Analysis of the Influence of Profitability, Leverage, Company Size, and Financial Distress on Tax Avoidance in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2024

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Abstract

This study aims to analyze the effect of profitability, leverage, company size, and financial distress on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange in 2024. This study uses an explanatory quantitative approach to analyze the influence of profitability, leverage, company size, and financial distress on tax avoidance in manufacturing companies listed on the IDX in 2024. Secondary data in the form of financial reports of 101 manufacturing companies in 2024 were selected using purposive sampling. The analysis was conducted quantitatively using cross-sectional data and processed with E-Views 13 software. The results of this study are that profitability has a positive and significant effect on tax avoidance, leverage also has a positive and significant effect on tax avoidance, company size does not show a significant effect on tax avoidance, and financial distress has a positive and significant effect on tax avoidance.

INTRODUCTION

Taxes are the main source of state revenue and play an important role in financing national development. Based on data from the Ministry of Finance of the Republic of Indonesia, tax revenue realization as of December 31, 2024 reached IDR 1,932.4 trillion or 100.5% of the target set, with a growth of 3.5% compared to the previous year (kemenkeu.go.id). Although the tax revenue target was achieved, the practice of tax avoidance remains a serious concern. Tax avoidance is an effort by companies to minimize their tax burden by exploiting loopholes in tax regulations without directly violating the law (Adityaningrum et al., 2024). Although not illegal, this practice can significantly reduce companies' tax liabilities and have a negative impact on state revenue.

One indicator that has come under scrutiny is revenue from corporate income tax (PPh), which showed a significant decline in 2024. According to data from the Ministry of Finance, by the end of November 2024, non-oil and gas income tax had contracted by 1.96% compared to the same period the previous year. This decline was mainly due to a decrease in revenue from Corporate Income Tax Articles 25/29, which is one of the main components of Non-Oil and Gas Income Tax (kemenkeu.go.id). In addition, Indonesia's low tax ratio also reflects the challenges in optimizing tax revenue. As of October 2024, Indonesia's tax ratio was only 10.02%, indicating that the tax base is still limited and the potential for tax avoidance has not been optimally addressed (Masdupi et al., 2018).

In this context, the manufacturing sector plays a strategic role. This sector is not only the main contributor to the national Gross Domestic Product (GDP), but also the largest group of companies listed on the Indonesia Stock Exchange (IDX). However, operational complexity, diverse cost structures, and flexibility in asset management make this sector vulnerable to tax

avoidance practices. Several empirical studies show that factors such as leverage, capital intensity, and corporate governance structures influence the level of tax avoidance in manufacturing companies. Research by Setiadewi et al. (2024) found that leverage and capital intensity have a significant influence on tax avoidance in manufacturing companies listed on the IDX. In addition, research by Puspitasari and Tjhai (2022) indicates that sales growth and profitability also affect the level of tax avoidance in this sector. These findings emphasize the importance of an in-depth study of the factors that influence tax avoidance in manufacturing companies in Indonesia, in order to support the government's efforts to improve tax compliance and optimize state revenue (Qolbi et al., 2020).

In terms of the business processes they carry out, manufacturing companies are a type of company that transforms raw materials into finished products through a production process that involves labor, machinery, and technology. This process aims to create value-added goods that are ready to be sold to consumers. The characteristics of manufacturing companies include the management of three main types of inventory, namely raw materials, goods in process, and finished goods, as well as a focus on the production of goods, not just trading finished products from other parties (Safitri et al., 2023). The manufacturing sector in Indonesia covers various major industries, including the food and beverage, textile, automotive, electronics, chemical, pharmaceutical, metal, machinery, plastic, and other consumer goods subsectors, as grouped in KBLI 2024 (BPS, 2024). Manufacturing companies play an important role in the economy because, in addition to creating jobs, this sector also drives innovation and contributes significantly to the country's taxes and exports. However, the manufacturing industry faces various challenges, including global competition and the need for technological investment to remain competitive (Oktaria et al., 2021).

Company profitability is one of the important factors that is thought to influence tax avoidance practices. Companies with high profitability have an incentive to minimize their tax burden in order to maintain optimal net profits. This is in line with agency theory, in which company management seeks to maximize shareholder welfare, including through tax efficiency strategies. Research by Rahmawati et al (2022) shows that profitability has a positive effect on tax avoidance in manufacturing companies in Indonesia. This study indicates that the higher the level of company profitability, the greater the tendency for companies to engage in tax avoidance. Similar findings were also revealed by Purnamasari and Yuniarwati (2024), who found that profitability has a significant effect on tax avoidance in manufacturing companies in Indonesia.

In addition, research by Taslim and Handayani (2025), which used data from manufacturing companies on the Indonesia Stock Exchange for the period 2021–2023, also supports the previous findings. They found that profitability has a positive effect on tax avoidance, indicating that companies with high profits tend to be more aggressive in their tax avoidance strategies. On the other hand, financial distress also encourages companies to engage in tax avoidance. Companies experiencing financial distress tend to look for ways to reduce their tax burden in an effort to maintain business continuity. This is also in line with agency theory, in which company management seeks to maximize shareholder welfare, including through tax efficiency strategies (Runis et al., 2021).

Research by Trisnawati et al (2023) found that financial distress has a positive effect on tax avoidance in non-cyclical companies in Indonesia. This study indicates that the higher the level of financial pressure experienced by a company, the greater the tendency for the company to engage in tax avoidance. Similar findings were also revealed by Sambuaga and Cuisan (2024), who found that financial distress has a significant effect on tax avoidance in companies in Indonesia. In

addition, research by Ningrum (2025), which used data on property and real estate companies on the Indonesia Stock Exchange for the period 2020–2023, also supports the previous findings. They found that financial distress has a positive effect on tax avoidance, indicating that companies with high financial pressure tend to be more aggressive in their tax avoidance strategies.

In addition, the company's funding structure as reflected in the leverage ratio also has implications for tax decisions. High leverage indicates the dominance of debt in a company's capital structure, and interest payments on debt are deductible for tax purposes. Thus, highly leveraged companies have a greater tendency to optimize their tax burden through the use of these fiscal incentives (Sugiharto et al., 2025). Another study by also shows that leverage can moderate the relationship between financial strategy and company value in the context of tax avoidance.

Company size is also an important determinant in tax avoidance strategies. Large companies have greater resources and access to professional tax consultants, enabling them to implement more complex tax planning strategies. In addition, large companies tend to have higher public exposure and strict regulatory oversight, which can have a double effect: either suppressing the intention to engage in tax avoidance due to reputation, or actually strengthening it due to sophistication in exploiting regulatory loopholes (Luspratama et al., 2023). A study by Dirman (2020) also confirms that company size is positively correlated with the tendency for tax avoidance in the Indonesian manufacturing sector.

However, the results of studies related to the influence of these four variables on tax avoidance still show inconsistencies. Some studies claim a significant influence, while others find no strong relationship. This may be influenced by differences in methodology, industry sector, control variables, and the research period used (Permana, 2021). This study is an extension and replication of a previous study by Dang & Tran (2021), which examined the effect of financial distress on tax avoidance in 369 companies listed on the Vietnam Stock Exchange from 2008 to 2020. However, that study had limitations because it focused on only one independent variable and did not distinguish between industry sectors. Furthermore, the regulatory context and industrial structure in Vietnam differ from those in Indonesia, so the results cannot be directly generalized. Therefore, this study fills this gap by re-examining the effect of profitability, leverage, company size, and financial distress on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange in 2024, in order to expand empirical findings and contribute to a different context.

The purpose of this study is to analyze the influence of profitability, leverage, company size, and financial distress on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange in 2024.

LITERATURE REVIEW
Tax Avoidance

Tax avoidance is a strategy used by companies to reduce their tax liabilities by exploiting loopholes in tax regulations. Unlike tax evasion, which is illegal, tax avoidance is carried out in a manner that is legal and in accordance with applicable regulations. According to Rahmawati et al

(2022), tax avoidance can be defined as a company's efforts to plan its taxes in a legal manner so as to minimize the amount of tax payable without breaking the law. This often involves the use of various financial instruments and complex organizational structures to achieve this goal.

The practice of tax avoidance by companies listed on the Indonesia Stock Exchange has become increasingly relevant given the pressure from shareholders to increase profitability. In line with the views of Jessica et al (2022), companies operating in highly competitive industries tend to be more active in tax planning to maintain financial performance and increase company value. This shows that tax avoidance strategies are often seen as part of managerial efficiency efforts.

Profitability Ratio

Profitability ratio is a measurement tool used to assess a company's ability to generate profits relative to sales, assets, or equity (Fadhila & Andayani, 2022). This measurement is important because it provides an overview of the company's operational efficiency and competitiveness in the market. In general, there are several types of profitability ratios that are often used, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (Destiani et al., 2023).

Return on Assets (ROA) is one of the main indicators of profitability that shows a company's ability to generate profits by utilizing its total assets. A high ROA reflects management's efficiency in using the company's resources to create profits. According to Adityaningrum et al (2024), profitability as measured by ROA is closely related to a company's tendency to engage in tax avoidance. This is because companies with high profitability have an incentive to keep net profits at a maximum, one of which is by reducing tax expenses through more aggressive tax planning.

Return on Equity (ROE) is a ratio that shows how much profit is generated from each unit of shareholder equity. A high ROE reflects a company's ability to provide good returns to shareholders. This is an important indicator for investors, as it shows the potential return on their investment.

Financial Distress

Financial distress is a very crucial condition for companies, where they face significant financial difficulties that can lead to bankruptcy if not handled properly. In the dynamic world of business, especially for companies listed on the Indonesia Stock Exchange, a deep understanding of financial distress is very important. According to research by Dang et al (2021), financial distress can be measured through various indicators, such as liquidity ratios, debt-to-equity ratios, and profitability. In the context of manufacturing companies, which often experience challenges related to market fluctuations and high production costs, financial distress analysis is not only important but also urgent (Agatharuna & Sofian Suriawinata, 2025).

One commonly used tool for assessing bankruptcy risk is the Altman Z-score, which integrates five financial ratios to predict the likelihood of financial distress. The Altman Z-score provides a clear picture of a company's financial health. Research by Dolinšek and Kovač (2024) shows that companies with low Z-scores are more likely to experience financial distress. For example, a manufacturing company with a Z-score below 1.8 indicates that they are at high risk of bankruptcy. This is particularly relevant for companies listed on the Indonesia Stock Exchange, many of which do not have sufficient cash reserves to weather an economic crisis or a decline in

demand. By understanding the Z-score, management can take strategic steps to improve their financial position before it is too late (Fatimah & Jariah, 2024).

Altman Z-Score

The Altman (1968) Z-Score model is a tool that calculates and combines several specific financial ratios in a company into a discriminant equation that will produce a certain score indicating the probability of a company's bankruptcy. There are four financial ratios used to detect a company's bankruptcy two years before the company goes bankrupt, the Z-Score (Altman) method, one of which is mentioned by Darsono (2004), namely:

a. Working Capital to Total Assets (WCTA)

    This ratio shows the company's ability to generate net working capital from its total assets. This ratio is calculated by dividing net working capital by total assets. Net working capital is obtained by subtracting current liabilities from current assets. Negative net working capital is likely to face problems in covering these liabilities. Conversely, companies with positive net working capital rarely face difficulties in paying off their liabilities.

    Working Capital to Total Assets = Working Capital / Total Assets

b. Retained Earnings to Total Assets (RETA)

    This ratio shows the company's ability to generate retained earnings from its total assets. Retained earnings are profits that are not distributed to shareholders. In other words, retained earnings show how much of the company's income is not paid out in dividends to shareholders. Retained earnings occur because shareholders usually allow the company to reinvest profits that are not distributed as dividends. Thus, retained earnings reported on the balance sheet are not cash and are not available for dividend payments or other purposes.

    Retained Earnings to Total Assets = Retained Earnings / Total Assets

c. Earning Before Interest and Taxes (EBIT) to Total Assets

    This ratio shows the company's ability to generate profits from its activities, before interest and taxes

    EBIT to Total Assets = Earnings before interest and taxes / Total Assets

d. Market Value Equity to Book Value of Total Debt (MVTL)

    The ratio of equity to total debt is used to measure the company's ability to provide collateral for each of its debts through its own capital.

    Market Value of Equity to Total Debt = Equity / Total Debt

e. Sales to Total Assets

    This ratio shows whether the company generates sufficient business volume compared to its investment in total assets. This ratio reflects the efficiency of management in using the company's total assets to generate sales and earn profits.

Agency Theory

Agency theory arose due to the separation between shareholders (principals) and managers (agents) who manage the company. Agency theory views companies as agents for shareholders, acting consciously in their own self-interest, rather than as parties that are wise and fair to shareholders.

Agency theory is an important theoretical framework for understanding the relationship between company owners (principals) and managers (agents) in the context of decision-making,

including tax-related decisions (Gibrillia & Sudirgo, 2023). In the corporate context, owners (investors) and managers have different interests, which can lead to conflicts of interest. This conflict arises because managers may not always act in the interests of owners, especially in terms of tax avoidance (Panda & Leepsa, 2017).

Signaling Theory

Signaling theory is a concept that explains how imperfect information can influence the decisions made by parties involved in a transaction (Maulani & Hidayat, 2024). In the context of companies, this theory focuses on how company management communicates information related to the company's performance and future prospects to investors, creditors, and other stakeholders. This theory was first proposed by Michael Spence in 1973, who emphasized the importance of signals given by companies to reduce information asymmetry in the market.

In the context of profitability ratio analysis and financial distress, signaling theory can be used to understand how companies convey information about their financial performance. When companies experience financial distress, they may use various strategies to reduce the negative impact on investor perception. For example, companies may increase financial disclosure or take certain actions to demonstrate greater stability and profitability (Nigam et al., 2021).

Tax Behavior Theory

Tax behavior theory explains the dynamics of individual or corporate behavior in the context of tax obligations, which are influenced by various factors such as profitability, financial distress, and corporate governance mechanisms. Recent research shows that these factors have a significant influence on tax avoidance. Profitability is identified as one of the main factors influencing tax avoidance, where more profitable companies tend to have greater incentives to engage in aggressive tax planning. For example, research by Sugiharto et al (2025) reveals that there is a positive influence between profitability and tax avoidance in manufacturing companies in Indonesia. This finding is in line with the results of research by Laksono and Handayani (2024), which confirms that profitability, along with leverage and capital intensity, contributes to tax avoidance.

On the other hand, financial distress is a condition in which a company has difficulty meeting its financial obligations. Research by Dang and Tran (2021) shows that financial distress has a negative impact on tax avoidance, where companies in such conditions tend to lack sufficient resources to carry out complex tax planning, thereby reducing their ability to avoid taxes. This finding is supported by research by Karlinah et al. (2024), which found that financial distress can moderate the relationship between financial performance and tax avoidance.

Hypothesis Development
The effect of profitability on tax avoidance.

Companies that earn large profits tend to be more aware of the tax burden they must pay. Therefore, the higher a company's profitability, the greater the incentive for management to find legal loopholes in tax regulations to minimize the tax burden, without having to explicitly violate the law. This strategy is carried out through the manipulation of transaction timing, the selection of certain accounting methods, and the use of tax incentives or cross-jurisdictional income transfers. Findings by Masdupi et al (2018) state that companies with high profitability have a

greater tendency to engage in tax avoidance because they have the resources and financial structure that allow for the exploration of complex tax strategies.

Similarly, research by Ariyani et al (2019) also shows that profitability has a positive effect on tax avoidance, and that companies tend to use tax avoidance as a tool to maintain the profit performance expected by shareholders. Therefore, the hypothesis proposed in this study is:

H1: Profitability has a positive effect on tax avoidance.

The effect of leverage on tax avoidance.

In the context of taxation, interest on debt is an expense that can be deducted from taxable income. Thus, companies with high leverage can legally reduce their taxable income through debt interest payments, which ultimately reduces the tax burden they must pay. This strategy is often used as a form of capital structure-based tax avoidance, in which companies structure their financing in such a way as to obtain fiscal benefits from deductible interest expenses.

This finding is supported by research conducted by Runis et al (2021) which shows that leverage has a positive effect on tax avoidance in large companies listed on the LQ45 index. This study emphasizes that companies with high debt levels tend to have more room to develop tax avoidance strategies through debt-based financing optimization.

In addition, a study by Fadhila and Andayani (2022) also supports these findings, showing that leverage not only serves as a fiscal efficiency tool but also as a variable that strengthens the relationship between tax avoidance and company value. This means that companies that are able to manage leverage strategically can reduce their tax liabilities while maintaining long-term profitability and competitiveness. Therefore, the hypotheses proposed in this study are:

H2: Leverage has a positive effect on tax avoidance.

The effect of company size on tax avoidance.

Company size is an important indicator in identifying a company's capability to manage its tax burden. Large companies generally have greater resources, both in terms of finance, technology, and expertise, so they tend to have a higher capacity to design and execute aggressive tax planning strategies (tax avoidance). Large companies also tend to have complex organizational structures and more cross-border transactions, which allow them to take advantage of tax regulation loopholes more optimally. In addition, large companies also have a stronger bargaining position with tax authorities and are able to use professional tax consultants to minimize their tax burden legally.

Research by Adityaningrum et al (2024) shows that company size (measured by the natural logarithm of total assets) has a positive effect on tax avoidance. This study emphasizes that the larger the company, the higher the tendency for the company to engage in tax avoidance through strategic tax planning.

In addition, similar results were also found in a study (Neilan Azmiawan & Srimindarti, 2024), which highlights that large companies have more access to derivative financial instruments

and transfer pricing schemes, both of which are often associated with legal but aggressive tax avoidance practices. Therefore, the hypothesis proposed in this study is:

H3: Company size has a positive effect on tax avoidance.

The effect of financial distress on tax avoidance.

Financial distress describes a condition in which a company experiences significant financial pressure, characterized by a decline in financial performance, an inability to meet short-term obligations, and the potential for bankruptcy. In this condition, companies tend to implement various cost efficiency strategies, including tax avoidance strategies, as a measure to maintain business continuity.

From an agency theory perspective, when companies face financial pressure, managers have a greater incentive to reduce their tax burden in order to maintain the company's profitability and cash flow. Tax avoidance is a strategy that does not violate the law but is able to reduce the tax burden through accounting engineering or the exploitation of loopholes in tax regulations (Fatimah & Jariah, 2024).

Empirical research shows that financial distress has a significant positive effect on a company's tendency to engage in tax avoidance. A study by Luspratama et al (2023) for example, reveals that companies experiencing greater financial pressure tend to look for ways to reduce their tax liabilities as an adaptive response to liquidity constraints.

Another study by Agatharuna & Suriawinata (2025) confirms that financial distress is one of the important factors that encourage tax avoidance practices, especially in companies that have high cash flow pressure and limited access to external financing. Therefore, the hypothesis proposed in this study is:

H4: Financial distress has a positive effect on tax avoidance.
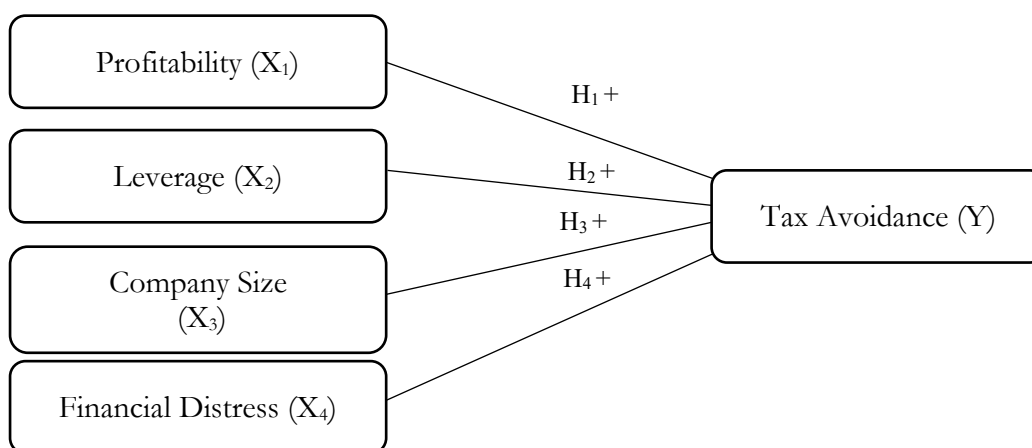
Conceptual Framework

Figure 1. Conceptual Framework

RESEARCH METHOD

This study uses an explanatory quantitative approach that aims to explain the causal relationship between the variables of profitability ratio and financial distress on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2024. The explanatory approach was chosen because it allows researchers to empirically test the

simultaneous influence of two independent variables on the dependent variable, as well as explain how and to what extent this relationship occurs based on quantitatively processed statistical data.

In this study, the data used is secondary data obtained from companies listed on the Indonesia Stock Exchange (IDX) in 2024. These financial statements include information on income, expenses, assets, liabilities, and equity necessary to calculate profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE). In addition, data on financial distress was taken from an analysis of relevant financial ratios using the Altman Z-score method, which is an important indicator for assessing a company's financial health.

The population in this study was all companies listed on the Indonesia Stock Exchange (IDX) in 2024. The sample in this study was determined using the purposive sampling method, which is a sampling technique based on certain considerations or criteria deliberately set by the researcher, in accordance with the objectives and focus of the study. The sample was taken from all companies listed on the Indonesia Stock Exchange (IDX) in 2024, but was limited to companies engaged in the manufacturing sector.

The focus on the manufacturing sector is motivated by the strategic role of this sector in the national economy. Based on data from the Financial Services Authority (OJK), the manufacturing sector contributed around 20% to Indonesia's Gross Domestic Product (GDP) in 2023 (OJK, 2023). In addition, the characteristics of the manufacturing sector, which involves large-scale production activities and a complex financial structure, make it relevant for analysis in the context of tax avoidance behavior, profitability, leverage, and financial distress. The criteria used in the sample selection are as follows:

1. The company is an entity that is included in the manufacturing sector and is still actively listed on the Indonesia Stock Exchange in 2024.
2. Companies have published complete and publicly accessible audited annual financial reports for the 2024 fiscal year.
3. The financial reports contain the information needed to calculate all research variables, namely Return on Assets (ROA), Altman Z-Score, and Cash Effective Tax Rate (CETR).
4. The company is not in a state of delisting, is not experiencing a suspension of stock trading by the exchange authorities, and is not in a legal process such as Debt Payment Obligation Postponement (PKPU) or bankruptcy.

Based on the application of these criteria to 135 manufacturing companies listed on the IDX in 2024, 101 companies were found to be eligible and suitable as samples for this study.

This study uses a cross-sectional data approach, which is an approach that uses data at a specific point in time. In this case, the data used is the 2024 financial report. This approach was chosen to obtain an empirical description of the relationship between independent variables (profitability, leverage, company size, and financial distress) and dependent variables (tax avoidance) in the same time period.

Table 1. Research Sample

No	Type of Company	Total
1	Basic Industry and Chemical Sector	
	- Pulp and Paper Sub-sector	6
	- Cement Sub-sector	6
	- Animal Feed Sub-sector	3

	-	Plastics and Packaging Sub-sector	12
	-	Chemicals Sub-sector	10
	-	Wood and Wood Processing Sub-sector	4
	-	Porcelain Ceramics and Glass Sub-sector	7
	-	Metals and Related Sub-sector	17
2		Miscellaneous Industry Sector	
	-	Machinery and Heavy Equipment Sub-sector	2
	-	Textiles and Garments Sub-sector	11
	-	Electronics Sub-sector	2
	-	Cables Sub-sector	6
	-	Automotive and Components Sub-sector	9
3		Consumer Goods Sector	
	-	Food and Beverage Industry Sub-sector	24
	-	Pharmaceutical Sub-sector	7
	-	Tobacco Sub-sector	3
	-	Cosmetics and Household Goods Sub-sector	6
		Total	**135**

Source: Secondary data 2025

Data analysis in this study was conducted quantitatively using an inferential statistical approach with the aim of testing the effect of independent variables, namely profitability, leverage, company size, and financial distress, on the dependent variable, namely tax avoidance. Data processing and analysis were carried out using E-Views 13 statistical software.

RESULT AND DISCUSSION
Results

This study sampled 131 companies with 131 data points, which are manufacturing companies listed on the IDX in 2024. The statistical description in this study will provide an overview of the amount of data to be used in the study and can show the minimum value, maximum value, mean value, median value, and standard deviation of each variable to be studied. The results of this descriptive statistical analysis are as follows:

Table 2. Descriptive Statistical Analysis Results

Descriptive Statistics					
	N	MIN	MAX	Mean	Std.Deviation
Profitability	131	-0,541	0,339	0,032	0,113
Leverage	131	-23,617	11,325	0,695	2,801
Company Size	131	24,604	33,789	28,695	1,731
Financial Distress	131	-38,871	76,535	3,827	8,869
Tax Avoidance	131	-9,096	1,209	-0,193	0,864

Source: Processed Secondary Data, 2025

Based on Table 2, an overview of the data characteristics of the variables used in the study is obtained, as follows:

1. Profitability has a minimum value of -0.541, a maximum of 0.339, with an average (mean) value of 0.032 and a standard deviation of 0.113. This shows that the level of profitability of

companies in the sample is relatively low and varies little between companies, which means that the differences in profitability between companies are not too large.

2. Leverage has a minimum value of -23.617 and a maximum of 11.325, with an average of 0.695 and a standard deviation of 2.801. The large standard deviation value indicates high variation in the level of leverage between companies, where some companies have debt levels that are far different from others.

3. Company Size shows a minimum value of 24.604 and a maximum of 33.789, with an average of 28.695 and a standard deviation of 1.731. These values indicate that company size is relatively stable and does not vary greatly between samples, although there is still a slight variation.

4. Financial Distress has a minimum value of -38.871 and a maximum of 76.535, with an average of 3.827 and a standard deviation of 8.869. The fairly high standard deviation value indicates significant differences in financial conditions between companies, with some companies in a healthy condition, while others are experiencing financial pressure.

5. Tax Avoidance has a minimum value of -9.096 and a maximum of 1.209, with an average of -0.193 and a standard deviation of 0.864. The negative average value indicates that, in general, the level of tax avoidance among companies is relatively low, but the large standard deviation indicates differences in tax avoidance behavior between companies in the sample.

Classical Assumption Test
Normality Test

The normality test aims to test whether the regression model and the residuals from the regression equation have a normal distribution or not. This normality test uses the Jarque Bera test. The following table shows the results of the normality test using the Jarque Bera test:

Table 3. Normality Test

	Kolmogorov-Smirnov value	Description
Prob.	0,137	Normal

Source: Processed Secondary Data, 2025

Based on the table, it can be concluded from the Jarque Bera test that the significant value with a Kolmogorov-Smirnov value of 0.137 is greater than 0.05, which means that the results prove that the variables in this study have a normal data distribution.

Multicollinearity Test

The multicollinearity test is usually performed by looking at the correlation matrix values between independent variables or using the Variance Inflation Factor (VIF) values. Correlations between independent variables exceeding 0.80 or 0.90 may indicate high multicollinearity.

Table 4. Multicollinearity Test Results

Variable	VIF Value	Value Limit
Profitabilitas	1,370	< 10
Leverage	1,098	< 10
Company Size	1,109	< 10
Financial Distress	1.289	< 10

Source: Secondary Data, 2025

Based on Table 4.4 Multicollinearity Test Results, it is known that the Variance Inflation Factor (VIF) value for each variable is 1.370 for Profitability, 1.098 for Leverage, 1.109 for Company Size, and 1.289 for Financial Distress. According to the criteria proposed by Gujarati (2009), a regression model is said to be free from multicollinearity if the VIF value is < 10. Based on these results, all independent variables in this study have VIF values well below 10, so it can be concluded that there is no strong relationship between the independent variables (no multicollinearity). Thus, the regression model used meets the classical assumptions and is suitable for proceeding to the next stage of analysis.

Heteroscedasticity Test

The heteroscedasticity test serves to determine whether there is variance in the residuals from one observation to another in the linear regression model. The Glejser test is the testing model for heteroscedasticity in this study. The regression model can be heteroscedastic or non-heteroscedastic. Ideally, the regression model should be homoscedastic or not heteroscedastic.

Table 5. Heteroscedasticity Test Results

	Value	Value Limit
Obs*R-squared	0,958	> 0,05

Source: Processed Secondary Data, 2025

Based on Table 4.5, it is known that the Obs*R-squared value is 0.958, which is greater than the significance value limit of 0.05. Referring to the testing criteria, if the probability value (p-value) is greater than 0.05, it can be concluded that there is no heteroscedasticity in the regression model. This means that the variance of the residuals is constant or the same at each level of the independent variable (homoscedasticity). Thus, the regression model used has fulfilled one of the classical assumptions, making it suitable for further analysis without the interference of heteroscedasticity.

Autocorrelation Test

The autocorrelation test is one of the classical assumption tests used to determine whether there is a relationship or correlation between the residuals (disturbing errors) of one observation and the residuals of other observations in a linear regression model. This autocorrelation test uses the Durbin-Watson Statistic, where a value close to 2 indicates the absence of autocorrelation.

Table 6. Autocorrelation Test Results

	Value	Value Limit
Durbin-Watson Statistic	1,604	< 2,000

Source: Processed Secondary Data, 2025

Based on Table 6. Autocorrelation Test Results, it is known that the value of the Durbin-Watson Statistic (DW) is 1.604. According to the testing criteria proposed by Gujarati and Porter (2009), a Durbin-Watson value in the range of 1.5 to 2.5 indicates that the regression model does not experience autocorrelation. Since the DW value of 1.604 is still within the permissible range, it can be concluded that this regression model is free from autocorrelation problems. This means that there is no relationship or correlation between the residuals in the model, so that the classical assumption of residual independence has been fulfilled and the model is suitable for use in further regression analysis.

Multiple Linear Regression Analysis Test

      After the data meets the classical assumptions, the next step is to perform multiple linear regression analysis to test the effect of independent variables on dependent variables simultaneously. This model was chosen because it involves more than one independent variable and uses a quantitative approach.

Table 7. Multiple Linear Regression Test Results

Variable	Koefisien Regresi	Std. Error	t-test	Sig.	Description
Intercept	0,625	1,339	-0,466	0,642	
Profitability	0,427	0,793	3,538	0,015	Positive and significant impact
Leverage	0,012	0,028	3,419	0,022	Positive and significant impact
Company Size	0,015	0,046	0,325	0,746	No effect
Financial Distress	0,005	0,009	3,466	0,022	Positive and significant impact
R^2	= 0,636				
F_test	= 2,913				
Sig.	= 0,039				

Dependent variable = Tax_Avoidance
Source: Processed Secondary Data, 2025

$$TA = 0.625 + 0.427ROA + 0.012DER + 0.015SIZE_i + 0.005ZScore_i + \varepsilon_i$$

      Based on the results of the multiple linear regression analysis, here is an in-depth explanation of each independent variable:

1. The constant value of 0.625 indicates the level of tax avoidance when all independent variables are considered to be zero. In practical terms, this represents the baseline or basic level of tax avoidance that is intrinsically inherent in a company, regardless of its financial and operational conditions. This positive value suggests that even in situations without the influence of the observed financial factors, companies still have a tendency to engage in tax avoidance practices, which may be triggered by other factors not covered in this model.

2. The profitability variable has a positive effect on tax avoidance with a coefficient of 0.427. Each one-unit increase in profitability will increase tax avoidance by 0.427 units. This finding is consistent with agency theory, whereby highly profitable companies have sufficient resources to hire professional tax consultants and implement complex tax planning strategies. High profitability provides greater incentives for management to maximize retained earnings through various legal tax avoidance strategies.

3. Leverage shows a positive effect on tax avoidance with a coefficient of 0.012. Although the coefficient is relatively small, this positive relationship can be explained through the interest tax shield mechanism, whereby interest expenses on debt can be deducted from taxable income. Companies with high leverage tend to utilize optimal funding structures to reduce their tax liabilities legally. In addition, cash flow pressure to pay interest and principal on debt encourages companies to find ways to maintain liquidity, including through tax avoidance strategies.

4. The company size variable has a positive effect on tax avoidance with a coefficient of 0.015. This finding indicates that the scale of a company's operations is not a determining factor in

tax avoidance practices. Although large companies have sufficient resources to carry out complex tax planning, they also face stricter scrutiny from regulators, tax authorities, and the public. Conversely, small companies may have more flexibility but limited resources, so these two opposing effects neutralize the influence of company size on tax avoidance.

5. Financial distress has a positive and significant effect on tax avoidance with a coefficient of 0.005. Although the coefficient is very small, its statistical significance indicates that companies experiencing financial difficulties have the motivation to maintain liquidity by reducing tax liabilities. In conditions of distress, the pressure to survive drives management to take various measures to improve the cash position, albeit with higher risks. However, the minimal coefficient indicates that the ability of companies in financial distress to engage in effective tax avoidance remains limited.

Hypothesis Testing

Hypothesis testing is conducted to determine whether the independent variables in a regression model have a significant effect on the dependent variable. This test is usually a series of statistical tests used to assess the validity of assumptions (hypotheses) regarding the relationship between variables in a regression model. The main purpose of hypothesis testing is to determine whether the independent variables have a significant effect on the dependent variable.

1. **Coefficient of Determination Test**
   The coefficient of determination or R-squared (R^2) is a statistical measure used to show the proportion of variability in the dependent variable that can be explained by the independent variables in the regression model. In this study, R^2 is used to determine the extent to which the variables of profitability, leverage, company size, and financial distress contribute to explaining the variation in tax avoidance by companies. Based on Table 4.7 above, the R^2 value ranges from 0 to 1. The closer the number is to 1, the better the regression model is at explaining the variation of the dependent variable. Based on Table 4.10, the R-Square value obtained is 0.636 (63.6%), which means that 63.6% of the variation in Tax Avoidance is caused by variations in Profitability, Leverage, Company Size, and Financial Distress. Meanwhile, the remaining 36.4% is caused by other variables outside this model.

2. **F-Statistic Test**
   The F-statistic test is used to assess the overall feasibility of the multiple linear regression model. This test aims to determine whether all independent variables in the model simultaneously have a significant effect on the dependent variable. In other words, the F-test examines whether the constructed regression model is able to explain the variation in tax avoidance collectively based on a combination of the variables of profitability, leverage, company size, and financial distress. Based on the F-test results in Table 4.7, the calculated F value is 2.913 with a table F value of 2.44 and a significance level of 0.039. Because the F value of 2.913 is greater than the F table value of 2.44 and the significance value (0.039) is less than 0.05, it can be concluded that the variables of Profitability, Leverage, Company Size, and Financial Distress simultaneously or collectively have a significant effect on the Tax Avoidance variable. Thus, the regression model used in this study is declared feasible for use because it is able to explain the relationship between independent variables and dependent variables simultaneously.

3. T-test

The t-statistic test is basically used to determine the extent of the influence of each independent variable on the dependent variable. This test is carried out by comparing the t-count value with the t-table, or by looking at the significance value produced. If the significance value is less than 0.05, then the variable is considered to have a significant influence. Based on Table 4.7 above, the explanation of the t-test results in this study is as follows:

a. Based on the test results, the profitability variable has a t-value of 3.538 and a significance value (Sig.) of 0.015, which is below the error tolerance limit of 0.05 (5%). This result provides strong statistical evidence to state that profitability has a statistically significant effect on tax avoidance, so hypothesis 1 is accepted. This means that the higher the level of profitability a company has, the greater the tendency for the company to implement tax avoidance strategies. This can occur because companies that earn higher profits generally have the motivation to reduce their tax burden so that the net profit received can remain optimal.

b. Based on the test results, the leverage variable has a t-value of 3.419 and a significance value (Sig.) of 0.022, which is below the error tolerance limit of 0.05 (5%). These results provide strong statistical evidence to state that leverage has a statistically significant effect on tax avoidance, thus accepting hypothesis 2. This means that the higher the level of leverage a company has, the greater the tendency for the company to engage in tax avoidance. This condition occurs because companies with large debt burdens must pay high interest costs, so management is encouraged to find ways to reduce tax burdens in order to maintain the company's financial stability.

c. Based on the test results, the company size variable has a t-value of 0.325 and a significance value (Sig.) of 0.746, which is above the error tolerance limit of 0.05 (5%). These results provide strong statistical evidence to state that company size does not have a statistically significant effect on tax avoidance, thus rejecting hypothesis 3. This means that the size of a company does not determine the extent to which it is likely to engage in tax avoidance. Both large and small companies may or may not engage in tax avoidance, as this practice is more influenced by management policy, internal taxation strategy, and the company's level of compliance with tax regulations.

d. Based on the test results, the financial distress variable has a t-value of 3.466 and a significance value (Sig.) of 0.022, which is below the error tolerance limit of 0.05 (5%). These results provide strong statistical evidence to state that financial distress has a statistically significant effect on tax avoidance, thus accepting hypothesis 4. This means that the higher the level of financial pressure experienced by a company, the greater the tendency for the company to engage in tax avoidance. In unstable financial conditions, companies try to reduce expenses, including tax burdens, in order to maintain liquidity and operational continuity.

Discussion

The Effect of Profitability on Tax Avoidance

Based on the t-test results in the regression analysis, it is known that the profitability variable has a regression coefficient value of 3.538 with a probability value of 0.014, which is smaller than the significance level of 0.05. This indicates that profitability has a positive and significant effect

on tax avoidance. In other words, an increase in profitability has a real effect on the increase or decrease in tax avoidance in the context of this research sample.

These results indicate that a company's profitability level has a real relationship with the company's tendency to engage in tax avoidance. The higher the company's profitability level, the greater the company's ability to manage its tax burden through legal tax avoidance strategies. This is because companies that earn high profits tend to have the motivation to minimize their tax burden so that their net profits are greater. Companies that earn large profits tend to be more aware of the tax burden they must pay. Therefore, the higher a company's profitability, the greater the incentive for management to find legal loopholes in tax regulations to minimize the tax burden, without having to explicitly violate the law. This strategy is carried out through the manipulation of transaction timing, the selection of certain accounting methods, and the use of tax incentives or cross-jurisdictional income transfers.

The results of this study are in line with the findings of Masdupi et al (2018), which state that companies with high profitability have a greater tendency to engage in tax avoidance because they have the resources and financial structure that allow them to explore complex tax strategies. Similarly, research by Saputri and Santoso (2023) also shows that profitability has a positive effect on tax avoidance, and that companies tend to use tax avoidance as a tool to maintain the profit performance expected by shareholders.

The Effect of Leverage on Tax Avoidance

Based on the t-test results in the regression analysis, it is known that the leverage variable has a regression coefficient value of 3.419 with a probability value of 0.022, which is less than the significance level of 0.05. This indicates that leverage has a positive and significant effect on tax avoidance.

In the context of taxation, interest on debt is an expense that can be deducted from taxable income (deductible expense). Thus, companies with high leverage can legally reduce their taxable income through debt interest payments, which ultimately reduces the tax burden they must pay. This strategy is often used as a form of capital structure-based tax avoidance, where companies structure their financing in such a way as to obtain fiscal benefits from deductible interest expenses.

This means that the level of leverage or debt usage in a company's funding structure has a clear relationship with tax avoidance practices. The higher the leverage, the greater the interest expense that the company must bear, and this interest expense can be deducted from taxable income. Thus, companies with high leverage tend to pay lower taxes due to the benefits of tax deductions on debt interest. This finding is supported by Runis et al (2021) research, which shows that leverage has a positive effect on tax avoidance in large companies included in the LQ45 index. Therefore, companies with a larger proportion of debt usually utilize interest expenses as a strategy to reduce their tax burden, so that high leverage can increase tax avoidance practices within the company.

The Effect of Company Size on Tax Avoidance

Based on the t-test results in the regression analysis, it is known that the company size variable has a regression coefficient value of 0.325 with a probability value of 0.746, which is greater than the significance level of 0.05. This indicates that company size does not have a significant effect on tax avoidance. These results indicate that the size of a company does not determine the extent to which it engages in tax avoidance practices.

Large companies generally have broader access to financing sources, economies of scale, and operational stability, which should increase investor confidence and have a positive impact on company value. Both large and small companies have the same opportunity to engage in or not engage in tax avoidance. This may be because large companies are generally in the public spotlight and under stricter government supervision, so they tend to be more cautious in implementing tax avoidance strategies to maintain their reputation and legal compliance. Meanwhile, small companies may have limited resources and knowledge in conducting complex tax planning. The results of this study contradict the research by Adityaningrum et al (2024) which shows that company size (measured by the natural logarithm of total assets) has a positive effect on tax avoidance. This study emphasizes that the larger the company, the higher the tendency for the company to engage in tax avoidance through strategic tax planning.

The Effect of Financial Distress on Tax Avoidance

Based on the t-test results in the regression analysis, it is known that the financial distress variable has a regression coefficient value of 3.466 with a probability value of 0.022, which is less than the significance level of 0.05. This indicates that financial distress has a positive and significant effect on tax avoidance.

Financial distress describes a condition in which a company experiences significant financial pressure, characterized by a decline in financial performance, an inability to meet short-term obligations, and the potential for bankruptcy. In this condition, companies tend to implement various cost efficiency strategies, including tax avoidance strategies as a measure to maintain business continuity. From an agency theory perspective, when companies face financial pressure, managers have a greater incentive to reduce tax burdens in order to maintain the company's profitability and cash flow. Tax avoidance is a strategy that does not violate the law but is able to reduce the tax burden through accounting engineering or the exploitation of loopholes in tax regulation (Luspratama et al., 2023).

This means that the level of financial difficulty experienced by a company has a real relationship with the company's tendency to engage in tax avoidance. When a company is in a difficult financial position, management tends to look for various ways to save on expenses, including through tax avoidance strategies, in order to maintain the company's liquidity and operational continuity. By engaging in tax avoidance, companies can reduce their tax burden, allowing them to allocate funds to cover other obligations or maintain financial stability. These findings are in line with a study by Karlinah et al (2024), which revealed that companies experiencing greater financial pressure tend to seek ways to reduce their tax obligations as an adaptive response to liquidity constraints.

CONCLUSION

Based on the results of the study, it can be concluded that profitability has a positive and significant effect on tax avoidance. Leverage has also been proven to have a positive and significant effect on tax avoidance. Meanwhile, company size does not show a significant effect on tax avoidance. In addition, financial distress was found to have a positive and significant effect on tax avoidance.

It is recommended that future research expand the scope of sectors, for example, to include the service, trade, or financial sectors, and use panel data with longer periods to observe the dynamics of tax avoidance over time.

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