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The Influence of Capital Intensity, Leverage, Profitability, and Corporate Social Responsibility on Tax Avoidance with Firm Size as a Moderating Variable

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

Aims: This research aims to test and analyze capital intensity, leverage, profitability, and corporate social responsibility on tax avoidance with firm size as a moderating variable.
Study Design: This research uses a quantitative causality method that relies on secondary data collection originating from the Indonesian Stock Exchange.
Place and Duration of Study: Companies listed on the Jakarta Islamic Index from 2018 to 2022.
Methodology: The sampling method used purposive sampling, so that 80 samples were obtained from 16 suitable companies. The analytical method used in this research is panel data regression analysis carried out with Eviews 12 software.
Results: The research results show that capital intensity, leverage, and profitability influence tax avoidance, while corporate social responsibility does not affect tax avoidance. The results of the moderation test show that firm size does not moderate the influence of capital intensity, leverage, profitability, and corporate social responsibility on tax avoidance.

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Implications: Company managers and tax regulators need to pay attention to factors such as capital intensity, leverage, and profitability in managing and supervising tax avoidance practices.

Keywords: Capital intensity; leverage; profitability; corporate social responsibility; tax avoidance.

1. INTRODUCTION

Companies tend to carry out tax avoidance as part of their business strategy. Tax avoidance aims to minimize the use of legal techniques by utilizing tax laws [1]. Companies engaging in tax avoidance is a risky decision, as they must compete in a global market with lower production costs and higher efficiency, in an increasingly integrated economic system [2]. The company assesses that tax avoidance has the potential to reduce profits and the distribution of investment wealth [3].

Many cases of tax avoidance are carried out by conventional companies, so many securities investors look for companies that fall into the Sharia securities category. The Indonesia Stock Exchange launched a stock index that meets sharia criteria under the name Jakarta Islamic Index (JII) to meet the market needs of Sharia securities investors. JII is an internationally recognized stock index and is committed to Sharia principles. JII constituent shares are selected based on certain criteria approved by the Sharia Supervisory Board. The criteria used include ensuring that the selected listing companies do not carry out business activities related to gambling, conventional banking and conventional insurance systems, haram food or drinks, and harmful industries or services.

Stalker's standards are intended to ensure a high degree of performance and liquidity in the stocks included in the JII constituents. Studies have demonstrated that there are disparities in tax avoidance between companies that follow and those that do not follow sharia law. Sharia companies typically avoid taxes that are higher than conventional companies [4]. Another study found that Islamic investments generally have a lower average market response to corporate tax avoidance [5].

JII constituents still engage in tax avoidance behavior even though the Indonesian Stock Exchange has implemented strict regulations. An example of a case where a JII constituent company is indicated to have committed tax evasion is the coal company PT Adaro Energy Tbk which is suspected of committing tax evasion through a transfer pricing mechanism through its subsidiary in Singapore, Coaltrade Services International Pte Ltd [6]. Another case of tax evasion occurred at PT. In 2018, SIDO issued a DJP letter which is an indication of efforts to minimize the tax burden by carrying out tax avoidance actions [7,8].

Based on the background above, this research aims to empirically test the factors that influence tax avoidance with the hope of obtaining consistent results through capital intensity, leverage, profitability, corporate social responsibility, and firm size as moderating variables.

2. MATERIALS AND METHODS

2.1 Types of Research

This type of research uses interpretive quantitative research. This study is a causal relationship study. The data collection methods used in this study was secondary. The data analysis method used in this study is panel data regression analysis.

2.2 Population and Sample

The total number of companies registered with JII between 2018 and 2022 is 30. The sample selection method is purposive sampling. Directed sampling is a sampling method that pursues specific goals Table 1.

2.3 Operational Definition of Variables

The operational definitions of variables are presented in the following Table 2.

2.4 Data Analysis

Data analysis uses panel data, which is a combination of time series data called time series and cross sections called cross data. Panel data regression analysis techniques can be carried out using Eviews software. In this analysis technique, three models can be used, namely pooling regression or common effect, fixed effect, and random effect (Basuki & Prawoto, 2016).

Table 1. Sample selection criteria

No	Sample Criteria	Amount
1.	Companies Registered on the Jakarta Islamic Index from 2018 to 2022.	30
2.	Companies listed on the Jakarta Islamic Index do not consistently publish financial reports from 2018 to 2022.	(0)
3.	Companies listed on the Jakarta Islamic Index do not have complete information aaadn data in their financial reports from 2018 to 2022.	(9)
4.	Companies listed on the Jakarta Islamic Index that lost money from 2018 to 2022.	(5)
Number of samples in this study		**16**
Total observation data for this research (5 years)		**80**

Table 2. Variable Operationalization

Variable	Operational Definition	Parameter	Scale
Tax avoidance (Y)	Tax avoidance is an effort to legally avoid taxes that do not violate tax regulations carried out by tax payers by tring to reduce the amount of tax owed (Pohan, 2013)	$\text{ETR} = \frac{\text{Tax expense}}{\text{Pre} - \text{Tax income}}$ Source: (Rezki, Achsani & Sasongko, 2020)	Ratio
Capital Intensity (X_1)	Capital Intensity is an investment activity carried out by a company that is associated with investment in the form of fixed assets	$\text{CI} = \frac{\text{Total Fixed Aset}}{\text{Total Aset}}$ Source: (Fikri & Febriyanto, 2023)	Ratio
Leverage (X_2)	Leverage ratio is measured by the DER proxy, a ratio to assess debt and equity , which is used to determine the total funds provided by creditors to the company (Kasmir, 2018).	$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$ Source: (Brigham & Houston, 2014)	Ratio
Profitability (X_3)	Profitabilty is measured by ROE, which is ratio to measure net profit after tax with own capital	$\text{ROE} = \frac{\text{Net Profit}}{\text{Total Equity}}$ Source: (Bambang Riyanto , 2020)	Ratio
Corporate Social Responsibility (X_4)	CSR Disclosure uses the GRI Standard which reveals 77 indicators (Hamdani & Helmy, 2023)	$\text{CSRDj} = \frac{\sum \text{xij}}{\text{Nj}}$ Source : (Hamdani & Helmy, 2023)	Ratio
Firm Size (Z)	Firm Size is the size of the company and reflected in its total assets (Dewi & Merkusiwati, 2023)	$\text{Firm Size} = \text{Ln (Total Aset)}$ Source: (Dewi & Merkusiwati, 2023)	Ratio

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistics

Table 3. Descriptive statistics

	ETR	CI	DER	ROE	CSR	SIZE
Mean	0.271875	0.504075	0.819500	0.221875	0.387000	27.87500
Max	0.790000	0.804000	3.580000	1.450000	0.900000	33.35000
Min	0.160000	0.005000	0.020000	0.010000	0.090000	13.96000
STAD	0.106677	0.222516	0.830168	0.313938	0.193845	5.745611

Table 3 explains that out of a total of 80, all variable mean scores are positive. This illustrates that the mean of each variable shows a high level.

3.2 Estimation of Panel Data Regression Models

Panel data regression results based on processed data show the model estimates as follows:

Table 4. Common Effect Model (CEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.177053	0.034473	5.136031	0.0000
CI	0.203066	0.047280	4.294937	0.0001
DER	0.058762	0.015414	3.812268	0.0003
ROE	-0.149885	0.040068	-3.740725	0.0004
CSR	-0.057980	0.054290	-1.067970	0.2890
R-squared	0.308340	Mean dependent var		0.271875
Adjusted R-squared	0.271451	S.D. dependent var		0.106677
S.E. of regression	0.091054	Akaike info criterion		-1.894261
Sum squared resid	0.621816	Schwarz criterion		-1.745385
Log likelihood	80.77046	Hannan-Quinn criter.		-1.834572
F-statistic	8.358686	Durbin-Watson stat		1.405901
Prob(F-statistic)	0.000012			

Table 5. Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.379384	0.155571	2.438659	0.0177
CI	-0.075262	0.257611	-0.292156	0.7712
DER	0.028846	0.041101	0.701841	0.4855
ROE	-0.330852	0.182426	-1.813620	0.0747
CSR	-0.051170	0.063324	-0.808062	0.4222
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.655270	Mean dependent var		0.271875
Adjusted R-squared	0.546106	S.D. dependent var		0.106677
S.E. of regression	0.071870	Akaike info criterion		-2.215596
Sum squared resid	0.309918	Schwarz criterion		-1.620089
Log likelihood	108.6238	Hannan-Quinn criter.		-1.976840
F-statistic	6.002603	Durbin-Watson stat		2.745195
Prob(F-statistic)	0.000000			

Table 6. Random Effect Model (REM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.197968	0.051456	3.847338	0.0002
CI	0.182547	0.075475	2.418623	0.0180
DER	0.047389	0.022564	2.100209	0.0391
ROE	-0.145120	0.061038	-2.377528	0.0200
CSR	-0.063946	0.055542	-1.151293	0.2533
Weighted Statistics				
R-squared	0.181730	Mean dependent var		0.118874
Adjusted R-squared	0.138089	S.D. dependent var		0.076554
S.E. of regression	0.071072	Sum squared resid		0.378845
F-statistic	4.164203	Durbin-Watson stat		2.304455
Prob(F-statistic)	0.004232			

3.3 Panel Data Regression Model Selection

3.3.1 Test chow

Table 7 shows the statistical probability F < 0.05, so it can be concluded that Ho is rejected, which means the most accurate model is FEM.

3.3.2 Hausman test

The Hausman test results from Table 8 show that the random cross-section probability is 0.6727 > 0.05, so the best model is REM, so it requires a third test, namely the Lagrangian Multiplier Test.

3.3.3 Lagrangian multiplier test

The results of the Lagrangian Multiplier test show that the Breusch-Pagan Cross-section value is 0.0000 < 0.05, so the best model is REM.

The result of selecting the model in this research is REM, because it uses the generalized less square (GLS) method, according to the opinion of Gujarati and Porter [9], the data in this research do not require classical assumption testing, therefore hypothesis testing can be done directly [9] (Table 9).

3.4 Hypothesis Testing

The best test result for model selection is REM. Hypothesis testing is carried out with two-equation models, the first is a direct influence test (multiple linear regression), and the second is a moderation test Table 10.

Table 7. Chow test results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.025539	(15,60)	0.0001
Cross-section Chi-square	55.706761	15	0.0000

Table 8. Hausman test results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.344141	4	0.6727

Table 9. Lagrangian multiplier test

Null (no rand. Effect) Alternative	Cross-section One -sided	Period One-sided	Both
Breusch-Pagan	19.53344 (0.0000)	0.099740 (0.7521)	19.63318 (0.0000)

Table 10. T-test results

	BRAKE Model 1		BRAKE Model 2	
	Coefficient	Prob.	Coefficient	Prob.
CI	0.182547	0.0180	-0.790230	0.1177
DER	0.047389	0.0391	0.236862	0.3741
ROE	-0.145120	0.0200	-1.071106	0.1003
CSR	-0.063946	0.2533	0.060172	0.1411
CI_SIZE	-	-	0.028603	0.3203
DER_SIZE	-	-	-0.006042	0.1970
ROE_SIZE	-	-	0.030912	0.1895
CSR_SIZE	-	-	-0.002930	0.7832

Information:

ETR = Effective Tax Rate, CI = Capital Intensity, DER=Debt Equity Ratio(Leverage), ROE = Return On Equity (Profitability),CSR =Corporate Social Responsibility, SIZE = Company Size,CI_SIZE = Interaction of multiplying CI values with SIZE, DER_SIZE = Interaction of multiplying DER values with SIZE, ROE_SIZE = Interaction of multiplying ROE values with SIZE, CSR_SIZE = Interaction of multiplying CSR values with SIZE.

The capital intensity (CI) variable has a probability of 0.0180 < 0.05 and a regression coefficient of 0.182547 (positive), which means it has a positive relationship with the ETR value. This means that capital intensity negatively influences tax avoidance, so the first hypothesis is rejected.

The leverage variable measured by DER has a probability of 0.0391 <0.05 and a regression coefficient of 0.047389 (positive), which means it has a positive relationship with the ETR value. This means that leverage as measured by DER negatively influences tax avoidance, so the second hypothesis is rejected.

The profitability variable as measured by ROE has a probability value of 0.0200 <0.05 and has a regression coefficient of -0.145120 (negative), which means it has a negative relationship to the ETR value. This means that profitability as measured by ROE has a positive influence on tax avoidance, so the third hypothesis is accepted.

The corporate social responsibility variable has a probability of 0.2533 > 0.05, meaning that CSR do not influence changes in tax avoidance, so the fifth is rejected.

The variable CI_SIZE (the interaction of capital intensity with firm size) shows a probability of 0.3203 > 0.05, so firm size do not significantly moderate the effect of capital intensity on tax avoidance, so hypothesis 5 is rejected.

The variable DER_SIZE (the interaction of leverage as measured by DER and firm size) shows a probability value of 0.1970 > 0.05, so firm size do not significantly moderate the effect of leverage on tax avoidance, so hypothesis 6 is rejected.

The variable ROE_SIZE (the interaction of profitability as measured by ROE with firm size) shows a probability value of 0.1895 > 0.05, so firm size do not significantly moderate the effect of profitability on tax avoidance, so hypothesis 7 is rejected.

The CSR_SIZE variable (the interaction of CSR with firm size) shows a probability value of 0.7832 > 0.05, so firm size is not able to significantly moderate the influence of CSR on tax avoidance, so hypothesis 8 is rejected.

Table 10 shows the results that the firm size variable is not a moderating variable because all hypothesis results are rejected. Researchers conducted additional tests by changing the firm size variable into an independent variable. The following are the test results for the firm size variable as an independent variable Table 11.

Based on the test results above, the firm size variable tends to be an independent variable, not a moderating variable. From the output table, you can see that the SIZE variable has a probability value of 0.0035, which is smaller than 0.05, with a regression coefficient value of -0.009177 (negative), this shows that firm size has a positive influence on tax avoidance. This shows that firm size is more of an independent variable than a moderating variable

3.4.1 The effect of capital intensity on tax avoidance

Capital intensity has a negative impact on tax avoidance of JII registered companies. The results show that the higher the capital intensity of a company registered as a JII, the lower the tax avoidance behavior. The results are inconsistent with the hypotheses due to the Sharia principles implemented by JII. From a Sharia perspective, tax avoidance is considered unethical and contrary to Islamic principles. Tax evasion is considered an act that is detrimental to society as a whole and the country as a whole [10]. This finding is confirmed by previous researches that capital intensity negatively influences tax avoidance [11,12]. These results do not support research that shows that capital intensity has a positive impact on tax avoidance [13,11,14,15].

3.4.2 The effect of leverage on tax avoidance

Leverage, measured by DER, has a negative impact on tax avoidance. This result shows that the higher the leverage value measured by DER of a JII-registered company, the lower the tax avoidance behavior. The findings are not in line with the hypothesis because, from the Islamic perspective, there are principles that regulate financial agreements, including the use of debt (debt). According to the perspective of Islamic business ethics, the use of leverage must pay attention to Sharia principles, such as not using usury and avoiding risks that cannot be anticipated [16]. Companies using high leverage to obtain debt funds must ensure that the use of debt is in line with Sharia principles, such as the avoidance of usury. According to the view of sharia and Islamic business ethics, tax

Table 11. Firm size variable test results become independent variables

Variable	Coefficient	Std. Error	t-Statistics	Prob
C	0.527689	0.086823	6.077723	0.0000
SIZE	-0.009177	0.003051	-3.008032	0.00035

avoidance through high leverage is considered dishonesty which is detrimental to society and the state. Islam teaches that business transactions must be carried out with the principles of justice and social awareness, so the practice of tax avoidance is not recommended. The results of this study support previous research that leverage has a negative relationship with tax avoidance [11], but do not support researches showing that leverage plays no role in tax avoidance [17,18], and researches showing leverage positively influences tax avoidance [12].

3.4.3 The influence of profitability on tax avoidance

Profitability, measured as return on equity, has a positive impact on tax avoidance. That is, the higher the firm's profitability, the more likely the JII firm is to avoid taxes. These results support the hypothesis that highly profitable JII firms tend to avoid taxes. According to agency theory, company managers can have incentives to maximize their wealth, including by avoiding taxes. The findings support research that proves profitability has a positive influence on tax avoidance [19-21], but do not support research that shows profitability negatively influences tax avoidance [22,18].

3.4.4 The influence of corporate social responsibility on tax avoidance

The results of the CSR research do not affect tax avoidance so high or low CSR scores have no impact on changes in tax avoidance in companies registered with JII. The research results do not match the hypothesis, because the JII company has compliance and ethics in doing business based on Sharia principles. CSR disclosures that are based on Islamic business ethics and are considered valid must follow the principles of justice and proportionality. The company does not only focus on the financial aspects but also the social and environmental impacts of its business activities.

CSR disclosures must be honest, transparent, and balanced in describing the company's efforts to fulfill its social obligations [23]. According to legitimacy theory, companies maintain positive relationships with the environment and surrounding communities, which will result in a better reputation in the future. Companies that disclose CSR will prevent the company from losing legitimacy from the public [24]. JII Company seeks to maintain legitimacy in the context of Sharia financial principles and social responsibility. The results of this research are by research that CSR disclosure does not affect tax avoidance [25], but do not support research stating that CSR disclosure negatively influences tax avoidance [26,27].

3.4.5 The effect of capital intensity on tax avoidance with firm size as a moderating variable

The research results show that company size does not significantly moderate the impact of capital intensity on JII corporate tax avoidance, so Hypothesis 5 is not valid. Agency theory, which focuses on managerial incentives to optimize personal interests, is not entirely relevant in the context of Shari'a companies. This situation is caused by the background of Sharia companies. The results of this study do not support agency theory, and firm size may affect the relationship between tax avoidance and capital intensity. The results are consistent with previous research: firm size cannot avoid taxes by adjusting capital intensity [28,29], but it is not according to research that firm size moderates the relationship between capital intensity and tax avoidance [30].

3.4.6 The effect of leverage on tax avoidance with firm size as a moderating variable

The research results show that company size does not moderate the impact of leverage on JII corporate tax avoidance measured by DER, so Hypothesis 6 is not valid. This means that high corporate debt levels neither depend on firm size nor affect tax avoidance behavior. According to agency theory, larger companies tend to have better access to external financing. Managers of large companies have more resources and expertise to plan complex tax avoidance strategies. Managers of large corporations have the freedom and opportunity to pursue personal

interests rather than shareholder interests. This result contradicts findings that firm size moderates the relationship between debt and tax avoidance [28,31,32].

3.4.7 The effect of profitability on tax avoidance with firm size as a moderating variable

The research results show that company size does not moderate the impact of profitability measured by ROE on JII corporate tax avoidance, so Hypothesis 7 is not valid. This result is not based on agency theory, according to which the relationship between profitability and tax avoidance is affected by the agency relationship between the principal and the agent. However, in this study, firm size does not affect the extent to which firm profitability affects tax avoidance. These results do not support research showing that firm size enhances profitability against tax avoidance [33].

3.4.8 The influence of corporate social responsibility on tax avoidance with firm size as a moderating variable

The research results show that company size does not moderate the impact of corporate social responsibility on JII corporate tax avoidance, so hypothesis 8 is not valid. The findings indicate that the relationship between firm size and CSR and tax avoidance is not significant and is therefore inconsistent with agency theory. According to legitimacy theory, businesses use CSR as a tool to maintain their social legitimacy in the eyes of their stakeholders [34]. Companies can adopt CSR practices to create a positive perception of their social responsibilities. To maintain their legitimacy, companies avoid tax avoidance as this harms their image in the public eye. Companies are committed to corporate social responsibility regardless of their size or the extent to which they avoid controversial tax practices. These results are inconsistent with research on firm size, which attenuates the effect of CSR on tax avoidance [35]. This study builds on previous findings that firm size does not attenuate the impact of CSR on tax avoidance [36].

4. CONCLUSION

The findings show that capital intensity, leverage and profitability have an impact on tax avoidance, while corporate social responsibility has no impact on tax avoidance. The results of the moderation test indicate that firm size does not moderate the effects of capital intensity, leverage, profitability and corporate social responsibility on tax avoidance. Therefore, out of the eight hypotheses, seven hypothesis statements are unproven and only one hypothesis statement is proven.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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