abdelfattah & Aboud, 2020; Daoud, 2022; Dewanti & Sujana, 2019; Fitri & Munandar, 2018; Gulzar et al., 2018) in their research found that high CSR results have a positive effect on tax avoidance practices.

**Firm Size and Tax Avoidance.** Large companies will get extra attention and supervision from external parties. Large companies can fulfil their tax obligations because they have sufficient resources and will avoid tax avoidance. However, the results showed that firm size did not affect the company's tax avoidance practices. Large or small companies will make the same effort in maintaining the good name and reputation of the company, one of which is by fulfilling their tax obligations. The results of this study are in line with research (Dewanti & Sujana, 2019; Dirman & Frizky, 2022; Gulzar et al., 2018; Sonia & Suparmun, 2018; Yuni & Setiawan, 2019) which concludes that firm size does not affect tax avoidance practices.

(Kasim & Saad, 2019; López-González et al., 2019; Susanto & Veronica, 2022) found that the larger a company, the lower its desire to carry out tax avoidance actions. Research conducted by (Nailufaroh et al., 2022; Utomo & Fitria, 2020) gets the opposite result: the larger the company, the more likely it will practice tax avoidance.

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E-ISSN 2549-8800
P-ISSN 1410-3591

**Firm Size as Moderation Variable.** The moderation regression results in this study indicated that the larger the firm size, the ETR level will decrease or weaken the positive direction of profitability towards tax avoidance. However, this result does not have a significant effect. It can be concluded that firm size cannot moderate the effect of profitability on tax avoidance. A large company is not a factor that drives the decline in tax avoidance in companies with high profitability. The results of this study cannot support the results of previous studies conducted by (Hutapea & Herawaty, 2020; Yuni & Setiawan, 2019) which found that firm size was able to moderate by weakening the positive effect of profitability on tax avoidance measures.

The effect of leverage without moderating firm size has a negative direction indicated by a positive ETR rate. After moderation of firm size, it has a positive direction indicated by a negative ETR rate. It can be concluded that firm size could moderate the effect of leverage on tax avoidance. Companies tend to take advantage of high levels of leverage to carry out tax avoidance practices, namely, using the recognition of high-interest expenses as deductible tax expenses. However, large companies will avoid tax avoidance even though they have a high level of leverage because they avoid external attention and maintain the company's reputation. However, the moderation regression test results show that companies with a high level of leverage and large company size tend to do tax avoidance, indicated by a negative ETR rate. This study's results support the study's results (Hermanto & Puspita, 2022), which proves that firm size moderates the effect of leverage on tax avoidance.

The coefficient of capital intensity level without moderating firm size has a positive value. The effect of the level of capital intensity with moderation of firm size has a significant negative value. Thus, it can be concluded that firm size could moderate the effect of capital intensity on tax avoidance. These results show the same conclusion as the effect of leverage on tax avoidance. Companies with high capital intensity and large size tend to do tax avoidance indicated by low or negative ETR levels. The results of this research are not in line with research conducted by (Utomo & Fitria, 2020) which found that large companies with high capital intensity will reduce tax avoidance.

These regression moderation results show no significant effect of firm size in moderating the positive direction of CSR disclosure rates on tax avoidance. Large companies will have more CSR activities and avoid tax avoidance practices. However, the results showed that firm size could not moderate the effect of CSR activities on tax avoidance. This study's results align with (Fitri & Munandar, 2018). From these results, it can be concluded that companies of large or small sizes will carry out CSR activities in order to gain recognition or legitimacy from stakeholders for the long term and not be a factor that is used as an effort to reduce tax avoidance.

## CONCLUSION

Based on the results of the regression test without moderation show that profitability has a positive and significant influence on tax avoidance. Leverage has a negative and significant effect on tax avoidance. Capital intensity, CSR activities, and company size do not influence tax avoidance. Meanwhile, the moderation regression test results show that firm size could moderate the effect of leverage and capital intensity on tax avoidance.

However, they could not moderate the effect of profitability and CSR activities on tax avoidance.

High levels of profitability correlate with low levels of ETR, which means companies engage in high tax avoidance practices. The results of this study support the agency theory, where agents are required to increase company profits, one of which is tax avoidance, so that the dividend rate of return for the principal increases. There is a decrease in tax avoidance practices in the company when the leverage level increases. According to stakeholder theory, companies need to carry out activities that can maintain the company's good name and reputation to get support from all stakeholders, one of which is by fulfilling corporate tax obligations.

The greater or smaller the amount of tangible fixed assets and their depreciation costs are not a factor companies use to carry out tax avoidance practices. CSR activities also do not significantly affect tax avoidance practices because the primary purpose of the company carrying out CSR activities is not to carry out tax avoidance but to maintain the good name and reputation of the company in the long run. Firm size does not affect the company's tax avoidance practices. Large or small companies will make the same effort to maintain the good name and reputation of the company, one of which is by fulfilling their tax obligations.

Large company size is not a factor that drives the decline in tax avoidance in companies with high profitability. Large companies tend to take advantage of high leverage and capital intensity levels to engage in tax avoidance practices that recognise high-interest and depreciation expenses as deductible tax expenses. Companies of large or small sizes will carry out CSR activities to gain recognition or legitimacy from stakeholders for the long term and not be a factor used to reduce tax avoidance.

The adjusted $R^2$ results in this study show that profitability, leverage, capital intensity, CSR activities, and firm size cannot explain tax avoidance. There are still other factors that need to be proxied in this study that affect tax avoidance carried out by companies, such as not including the effect of deferred taxes and the amount of tax burden paid by companies in the current period. Suggestions for future research are to add other variables/factors that can affect tax avoidance practices. Research can also be continued by extending the research period and incorporating changes to the applicable tax rules in Indonesia. The sample of companies in this study is still limited due to the variable disclosure of CSR activities in the Sustainability Report (SR). Although this report has become mandatory in Indonesia, several sample companies still have not met these requirements. Further research can be done by adding samples of companies from other sectors that have met the provisions for the preparation of SR.

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