

The Effect of Capital Intensity, Executive Compensation, and Institutional Ownership on Tax Avoidance in Companies Listed on the Indonesia Stock Exchange

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Abstract

Tax avoidance remains an important corporate tax issue because differences in managerial interests and corporate characteristics may influence tax-related decisions. This study investigates the effect of capital intensity, executive compensation, and institutional ownership on tax avoidance in Construction Machinery & Heavy Vehicles companies listed on the Indonesia Stock Exchange during 2022–2025. Using a quantitative associative approach, this study employs purposive sampling and obtains 32 company-year observations from eight companies. Tax avoidance is proxied by the Effective Tax Rate (ETR) and analyzed using multiple linear regression with IBM SPSS Statistics 25. The results show that capital intensity has a negative and significant effect on ETR, indicating a positive and significant effect on tax avoidance. Executive compensation has a negative but statistically insignificant effect on ETR, indicating that it does not significantly affect tax avoidance. Institutional ownership has a negative and significant effect on ETR, indicating a positive and significant effect on tax avoidance. Simultaneously, capital intensity, executive compensation, and institutional ownership significantly affect tax avoidance. These findings indicate that asset structure and ownership characteristics are more strongly associated with tax avoidance than executive compensation in the observed companies.

INTRODUCTION

Tax revenue remains the principal component of Indonesia's state revenue, accounting for more than 80 percent of total state revenue (Directorate General of Taxes, 2024). This dominant contribution places corporate taxpayers under considerable pressure to comply with tax obligations because tax collection is closely connected with the government's fiscal capacity. Nevertheless, the contribution of taxation to national revenue continues to face challenges. Indonesia's tax-to-GDP ratio declined from 10.31% in 2023 to 10.08% in 2024 and to 9.31% in the subsequent reported period (Ministry of Finance of Republic of Indonesia, 2026). The ratio is also approximately six percentage points below the average for countries with comparable income levels (World Bank, 2024). In addition, the Tax Justice Network (2023) estimates that Indonesia loses approximately Rp44 trillion annually as a consequence of corporate tax abuse. These conditions demonstrate why corporate tax behavior remains an important issue for fiscal policy.

The government has continued to strengthen tax regulations to address potential tax avoidance. One important policy is Minister of Finance Regulation (PMK) Number 136 of 2024 concerning the implementation of the global minimum tax, which became effective for the fiscal year beginning on or after January 1, 2025 (Ministry of Finance of the Republic of Indonesia, 2024). This regulation is part of Indonesia's efforts to align its taxation system with international developments and reduce opportunities for profit shifting and aggressive tax planning.

The Construction Machinery & Heavy Vehicles subsector provides a relevant setting for examining these issues. Companies in this subsector generally depend on heavy equipment, machinery, vehicles, and other operational assets to support activities in mining, construction, plantations, forestry, and related industries. Such operations require substantial investment in fixed assets. The subsector has also experienced changes in market demand. In 2024, Komatsu heavy-equipment sales distributed by United Tractors declined by 16% to 4,420 units, reflecting weaker demand from mining, construction, and forestry. During the first half of 2025, however, sales increased by 27% to 2,728 units, while revenue from the Construction Machinery segment increased by 34% to Rp20.9 trillion (PT United Tractors Tbk, 2024, 2025). These developments indicate that firms in the subsector must manage substantial assets and financial resources amid changing business conditions. This fluctuating business performance provides a relevant context for examining how companies manage their tax burden amid changes in business conditions.

Agency Theory provides a basis for understanding how internal corporate factors may shape tax-related decisions. The theory emphasizes differences in interests between owners as principals and managers as agents, which may influence managerial choices, including taxation (Prasetyo & Raphael, 2024). Managers possess substantial authority over corporate policies and may seek to improve reported performance by managing various costs, including tax expenses. From this perspective, asset characteristics, managerial incentives, and shareholder monitoring may be associated with corporate tax-management decisions (Putra et al., 2019). Accordingly, this study considers capital intensity as an indicator of asset characteristics, executive compensation as a form of managerial incentive, and institutional ownership as an ownership-based monitoring mechanism.

Capital intensity reflects the proportion of total assets invested in fixed assets (Grediani & Jati, 2025). Companies with higher capital intensity generally have greater depreciation expenses, which may reduce taxable income and affect the effective tax burden. Consequently, investment in fixed assets can create tax-related benefits. Within Agency Theory, decisions regarding fixed-asset investment can therefore represent one avenue through which management allocates resources and manages the company's tax burden. Firdaus & Poerwati (2022) reported a significant effect of capital intensity on tax avoidance, whereas Desiana & Wibowo (2023) found no significant effect. These inconsistencies indicate the need for further empirical examination.

Executive compensation represents the remuneration provided to executives for their responsibilities and contributions to corporate management (Mahendra & Daljono, 2022). From the perspective of Agency Theory, appropriate compensation may align managers' interests with those of shareholders and influence managerial decisions, including tax-related decisions (Aprillia & Purnomo, 2023). However, tax decisions may also be constrained by regulatory requirements, corporate risk, governance, and long-term considerations. Tiyas & Siarwi (2025) identified a positive and significant relationship between executive compensation and tax avoidance, while Firdaus & Poerwati (2022) and (Putri & Indriani, 2020) reported no significant effect.

Institutional ownership represents the proportion of company shares held by institutional investors. Because institutional shareholders generally possess greater resources for monitoring management, their presence can influence managerial decision-making (Vina et al., 2022). From an agency perspective, stronger monitoring may discourage opportunistic conduct. At the same time, institutional investors may place substantial emphasis on profitability and investment returns, potentially encouraging management to improve after-tax performance through efficient tax

management. Safitri & Arifin (2024) reported a significant positive effect of institutional ownership on tax avoidance, whereas Ramadhani et al. (2024) found no significant effect.

Previous empirical findings therefore remain inconclusive. Firdaus & Poerwati (2022) found that capital intensity affected tax avoidance while executive compensation did not. Mustafidah & Stiawan (2022), in contrast, reported a significant negative effect of executive compensation and no effect of capital intensity. Pulungan et al. (2022) found no effect of capital intensity but identified a significant negative effect of institutional ownership. Salza'bila & Pramono (2025) found an effect of executive compensation while capital intensity was not significant. These variations in empirical findings indicate that the relationships between asset structure, managerial incentives, ownership monitoring, and tax avoidance remain inconclusive and warrant further investigation.

Research specifically addressing the Construction Machinery & Heavy Vehicles subsector is also relatively limited. The subsector's reliance on fixed assets, substantial capital requirements, and exposure to changing demand makes it a useful context for examining corporate tax behavior. Therefore, this study examines the effects of capital intensity, executive compensation, and institutional ownership on tax avoidance among Construction Machinery & Heavy Vehicles companies listed on the IDX during 2022–2025. The study is expected to provide additional empirical evidence on the relationship between internal corporate factors and tax avoidance in a subsector characterized by substantial fixed-asset investment and capital requirements.

Literature Review and Hypothesis Development

Agency Theory

Agency Theory explains the relationship between shareholders as principals and managers as agents, where differences in interests and information asymmetry may influence managerial decision-making (Ma'sum et al., 2023). These conditions may create agency conflicts, including in corporate tax decisions. Managers have discretion in managing corporate resources and tax expenses, which may encourage tax avoidance when managerial interests are not fully aligned with shareholders' interests. Agency Theory therefore provides a relevant basis for examining corporate factors that may influence managerial decisions regarding tax avoidance.

Tax Avoidance

Tax avoidance refers to efforts undertaken by companies to reduce their tax burden through strategies that remain within applicable tax regulations. In empirical research, tax avoidance can be measured using the Effective Tax Rate (ETR), calculated as tax expense divided by pre-tax income. A lower ETR indicates a relatively lower tax burden and provides a stronger indication of tax avoidance (Hermawati & Wardhani, 2024; Mandavani et al., 2025). From an Agency Theory perspective, tax avoidance may reflect managerial efforts to improve after-tax performance through the management of corporate tax expenses.

Capital Intensity and Tax Avoidance

Capital intensity reflects the proportion of company assets invested in fixed assets (Tanriady, 2024). A higher proportion of fixed assets generates depreciation expenses that may reduce taxable income in accordance with applicable tax provisions. From an Agency Theory perspective, managers have discretion in determining investment and asset-utilization policies, which may influence tax-related decisions. Therefore, greater capital intensity may contribute to a lower ETR and indicate a higher level of tax avoidance. Previous studies have reported different findings regarding the relationship between capital intensity and tax avoidance.

H1: Capital intensity has a significant effect on tax avoidance.

Executive Compensation and Tax Avoidance

Executive compensation represents remuneration provided to executives for their responsibilities and contributions to corporate management. Executive compensation can also serve as an incentive mechanism that may influence managerial decisions concerning corporate tax strategies (Wijayanti et al., 2025). From an Agency Theory perspective, compensation can function as an incentive mechanism to align managerial interests with those of shareholders. Higher compensation may encourage executives to improve corporate performance, including through efficient management of corporate expenses and taxes. However, tax decisions may also be influenced by regulatory compliance, corporate risk, and governance mechanisms.

H2: Executive compensation has a significant effect on tax avoidance.

Institutional Ownership and Tax Avoidance

Institutional ownership represents the proportion of company shares held by institutional investors (Rini & Nurhayati, 2024). Institutional shareholders generally have greater resources and capabilities to monitor management, which may reduce agency conflicts. However, institutional investors may also emphasize profitability and investment returns, potentially influencing managerial decisions concerning tax efficiency. Thus, institutional ownership may affect corporate tax avoidance through monitoring and performance considerations. Previous research has reported varying results regarding this relationship

H3: Institutional ownership has a significant effect on tax avoidance.

Capital Intensity, Executive Compensation, Institutional Ownership, and Tax Avoidance

Capital intensity, executive compensation, and institutional ownership represent different internal mechanisms that may influence corporate tax decisions. Capital intensity is associated with asset structure and depreciation benefits, executive compensation reflects managerial incentives, while institutional ownership represents shareholder monitoring. From an Agency Theory perspective, these mechanisms may jointly influence managerial decisions concerning corporate tax management.

H4: Capital intensity, executive compensation, and institutional ownership simultaneously have a significant effect on tax avoidance.

Research Framework

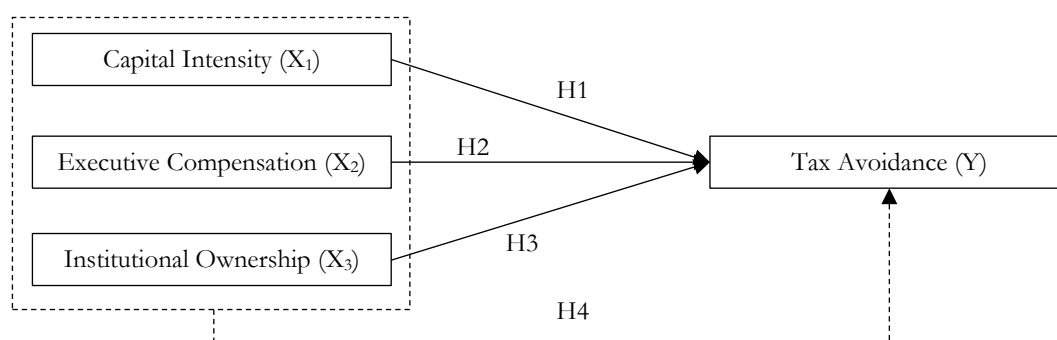


Figure 1. Framework

METHODS

This research adopts a quantitative approach with an associative design to evaluate the relationships between capital intensity, executive compensation, institutional ownership, and tax avoidance. The population comprises companies belonging to the Construction Machinery & Heavy Vehicles subsector and listed on the Indonesia Stock Exchange during 2022–2025. Samples were selected purposively according to predetermined data-availability criteria.

The screening process resulted in 8 companies that satisfied the criteria, producing 32 company-year observations over four years. Companies were excluded when they were not listed continuously throughout the observation period, failed to provide complete annual reports or financial statements, or did not provide the information required for measuring the study variables.

Table 1. Sample Selection Criteria

Criteria	Number
Companies in the Construction Machinery & Heavy Vehicles subsector listed on the IDX during 2022–2025	12
Companies that were not listed consecutively during the research period	(2)
Companies that did not publish complete annual reports and financial statements during the research period	(2)
Companies that did not disclose executive compensation information	-
Companies that did not have the necessary data for measuring research variables	-
Number of companies meeting the criteria	8
Observation period	4 years
Total company-year observations	32

Tax avoidance is the dependent variable and is proxied by the Effective Tax Rate (ETR). A lower ETR represents a stronger indication of tax avoidance; consequently, relationships estimated using ETR must be interpreted in the opposite direction when discussing tax avoidance. The explanatory variables are capital intensity (X1), executive compensation (X2), and institutional ownership (X3).

Table 2. Operational Definitions of Variables

Variable	Definition	Measurement	Source
Tax Avoidance	Tax avoidance is the company's effort to minimize the tax burden that must be paid through strategies that still fall within the limits of tax regulations.	$ETR = \frac{Income\ Tax\ Expense}{Profit\ Before\ Tax}$	(Safitri & Muid, 2020)
Capital Intensity	Capital intensity is the proportion of a company's investment in fixed assets compared to the total assets owned by the company.	$CIR = \frac{Total\ Fixed\ Assets}{Total\ Assets}$	(Novitasari et al., 2025)
Executive Compensation	Executive compensation is the reward given to Board members as an appreciation for their services and contributions in running the company's activities.	$EC = \ln (Total\ Executive\ Compensation)$	(Firdaus & Poerwati, 2022)

Institutional Ownership	Institutional ownership is the proportion of a company's shares owned by institutional parties, such as investment companies, financial institutions, insurance companies, pension funds, and other institutions.	$INST = \frac{\text{Institutional Shares Owned}}{\text{Outstanding Shares}}$	(Pancarani et al., 2024)
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The data were processed using IBM SPSS Statistics 25. Descriptive statistics were first used to summarize the observations. Classical assumption testing comprised normality, heteroscedasticity, and multicollinearity tests. Multiple linear regression was subsequently employed to estimate the relationships among the variables. Partial effects were evaluated using the t-test, while simultaneous model significance was assessed using the F-test. The coefficient of determination was also examined at a 5% significance level.

The regression model is specified as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Y = Tax Avoidance

α = Constant

β = Regression coefficient

X1 = Capital Intensity

X2 = Executive Compensation

X3 = Institutional Ownership

e = error

RESULTS AND DISCUSSION

Descriptive Statistics

Table 3. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Capital Intensity	32	.13	.93	.4825	.25104
Executive Compensation	32	20.69	26.42	22.7623	1.84849
Institutional Ownership	32	.20	.90	.6478	.20893
Tax Avoidance	32	.01	.46	.2012	.10555
Valid N (listwise)	32				

Source : Data Processed, 2026

The descriptive statistics provide an initial overview of the characteristics of the variables examined in this study. Based on 32 observations, Capital Intensity records a minimum value of 0.13 and a maximum value of 0.93, with a mean of 0.4825 and a standard deviation of 0.25104. Executive Compensation shows values between 20.69 and 26.42, while its average is 22.7623 and its standard deviation is 1.84849. Institutional Ownership has a range of 0.20 to 0.90, with an average of 0.6478 and a standard deviation of 0.20893. Meanwhile, the ETR used to measure Tax Avoidance has values ranging from 0.01 to 0.46, with a mean of 0.2012 and a standard deviation of 0.10555. The comparison between the mean and standard deviation indicates that each variable

has a standard deviation lower than its mean, reflecting relatively small differences in the distribution of the observed data.

Classical Assumption Test

Normality Test

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		32
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.06791357
Most Extreme Differences	Absolute	.127
	Positive	.127
	Negative	-.072
Test Statistic		.127
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, 2026

The normality assessment uses the One-Sample Kolmogorov–Smirnov test on the regression residuals. The residuals are considered normally distributed when the significance value exceeds 0.05. The analysis produces an Asymp. Sig. (2-tailed) value of 0.200 for 32 observations. Because 0.200 is greater than 0.05, the residuals satisfy the normality assumption.

Heteroscedasticity Test

Heteroscedasticity was assessed visually using a scatterplot and statistically using the Glejser test.

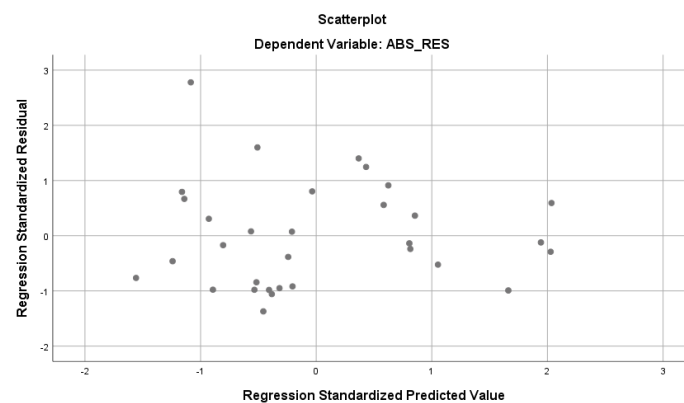


Figure 2. Scatterplot of the Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.103	.086		-1.193	.243
	Capital Intensity	.020	.025	.146	.807	.427
	Executive Compensation	.006	.003	.346	1.907	.067
	Institutional Ownership	.007	.031	.042	.224	.825

a. Dependent Variable: ABS_RES

Source : Data Processed, 2026

The scatterplot shows residual points distributed above and below the zero line without a systematic pattern. The Glejser significance values are 0.427 for capital intensity, 0.067 for executive compensation, and 0.825 for institutional ownership. Since each value exceeds 0.05, the regression model does not indicate heteroscedasticity.

Multicollinearity Test

Table 6. Multicollinearity Test Results

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.835	.183		4.560	.000		
	Capital Intensity	-.174	.053	-.414	-3.308	.003	.944	1.059
	Executive Compensation	-.013	.007	-.229	-1.829	.078	.941	1.063
	Institutional Ownership	-.389	.065	-.769	-5.974	.000	.892	1.121

a. Dependent Variable: Tax Avoidance

Source : Data Processed, 2026

Multicollinearity was evaluated through Tolerance and Variance Inflation Factor (VIF). A model is considered free of multicollinearity when Tolerance exceeds 0.10 and VIF remains below 10. Capital intensity has a Tolerance of 0.944 and VIF of 1.059; executive compensation has a Tolerance of 0.941 and VIF of 1.063; and institutional ownership has a Tolerance of 0.892 and VIF of 1.121. These results satisfy both criteria, indicating that the independent variables do not show problematic multicollinearity.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.835	.183		4.560	.000
	Capital Intensity	-.174	.053	-.414	-3.308	.003
	Executive Compensation	-.013	.007	-.229	-1.829	.078
	Institutional Ownership	-.389	.065	-.769	-5.974	.000

a. Dependent Variable: Tax Avoidance

Source : Data Processed, 2026

The regression analysis estimates both the direction and magnitude of the relationship between the three explanatory variables and tax avoidance. The unstandardized coefficients are 0.835 for the constant, -0.174 for capital intensity, -0.013 for executive compensation, and -0.389 for institutional ownership. Accordingly, the estimated regression equation is:

$$Y = 0,835 - 0,174X_1 - 0,013X_2 - 0,389X_3 + e$$

Based on the multiple linear regression equation, it can be explained as follows:

- A constant coefficient of 0.835 indicates that Tax Avoidance (Y) is predicted to have a value of 0.835 when Capital Intensity (X₁), Executive Compensation (X₂), and

Institutional Ownership (X3) are held at zero.

- b) The coefficient of capital intensity is -0.174 , meaning that a one-unit increase in capital intensity is associated with a 0.174-unit reduction in ETR, holding the other variables constant. Because a lower ETR signals a stronger indication of tax avoidance, this relationship corresponds to a positive direction toward tax avoidance.
- c) The executive compensation coefficient is -0.013 . Thus, a one-unit increase in executive compensation is associated with a 0.013-unit decline in ETR, ceteris paribus. Since the lower ETR indicates greater tax avoidance, the coefficient points toward a positive direction, although its statistical significance must be considered separately.
- d) The institutional ownership coefficient is -0.389 . A one-unit increase in institutional ownership is associated with a 0.389-unit decrease in ETR, with other variables held constant. In terms of tax avoidance, the negative ETR coefficient indicates a positive direction.

Coefficient of Determination Test

Table 8. Coefficient of Determination Test Results

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.766 ^a	.586	.542	.07146
a. Predictors: (Constant), Institutional Ownership, Capital Intensity, Executive Compensation				
b. Dependent Variable: Tax Avoidance				

Source : Data Processed, 2026

The model produces an R value of 0.766 and an R Square of 0.586. After adjustment for the number of predictors and observations, the Adjusted R Square is 0.542. Therefore, capital intensity, executive compensation, and institutional ownership collectively explain 54.2% of the variation in ETR, while the remaining 45.8% is attributable to other factors not incorporated into the model.

Hypothesis Testing

t test

Table 9. t-Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.835	.183		4.560	.000
	Capital Intensity	-.174	.053	-.414	-3.308	.003
	Executive Compensation	-.013	.007	-.229	-1.829	.078
	Institutional Ownership	-.389	.065	-.769	-5.974	.000
a. Dependent Variable: Tax Avoidance						

Source : Data Processed, 2026

The t-test results can be explained as follows:

- a) Capital intensity obtains a significance value of 0.003, below 0.05, with a coefficient of -0.174 and a t-statistic of -3.308 . H1 is therefore accepted. The negative coefficient means that greater capital intensity is associated with lower ETR, which corresponds to a higher

indication of tax avoidance.

- b) Executive compensation records a significance value of 0.078, exceeding 0.05, with a coefficient of -0.013 and a t-statistic of -1.829 . H2 is rejected. Although the coefficient suggests that higher compensation is associated with lower ETR, the evidence is insufficient to establish a statistically significant effect.
- c) Institutional ownership has a significance value of 0.000, below 0.05, with a coefficient of -0.389 and a t-statistic of -5.974 . H3 is accepted. The negative coefficient indicates that greater institutional ownership is associated with lower ETR and therefore a stronger indication of tax avoidance.

F Test

Table 10. F-Test Results F

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.202	3	.067	13.213	.000 ^b
	Residual	.143	28	.005		
	Total	.345	31			
a. Dependent Variable: Tax Avoidance						
b. Predictors: (Constant), Institutional Ownership, Capital Intensity, Executive Compensation						

Source : Data Processed, 2026

The F test results in Table 10 show a calculated F value of 13.213, which is higher than the F table value of 2.947 ($13.213 > 2.947$). The significance value of 0.000 is also lower than 0.05. These results indicate that the regression model is statistically significant. Therefore, H4 is accepted, meaning that Capital Intensity, Executive Compensation, and Institutional Ownership simultaneously have a significant effect on Tax Avoidance.

DISCUSSION

The Effect of Capital Intensity on Tax Avoidance

The empirical evidence demonstrates that capital intensity has a positive and statistically significant effect on tax avoidance. The t-statistic is -3.308 and the significance level is 0.003, leading to acceptance of H1. Because the dependent variable is measured through ETR, the negative regression coefficient means that higher capital intensity is accompanied by lower ETR and, consequently, a stronger indication of tax avoidance.

This finding can be explained by the operational characteristics of the Construction Machinery & Heavy Vehicles subsector. Companies in this industry rely heavily on machinery, vehicles, heavy equipment, and other productive fixed assets. These assets generate depreciation expenses that may reduce taxable income in accordance with applicable tax provisions. Therefore, greater investment in fixed assets may provide greater depreciation-related tax benefits and contribute to a lower ETR.

From an Agency Theory perspective, managers have discretion in determining investment and asset-utilization policies. A higher level of capital intensity may provide management with greater opportunities to utilize depreciation-related tax benefits in managing the company's tax burden. This mechanism is particularly relevant in a subsector that requires substantial investment in productive fixed assets. The finding is consistent with Firdaus & Poerwati (2022), who found that capital intensity significantly affects tax avoidance. Thus, the

present finding supports the argument that greater investment in fixed assets is associated with a stronger indication of tax avoidance.

The Effect of Executive Compensation on Tax Avoidance

Executive compensation has a negative coefficient but does not exert a statistically significant effect on tax avoidance. The t-statistic is -1.829 and the significance value is 0.078 , which is above the 0.05 threshold. Accordingly, H2 is rejected. Although the coefficient indicates that higher executive compensation tends to be associated with lower ETR, the relationship is not statistically strong enough to establish a significant effect.

This finding suggests that executive compensation is not a primary determinant of tax avoidance in the observed companies. Agency Theory views compensation as a mechanism for aligning managerial interests with those of shareholders. However, the amount of executive compensation alone may not determine managerial tax decisions. Such decisions may also depend on internal policies, monitoring mechanisms, regulatory compliance, corporate risk, and long-term business objectives.

The characteristics of the subsector may further explain the insignificant relationship. Construction Machinery & Heavy Vehicles companies generally conduct high-value business activities and require substantial investment in productive assets. Consequently, tax management may be considered together with business continuity, regulatory compliance, operational risks, and investment requirements rather than being determined solely by executive remuneration. This finding is consistent with Firdaus & Poerwati (2022) and Putri & Indriani (2020), who likewise found that executive compensation did not significantly affect tax avoidance.

The Effect of Institutional Ownership on Tax Avoidance

Institutional ownership is found to have a negative and statistically significant coefficient in the ETR model. With a t-statistic of -5.974 and a significance level of 0.000 , H3 is accepted. Since a lower ETR indicates a stronger indication of tax avoidance, the finding suggests that higher institutional ownership is associated with greater tax-avoidance indications.

This result indicates that institutional ownership may influence corporate tax decisions through shareholders' interests in corporate performance and investment returns. Institutional investors generally possess greater resources and monitoring capabilities, which may increase their influence over managerial decision-making. In this context, management may seek to improve after-tax profitability through tax efficiency while remaining within applicable regulations.

From an Agency Theory perspective, institutional ownership can strengthen monitoring of management and influence managerial decisions. However, stronger monitoring does not necessarily mean that tax avoidance will be reduced. Institutional investors may also place greater emphasis on profitability and shareholder returns. Under such circumstances, management may face greater pressure to optimize the company's tax burden and improve after-tax performance, which may be reflected in a lower ETR. This interpretation is relevant to the Construction Machinery & Heavy Vehicles subsector, which is exposed to changing demand from mining, construction, and other user industries. The finding is consistent with Safitri & Arifin (2024), who also identified a positive and significant relationship between institutional ownership and tax avoidance.

The Influence of Capital Intensity, Executive Compensation, and Institutional Ownership on Tax Avoidance

The F-test confirms that capital intensity, executive compensation, and institutional

ownership collectively have a significant effect on tax avoidance. The model records an F-statistic of 13.213, exceeding the critical value of 2.947, with a significance value of 0.000. H4 is therefore accepted.

The simultaneous finding indicates that corporate tax behavior cannot be explained by a single internal characteristic. Capital intensity is associated with depreciation-related tax benefits, executive compensation represents a managerial incentive mechanism, while institutional ownership reflects shareholder interests and monitoring. Together, these factors represent different dimensions of corporate decision-making that may influence tax-related behavior.

The finding is consistent with Agency Theory, which suggests that corporate decisions may arise from interactions between managerial authority, managerial incentives, shareholder interests, and monitoring mechanisms. In the context of tax avoidance, managers have discretion in managing company resources, while compensation and ownership structures may influence the incentives and monitoring surrounding those decisions.

The Adjusted R Square of 0.542 indicates that capital intensity, executive compensation, and institutional ownership jointly explain 54.2% of the variation in ETR. The remaining 45.8% indicates that other factors outside the model may also contribute to differences in corporate tax behavior. Thus, the simultaneous finding provides evidence that asset characteristics, managerial incentives, and ownership structure collectively contribute to explaining tax-related corporate decisions in the observed companies.

CONCLUSION

Conclusion

This study evaluates the relationships between capital intensity, executive compensation, institutional ownership, and tax avoidance using 32 company-year observations from Construction Machinery & Heavy Vehicles firms listed on the Indonesia Stock Exchange during 2022–2025. The findings show that capital intensity has a positive and significant effect on tax avoidance when tax avoidance is interpreted through the inverse movement of ETR. Executive compensation does not have a statistically significant effect, although its coefficient is negative in the ETR model. Institutional ownership has a positive and significant effect on tax avoidance based on the same ETR interpretation. Furthermore, the three explanatory variables jointly have a significant effect on tax avoidance. Overall, the evidence suggests that asset structure and ownership characteristics are more strongly associated with tax-management behavior than executive compensation when examined individually in this sample.

Limitations and Recommendations

This study has several limitations that should be considered when interpreting the findings. First, the study focuses only on companies in the Construction Machinery & Heavy Vehicles subsector, which may limit the generalizability of the findings to other industries. Second, the observation period covers only 2022–2025, so the findings may not fully reflect changes in corporate tax-avoidance behavior over a longer period. Third, the study examines only three explanatory variables. The Adjusted R Square of 54.2% indicates that 45.8% of the variation in ETR is explained by factors outside the model.

Future research is therefore recommended to extend the analysis to other sectors and longer observation periods to improve the generalizability of the findings. Further studies may also consider additional variables that could influence tax avoidance, such as profitability, leverage, firm size, corporate governance, and audit quality. Researchers may also consider

incorporating other tax-avoidance measures or alternative proxies to provide a more comprehensive understanding of corporate tax-avoidance behavior.

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