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Determining Disclosure of Tax Avoidance

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Abstract:
The purpose of the study was to find out how profitability, capital intensity, company size, and are affected by tax avoidance. The sample for this study were 34 mining companies listed between 2018 and 2022 on the Indonesia Stock Exchange. The random effect Model (REM) was the selected test model, and the panel regression data were tested using the eviews 12 program. Profitability research results provide significant positive results against tax avoidance. The company size of the business significantly affects tax avoidance in a negative direction. Meanwhile, capital intensity has no effect on tax avoidance.

Keywords: Profitability, Company Size, Capital intensity, Tax Avoidance

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INTRODUCTION

Efforts to optimize profits and reduce tax burdens are commonly called tax avoidance, many companies and individuals are involved in this legal practice. This practice, although legal, is often controversial because it can suppress tax revenues that the government should receive, which in turn can affect the sustainability of state finances and the financing of social programs and infrastructure. Tax avoidance is expected in the mining company sector. According to Suwiknyo's report ((2021)) from PricewaterhouseCoopers (PwC) Indonesia, as many as 70% of 40 large companies in the mining sector have not implemented transparent tax reporting practices. Transparency in taxation is one of the important aspects that is still lacking in monitoring the size of the mining company's financial contribution to the community.

This fact is supported by data showing that Indonesia is one of the most productive countries in the global coal mining industry and is ranked fifth as the largest coal producer in the world. Indonesia produces around 485 million tons of coal, or around 7.2% of total coal production worldwide (BPS, 2023). In addition, Indonesia is the second largest coal exporter in the world after Australia, where around 80% of all Indonesian coal production is exported. Although the mining industry generates great economic value, its tax contribution appears low in terms of the table of ratios of state revenue and mining tax revenue. Therefore, the mining sector is an interesting sector to research regarding the gap in tax payments to the state treasury, according to the topics to be researched regarding tax avoidance (Prasatya et al., 2020).

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The higher the company's profits, the higher the tax problem, which encourages companies to avoid taxes. In addition, (Hermawan et al., 2021). found that profitability affects corporate tax avoidance. However, (I. Aulia & Mahpudin, 2020), and the profitability do not affect the tendency of companies to engage in tax avoidance. Capital intensity is a level of capital intensity that reflects the extent to which a company relies on physical assets for its operations.

Profitability is widely recognized as a key determinant of corporate tax avoidance, as more profitable firms generate greater taxable income and therefore have stronger incentives to reduce their tax liabilities. According to agency theory, managers of highly profitable companies may pursue tax avoidance strategies to maximize firm value and meet performance targets, leveraging sophisticated tax planning methods and resources unavailable to less profitable peers (I. Aulia & Mahpudin, 2020). Furthermore, firms with higher earnings are better equipped to absorb the costs associated with engaging tax advisors and investing in complex financial instruments designed to exploit loopholes in tax legislation. This positive association between profitability and tax avoidance is also consistent with the political cost hypothesis, which suggests that profitable firms face greater scrutiny and regulatory pressures, prompting them to engage in avoidance to deflect political and public attention (Mailia & Apollo, 2020)

Empirical studies across various jurisdictions corroborate the positive link between profitability and tax avoidance. For instance, (Rahmawati & Nani, 2021) examined U.S. firms over two decades and found that companies with persistently higher pre-tax income relative to assets exhibited significantly greater levels of long-run tax avoidance. In an international context, (Faradilla & Bhilawa, 2022)demonstrated that profitability is a robust predictor of effective tax rates across different countries, even after controlling for legal and institutional factors. These findings underline that profitability not only provides the motive but also the means for firms to engage in tax minimization strategies.

The better fixed assets a company owns, the greater the chance of evading taxes in terms of depreciation of its fixed assets. This is in line with studies by (Marlinda et al., 2020). However, reports that tax avoidance efforts are not affected by capital intensity. Larger firms often exhibit a positive relationship with tax avoidance due to their greater access to resources, specialized expertise, and economies of scale in tax planning. As firms grow in size, they are more likely to employ dedicated tax departments, engage high-powered tax advisors, and utilize complex organizational structures such as multiple subsidiaries and cross-border operations to shift income to low-tax jurisdictions. Additionally, larger companies typically face more stringent regulatory scrutiny and higher political visibility, which paradoxically motivates them to engage in sophisticated avoidance strategies to mitigate potential reputational and regulatory costs

Empirical studies across various settings confirm that company size is a robust predictor of tax avoidance. (Ciptani & Situmorang, 2023)analyzed corporations and observed that total assets positively correlate with measures of both current and long-run tax avoidance, even after controlling for profitability and leverage. Similarly, (N. Aulia & Purwasih, 2023; Sholikhah et al., 2022)documented that in an international sample, larger multinationals achieve lower effective tax rates through greater use of intra-firm debt and intercompany transactions. These findings underscore that as companies expand, their capacity and incentive to minimize tax burdens systematically increases through more sophisticated planning mechanisms.

The size of the company can affect its ability to carry out effective tax planning. Larger companies may have more resources to develop complex tax planning strategies. (N. Aulia & Purwasih, 2023) explained, company size can have a significant impact on

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tax avoidance. However, some studies show that company size has no effect on tax avoidance.

Capital intensity, defined as the ratio of a firm's fixed assets to total assets, plays a critical role in shaping tax avoidance strategies through the provision of tax shields. Firms with higher capital intensity can exploit accelerated depreciation schedules and interest deductibility associated with debt financing to lower taxable income, thereby minimizing their effective tax rates (Marlinda et al., 2020). Moreover, the complexity of managing large volumes of fixed assets often necessitates specialized tax planning expertise, which further enhances a firm's ability to design transactions that maximize depreciation and amortization benefits (Mailia & Apollo, 2020).

Empirical investigations offer mixed but insightful evidence on this relationship. (Jusman & Nosita, 2020) report a significant positive effect of capital intensity on tax avoidance among consumer goods companies listed on the Indonesia Stock Exchange, Conversely, (Ciptani & Situmorang, 2023) find no statistically significant impact of capital intensity on tax avoidance within Indonesian mining firms, suggesting that industry characteristics and regulatory oversight may moderate this effect (Ciptani & Situmorang, 2023). These findings underscore the importance of contextual factors when assessing how capital investment decisions influence corporate tax planning. This research examines the impact of company size, profitability and capital intensity on mining sector tax avoidance on the Indonesian Stock Exchange (BEI) for the 2018-2022 period.

LITERATURE REVIEWS

1) Tax Avoidance

Tax avoidance is generally defined as the legal practice of arranging one's financial affairs so as to minimize tax liability within the bounds of the law. It involves exploiting gaps and mismatches in tax rules to reduce a firm's tax burden without contravening statutory provisions or engaging in fraudulent conduct (Mailia & Apollo, 2020). Unlike tax avoidance, which entails deliberate misrepresentation or concealment of information to illegally lower tax obligations, avoidance relies on strategic planning—such as selecting advantageous depreciation methods, structuring transactions through tax-preferred entities, or timing income recognition—to achieve more favorable tax outcomes (Glover & Levine, 2024)

Although tax avoidance operates within legal parameters, it raises important ethical and policy considerations. Governments continually amend tax codes to close loopholes, while firms deploy increasingly sophisticated advisory services and financial instruments to preserve avoidance opportunities. This dynamic interplay underscores the distinction between lawful tax planning and aggressive avoidance that, while technically permissible, may undermine the spirit of tax statutes and attract regulatory scrutiny or reputational risk (Faradilla & Bhilawa, 2022). As a result, both practitioners and policymakers emphasize transparency and anti-avoidance measures to balance corporate tax planning against the broader public interest in equitable revenue collection.

2) Profitability

Profitability refers to a firm's ability to generate earnings relative to its revenue, assets, or equity over a given period. In financial analysis, it is commonly measured through ratios such as net profit margin (net income divided by sales), return on assets (net income divided by total assets), and return on equity (net income divided by shareholders' equity). These metrics provide insight into how effectively management utilizes the company's resources and capital structure to produce income, facilitating comparisons across firms and over time (Hossain et al., 2024)

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Beyond its role as a performance indicator, profitability underpins strategic decision-making and stakeholder assessment. High profitability signals a firm's competitive advantage and operational efficiency, attracting investment and supporting internal funding for growth initiatives. Conversely, sustained low profitability may prompt management to reevaluate cost structures, pricing strategies, or asset allocation. As such, profitability metrics are integral to financial reporting, credit evaluation, and valuation models, serving both internal management purposes and external user needs (Mahdiana & Amin, 2020)

3) Company Size

Company size refers to the scale of a firm's operations and is most commonly proxied by quantitative measures such as total assets, annual revenues, or number of employees. Total assets capture the book value of all resources controlled by the firm, revenues represent the flow of economic benefits generated from normal business activities, and headcount reflects the human capital employed. These indicators allow analysts and researchers to rank firms by scale and to control for size effects when examining performance, governance, or risk-taking behavior (N. Aulia & Purwasih, 2023)

Beyond continuous measures, company size is often categorized into bands—such as small, medium, and large enterprises—based on thresholds set by regulatory bodies or statistical agencies. For example, thresholds might define small firms as those with fewer than 50 employees or assets below a specified amount, and large firms as those exceeding those limits. Such classifications facilitate targeted policy-making, benchmarking, and compliance requirements, recognizing that firms of different sizes face distinct economic, regulatory, and resource constraints (Ciptani & Situmorang, 2023)

4) Capital Intensity

Capital intensity refers to the extent to which a firm's operations rely on investment in fixed assets, typically measured as the ratio of net property, plant, and equipment to total assets (fixed-asset intensity) or to sales (asset-turnover inverse) (Hendayana et al., 2024). A high capital-intensity ratio indicates that a substantial portion of the firm's resources is tied up in long-lived assets, such as machinery, buildings, and equipment, which cannot be easily converted to cash in the short term. In practice, firms compute capital intensity by dividing net fixed assets by either total assets or annual sales, allowing analysts to compare capital usage across companies and industries (Hendayana et al., 2024; Kalbuana et al., 2020)

Beyond measurement, capital intensity has important implications for a firm's financial strategy and operational risk profile. Companies with high capital intensity often face greater depreciation expenses and may require larger external financing, leading to higher leverage ratios and increased interest obligations N. Aulia & Purwasih (2023). Moreover, heavy investment in fixed assets can reduce operational flexibility, as these assets are relatively illiquid and sector-specific; thus, managers must carefully plan capacity utilization and maintenance to optimize returns on capital-intensive investments.

Research Hypotesys Development

a) Effect Profitability on Tax Avoidance

According to Taxation Law no. 7 of 2021, Tax is a payment required by individuals or entities to the state in accordance with mandatory legal provisions, without receiving direct benefits, and is used to meet state needs to maximize community welfare. Obligations made to taxpayers, which must be paid to the state in accordance with requirements and not returned by the state in accordance with requirements (Nurhasan, 2023). The results are used to finance general expenses and to achieve several state

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goals, such as economic, social, political. Tax avoidance is the practice of companies or individuals to reduce or avoid tax obligations legally and in accordance with applicable tax laws. The aim of tax avoidance is to optimize finances by minimizing the amount of tax that must be paid without violating applicable tax regulations (Prasatya et al., 2020)

Profitability is a measure of the extent to which a company or business entity can generate positive profits or net profits from its operations over a certain period of time. Profitability is an important factor for assessing business quality. This is how companies can know and measure how far they can generate revenue or profits, and how effectively they utilize the resources they have (Hermawan et al., 2021)Tax planning is the process of minimizing corporate tax payments. When profitability is greater than 5%, it has a significant impact on tax avoidance. Similarly, (Sholikhah et al., 2022)found that higher levels of profitability encouraged companies to engage in tax avoidance. The aim is to avoid large taxes that must be paid by companies. When a company generates higher revenues over a period of time, management will try to share most of those profits with the company. The higher the company's profits, the more it encourages management to maintain profits for the company and will trigger management to avoid taxes. As a result, some of the corporate tax liability is reduced. Consistent findings have also been reported in (I. Aulia & Mahpudin, 2020; Hossain et al., 2024). The relationship between profitability and tax avoidance is formulated in the following hypothesis.

H_1: Profitability has an effect against tax avoidance

b) Effect Company Size on Tax Avoidance

Company size is a dimension that shows how large a company is from various points of view, such as total assets, annual income, number of employees, or capitalization (Mailia & Apollo, 2020). Company size can be an important indicator in financial and business analysis and can impact various operational and strategic aspects of the company. The larger the company, the more complex the transactions that occur, allowing the company to exploit loopholes to evade taxes from each transaction (Faradilla & Bhilawa, 2022)

According to Erlin et al., (2023)company size has a significant influence on tax avoidance practices. Company size is proxied in the logarithm of total assets because this size looks more stable than other indicators. The larger the size of the company, the larger the assets owned, where with good management the company will feel able to pay its tax burden, thereby reducing the company's desire to take tax avoidance actions. Research by (Mailia & Apollo, 2020) shows how company size influences tax avoidance. The relationship between company size and tax avoidance is formulated in the following hypothesis.

H_2: Company Size has an effect on Tax Avoidance

c) Effect Capital Intensity on Tax Avoidance

Capital intensity is a term used to describe how a company relies on physical capital, such as plant, equipment, and other physical infrastructure in its operations (Mailia & Apollo, 2020). Capital intensity refers to the amount of physical capital required by a company to produce the goods or services it sells. Industry types, business models, and company strategies can influence how high or low a company's capital intensity is. The capital intensity ratio shows how well a company can use its fixed assets to generate sales or sales. This is a continuous funding activity carried out by the corporation in the form of both fixed assets and capital intensity (Marlinda et al., 2020).

Capital intensity is one of the characteristics of companies that directly influences the effective tax rate, a decrease in the effective tax rate will result in an increase in

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discretionary tax deductions (Jusman & Nosita, 2020). Jusman & Nosita (2020)report that capital intensity and tax avoidance are significantly correlated. Since fixed assets cause depreciation charges, depreciation charges on holdings of fixed assets will reduce the tax payments the company will pay. The higher the capital intensity of a business, the higher the company's chances of avoiding taxes through the depreciation burden on its fixed assets, which means that business profits are reduced, so that business tax obligations are also reduced. If business profits decrease, the company has a lower ETR, which means a higher level of tax avoidance. Bandaro & Ariyanto (2020) show that capital intensity has a significant positive effect on tax avoidance. The relationship between capital intensity and tax avoidance is formulated in the following hypothesis.
H_3: Capital Intensity has an effect on Tax Avoidance

RESEARCH METHODOLOGY

Quantitative methods with secondary data were used in this study (Sugiyono, 2019). Secondary data in this research was obtained from the annual financial reports recorded on the Indonesia Stock Exchange (BEI) from 2018 to 2022. This data can be accessed via the IDX website, www.idx.co.id. This research involved 57 mining companies listed on the Indonesian Stock Exchange; of the population, 57 of them are samples of this research. Purposive sampling is used to collect non-track samples whose data is obtained through certain criteria. The sample criteria were as follows: (1) mining sector companies listed on the Indonesia Stock Exchange (BEI), (2) Publishing annual reports from 2018 to 2022, and (3) companies with institutional ownership. Table 1 presents the sample selection in more detail.

Table 1. Sample Selection

Sample Criteria	Total
Mining Company for the 2018-2022 period	34
Annual reports are not available from data sources	(8)
The company is available for further analysis	26
Number of Observations (company x 5 year)	130

Variable Measurement

The variables in this study consist of three independent variables, namely profitability, capital intensity and company size. Meanwhile, the dependent variable is tax avoidance and the moderation variable is institutional ownership. Table 2 explains the operational definition of each variable and how it is measured:

Table 2. Definition of Variables and Measurements

Variables	Operational Definitions	Measurement
Profitability	The company's ability to make profits (Faradilla & Bhilawa, 2022)	ROE = Net profit / Total Equity x 100
Capital Intensity	Ratio of fixed assets, such as property, machinery and equipment, to total assets (Kalbuana et al., 2020)	CAPIN= Total Fixed Assets / Total Assets

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Company Size	Large or small wealth (assets). owned by the company (I. Aulia & Mahpudin, 2020)	Company Size = Ln (Total Assets)
Tax Avoidance	the tax burden it pays, measured by Effective Tax Rates (ETR) (Mailia & Apollo, 2020)	Expense/ Profit Before Tax x 100

RESULTS AND DISCUSSION
Descriptive Statistical Test

Table 3. Descriptive Statistical Test

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
ROE	0.127876	0.088377	0.812170	-0.244698	0.174736	130
CS	19.89185	20.42466	29.28233	3.227788	4.834437	130
CI	0.231580	0.198717	0.660220	0.003799	0.166243	130
TA	0.198046	0.228241	0.907778	-0.498024	0.230422	130

Source: Eviews 12

According to the results of Table 4, the number of observations is 130. Tax avoidance (TA) has a minimum value of -0.49, a maximum value of 0.90, an average of 0.19, and a standard deviation of 0.230. This means that the average shows that mining companies generally avoid taxes at 19%. Profitability (ROE) has a minimum value of -0.24, a maximum value of 0.081, an average of 0.12 and a standard deviation of 0.174. This means that the average shows that mining companies generally have a profitability of 12%. The size of the company (CS) has a minimum value of 3,227. Maximum 29.2823 D, mean 19.891 and standard deviation 4.8344.The capital intensity (CI) has a minimum of 0.003, a maximum of 0.66, an average of 0.23, and a standard deviation of 0.166. This means that the average shows that mining companies generally have a capital intensity of 23%.

Hypothesis Testing

Table 4. Regression Test

Variables	Coefficient	Std. Error	Prop.
ROE	0.051265	0.106333	0.0482
CS	-0.000799	0.004095	0.0455
CI	0.009991	0.123621	0.9357
TA	0.557226	0.407695	0.0173

Source: Eviews 12

Table 4 shows that the probability value of ROE is 0.0482, which indicates that ROE positively influences tax avoidance. The capital intensity has a probability value of 0.9357, indicating that the CI does not affect tax avoidance. Company Size has a probability value of 0.0455, indicating that the size of the company negatively impacts tax avoidance.

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Discussion

a) The Effect of Profitability on Tax Avoidance

The profitability variable had a positive effect on tax avoidance, as can be seen from the probability value, which fell below the significance level of 5%. Thus, H1 is accepted. This means that the higher the company's profits, the higher the tax burden, so the company tends to avoid taxes. A higher level of profitability for companies means a greater tax burden. Therefore, management will try to channel profits into the company so as to minimize the burden that must be paid, one of which is the tax burden. As a result, corporations have to pay less taxes. The findings are in line with (Hermawan et al., 2021) that profitability affects tax avoidance but contradicts (N. Aulia & Purwasih, 2023)

Profitability exerts a significant positive influence on corporate tax avoidance by providing both the incentive and the means to engage in sophisticated tax planning. Firms with higher profitability generate greater taxable income, which motivates management to employ legal strategies—such as accelerated depreciation, income shifting through intercompany transactions, and the utilization of tax credits—to minimize current tax liabilities. Moreover, the surplus cash flows arising from profitable operations enable firms to bear the costs of hiring specialized tax advisors and investing in complex financial instruments, thereby enhancing their capacity to structure transactions that reduce effective tax rates within the confines of tax legislation (Faradilla & Bhilawa, 2022)

Empirical studies consistently confirm this positive relationship across different contexts and time periods. Hossain et al., (2024) find that companies with persistently high pre-tax income relative to assets exhibit significantly lower long-run effective tax rates, indicating sustained avoidance behavior driven by profitability. Similarly, demonstrate that profitability remains a robust predictor of lower effective tax rates in an international sample, even after controlling for firm-specific characteristics and country-level tax regimes. These findings underscore that higher profitability not only incentivizes firms to pursue tax minimization strategies but also equips them with the necessary resources to implement such strategies effectively.

b) The Effect of Company Size on Tax Avoidance

The size of the company negatively affects tax avoidance. This means that H3 is accepted. that the larger the company, the larger the fixed assets, so that the company feels better prepared to bear the tax burden. In addition, the size of enterprises is also associated with more professional human resources, which reduces tax avoidance.

Larger firms often face heightened public scrutiny, stronger governance structures, and more pronounced reputational concerns, which can deter aggressive tax-minimization strategies. From the perspective of legitimacy theory, as company size increases, stakeholders—including investors, regulators, and the media—expect greater transparency and socially responsible behavior, leading large corporations to prioritize compliance over aggressive tax planning. Moreover, sizable firms typically maintain comprehensive internal controls and robust audit committees, which enhance oversight of tax-related decisions and reduce incentives to exploit loopholes that could expose the company to legal or reputational risk.

Empirical evidence supports a negative association between company size and tax avoidance. (Mailia & Apollo, 2020)find that, after controlling for profitability and leverage, firms with larger market capitalizations exhibit significantly higher effective tax rates—indicating lower levels of avoidance—attributable to the deterrent effect of media coverage and stronger board monitoring. Similarly, (Bandaro & Ariyanto, 2020)document that Australian firms classified as large based on total assets report less tax

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aggressiveness compared to smaller peers, consistent with legitimacy pressures that constrain avoidance behavior among the largest corporations.The results of this study are in line with previous findings Faradilla & Bhilawa (2022); Mailia & Apollo (2020) that company size has a positive influence on tax avoidance. However, the findings contradict those reported in Hermawan et al.,(2021) which states that company size has no effect on tax avoidance.

c) The Effect of Capital Intensity on Tax Avoidance

Probability values indicate that capital intensity has no real effect on tax avoidance. This means that the larger or smaller the company's assets do not affect tax avoidance. Thus, H2 is rejected. Capital intensity does not always exert a significant influence on corporate tax avoidance, as the availability of depreciation-based tax shields may be uniformly accessible across firms regardless of asset structure. While fixed assets offer legitimate deductions through accelerated depreciation, the magnitude of these deductions often depends more on tax code provisions than on the sheer volume of assets. Consequently, firms with differing levels of capital intensity may experience similar opportunities for depreciation planning, leading to an ambiguous or non-existent relationship between capital intensity and tax avoidance when other determinants—such as profitability or leverage—are accounted for.

Empirical research supports this lack of a clear effect. (Ciptani & Situmorang, 2023) examined Indonesian mining firms and found that capital intensity was not a statistically significant predictor of tax avoidance once factors like profitability and institutional ownership were controlled for . Mailia & Apollo (2020) comprehensive review highlights that, although asset composition can affect overall tax liability, studies frequently report mixed or insignificant results for the impact of fixed-asset intensity on avoidance behavior after adjusting for firm-specific characteristics

The assets owned by the company are used for business purposes, including maximum operational and investment support so that the company is able to pay its taxes and does not need to avoid taxes. These findings are in line with previous research Marlinda et al., (2020) (Jusman & Nosita, 2020) that capital intensity has no effect on tax avoidance.

CONCLUSION

Based on the findings of this study, profitability exerts a positive and significant effect on tax avoidance, indicating that firms with higher earnings levels are more inclined to employ tax planning strategies to reduce their tax burdens. In contrast, capital intensity does not exhibit a significant impact on tax avoidance, suggesting that the magnitude of investment in fixed assets does not influence a firm’s propensity to engage in tax avoidance. Furthermore, company size demonstrates a negative effect on tax avoidance, implying that larger firms tend to undertake fewer tax avoidance activities, likely due to heightened oversight and public legitimacy pressures.

In light of the finding that profitability has a positive effect on tax avoidance, it is recommended that tax authorities enhance their monitoring of high-earning firms and reassess incentives that facilitate aggressive tax planning. Given that capital intensity does not have a significant impact, capital-intensive companies should focus on strengthening governance and tax compliance practices rather than solely on fixed-asset investments. Furthermore, since company size exerts a negative effect on tax avoidance, large corporations are encouraged to maintain robust transparency and internal control mechanisms, while smaller firms may adopt the compliance strategies of larger peers to mitigate the risk of penalties.

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