

Research Article

The Effect of Corporate Social Responsibility Cost and Financial Ratios on Tax Avoidance Evidence from Large Market Capitalization Firms in Indonesia

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Abstract: This study aims to examine the effect of Corporate Social Responsibility (CSR) costs and financial characteristics on tax avoidance practices among publicly listed companies with the largest market capitalization in Indonesia. The study is motivated by Indonesia's relatively low tax ratio compared to other emerging economies in the ASEAN region, which suggests the persistence of tax avoidance practices, particularly among large corporations. Grounded in legitimacy theory and agency theory, this research empirically investigates the influence of CSR costs, profitability, leverage, liquidity, activity ratio, growth ratio, and operating cash flow on tax avoidance. The research sample consists of 50 companies with the largest market capitalization listed on the Indonesia Stock Exchange over the 2020–2024 period, employing a census sampling method and unbalanced panel data. Secondary data were obtained from annual financial reports and analyzed using panel data regression techniques. Tax avoidance is measured using the Book-Tax Differences (BTD) approach, while model selection is determined through the Chow test, Hausman test, and Lagrange Multiplier test. The results indicate that, simultaneously, all independent variables have a significant effect on tax avoidance. Partially, the activity ratio has a negative effect on tax avoidance, whereas the growth ratio and operating cash flow have a positive effect on tax avoidance. Meanwhile, CSR costs, profitability, leverage, and liquidity do not show a significant effect. These findings suggest that asset utilization efficiency tends to restrain tax avoidance behavior, while corporate growth dynamics and strong operating cash flows encourage more aggressive tax management strategies. This study provides empirical evidence from an emerging market context and offers insights for tax authorities and regulators in designing more effective, risk-based tax supervision policies.

Keywords: Activity Ratio; Financial Ratios; Growth Ratio; Operating Cash Flow; Tax Avoidance.

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1. Introduction

Tax avoidance remains a critical issue in both developed and emerging economies due to its potential to reduce government tax revenues and undermine fiscal sustainability. Although tax avoidance is generally conducted within legal boundaries, excessive tax planning may weaken corporate accountability and public trust. Large firms, particularly those with substantial market capitalization, tend to have greater opportunities to engage in tax avoidance because of their financial capacity, organizational complexity, and access to sophisticated tax planning mechanisms (Desai & Dharmapala, 2006) (Hanlon & Heitzman, 2010). In Indonesia, companies with large market value play a strategic role in economic development and tax contribution, making their tax behavior an important object of academic and regulatory attention.

Previous studies have examined tax avoidance using various firm characteristics and empirical methods. Corporate social responsibility (CSR) has been widely discussed as a mechanism that may restrain aggressive tax behavior, as socially responsible firms are expected to comply with ethical norms and regulatory expectations (Lanis & Richardson, 2015) (Hoi et

al., 2013). Financial ratios such as profitability, leverage, liquidity, activity, and growth ratios are commonly employed to explain tax avoidance incentives, reflecting firms' performance, capital structure, operational efficiency, and expansion motives (Frank et al., 2009) (Cheng et al., 2012b). In addition, operating cash flow has gained attention as an indicator of firms' real cash-generating ability and financial flexibility, which may facilitate tax planning decisions.

Despite the extensive literature, prior empirical approaches exhibit several limitations. Many studies focus on CSR disclosure rather than CSR costs, potentially overlooking the economic consequences of actual CSR expenditures. Moreover, financial ratios are often analyzed selectively or aggregated, limiting a comprehensive understanding of their joint effects. Panel data regression methods, such as Fixed Effect Models and Random Effect Models, offer advantages in controlling for unobserved heterogeneity across firms and time (Gujarati, D. N., & Porter, 2009); however, previous research frequently relies on short observation periods, small samples, or specific industries, thereby constraining the generalizability of findings. These methodological gaps highlight the need for a broader and more integrated analytical framework.

Based on these gaps, this study addresses several research problems: whether CSR costs influence tax avoidance practices, how multiple financial ratios profitability, leverage, liquidity, activity, and growth affect corporate tax behavior, and whether operating cash flow plays a significant role in determining tax avoidance among large firms. These issues are particularly relevant in the Indonesian context, where large-capitalization companies face increasing scrutiny from tax authorities, investors, and the public, especially in the post-pandemic period.

To address these problems, this study employs a quantitative approach using panel data analysis on 50 companies with the largest market capitalization listed on the Indonesia Stock Exchange during the 2020-2024 period. Model selection is conducted using the Chow test, Hausman test, and Lagrange Multiplier test to ensure appropriate estimation. This research contributes to the literature by focusing on large-capitalization firms in an emerging economy, distinguishing CSR costs from CSR disclosure, and highlighting the role of operating cash flow alongside comprehensive financial ratios.

2. Literature Review

Agency Theory

Agency theory explains the contractual relationship between principals (shareholders) and agents (managers), in which conflicts of interest may arise due to information asymmetry and differing objectives (Jensen & Meckling, 1976). Managers are assumed to act in their own interests, which may not always align with the goal of maximizing shareholder value. In this context, managerial decisions related to financial policies and corporate strategies can reflect opportunistic behavior. Agency theory provides a theoretical foundation for understanding how managerial discretion, financial flexibility, and firm characteristics influence corporate decision-making, including tax-related strategies.

Legitimacy Theory

Legitimacy theory is based on the notion that firms continually seek to ensure that their operations are perceived as legitimate within the bounds and norms of society (Suchman, 1995). Corporate legitimacy is achieved when a firm's actions are aligned with social and institutional expectations. Firms may adopt certain strategies, such as social initiatives and compliance-oriented policies, to maintain or restore legitimacy, particularly when facing public scrutiny (Dowling & Pfeffer, 1975). From this perspective, firms may adopt certain strategies to maintain or restore legitimacy, particularly when facing public scrutiny or regulatory pressure. Corporate actions related to social responsibility, transparency, and regulatory compliance can be interpreted as legitimacy seeking behavior. Legitimacy theory is relevant in explaining why firms engage in socially oriented activities and disclosure practices to manage public perception and reduce external pressure.

Tax Avoidance

Tax avoidance refers to corporate efforts to reduce tax liabilities through legal planning strategies by exploiting loopholes or ambiguities in tax regulations (Hanlon & Heitzman, 2010). Although tax avoidance is legally permissible, it may raise ethical concerns and increase regulatory and reputational risks. Prior studies suggest that tax avoidance behavior is influenced by managerial incentives, firm financial conditions, and governance mechanisms (Hanlon & Heitzman, 2010). In emerging economies such as Indonesia, tax avoidance is a

critical issue due to the government's reliance on corporate tax revenues and relatively limited enforcement capacity. In this study, tax avoidance is measured using Book-Tax Differences (BTD), which represent the difference between accounting income and taxable income. BTD is considered a comprehensive proxy for tax avoidance as it captures discrepancies arising from managerial discretion in accounting and tax reporting. A larger BTD value indicates a higher level of tax avoidance undertaken by the firm.

Corporate Social Responsibility Costs

Corporate social responsibility (CSR) costs represent actual expenditures incurred by firms to implement social and environmental programs. Unlike CSR disclosure, CSR costs reflect tangible financial commitments and resource allocation decisions. From the perspective of legitimacy theory, CSR expenditures are used by firms to demonstrate social responsibility and align corporate activities with societal expectations (Suchman, 1995). From an agency perspective, CSR costs reflect managerial discretion in allocating corporate resources and may influence other financial decisions. Empirical studies report mixed findings regarding the relationship between CSR-related activities and corporate financial behavior, indicating that the economic consequences of CSR costs remain an open empirical question (Richardson et al., 2013). However, empirical findings regarding CSR measured through costs or expenditures remain inconclusive. CSR spending does not necessarily reflect substantive tax compliance, as CSR may function as a symbolic strategy without being accompanied by more conservative tax behavior. Consequently, the relationship between CSR cost and tax avoidance continues to be debated in the literature.

Profitability

Profitability reflects a firm's ability to generate earnings from its assets and operations and is commonly measured using return on assets. According to agency theory, higher profitability increases taxable income and may intensify managerial incentives to manage financial outcomes in order to maintain performance and cash availability (Frank et al., 2009). Profitable firms also tend to have greater managerial discretion due to lower financial constraints. However, higher profitability increases public visibility and regulatory attention, which may constrain opportunistic behavior. Empirical findings on profitability show inconsistent results, suggesting that its role in corporate financial behavior varies across contexts (Cheng et al., 2012). From a broader perspective, profitability also reflects the firm's operational success and efficiency in utilizing resources to generate income. Highly profitable firms often face higher expectations from stakeholders, including investors, regulators, and the public, which may influence managerial behavior beyond purely financial considerations. In this context, managers may balance the potential benefits of financial optimization against reputational and regulatory risks. As noted by (Hanlon & Heitzman, 2010), profitability alone does not uniformly determine corporate financial behavior, as its impact is contingent upon institutional environments, governance mechanisms, and external monitoring. This perspective helps explain why empirical evidence on profitability often yields mixed results across different studies and settings.

Leverage

Leverage reflects the extent to which a firm utilizes debt financing in its capital structure. (Desai & Dharmapala, 2006) argue that debt obligations may influence managerial incentives and constrain discretionary behavior due to monitoring by creditors. (Elbadry et al., 2015) highlight that leverage affects corporate financial policies and risk exposure. (Khan et al., 2022) further demonstrate that leverage plays a significant role in shaping firms' financial strategies, particularly in emerging economies. These findings indicate that leverage remains an important determinant of corporate financial behavior. In addition, leverage reflects not only financing choices but also the firm's exposure to financial risk and creditor monitoring. Higher levels of debt typically increase scrutiny from lenders, which can restrict managerial discretion in making financial decisions. This external monitoring mechanism may limit opportunistic behavior, including aggressive financial strategies, due to the need to comply with debt covenants and maintain creditor confidence. However, in emerging market contexts, the effectiveness of creditor monitoring may vary depending on institutional quality and enforcement strength. Therefore, leverage can exert both disciplining and constraining effects on managerial behavior, depending on the firm's financial structure and external environment (Richardson et al., 2013).

Liquidity

Liquidity represents a firm's ability to meet short-term obligations using current assets. Firms with high liquidity possess greater financial flexibility in managing operational commitments. Liu (2022) emphasizes that liquidity affects managerial decision-making and financial stability. Lubis et al. (2017) further explain that liquidity reflects short-term financial health and the firm's capacity to absorb economic shocks. Consequently, liquidity is widely used as an indicator of corporate financial strength in empirical studies. Beyond its role as a measure of short-term solvency, liquidity also influences strategic financial flexibility. Firms with sufficient liquidity are better positioned to respond to unexpected operational needs and economic fluctuations without resorting to external financing. This financial flexibility may reduce pressure on managers to engage in aggressive financial practices to preserve cash. Conversely, excessive liquidity can also reflect inefficient asset utilization, which may prompt management to seek alternative strategies to improve financial performance. As emphasized by (Cheng et al., 2012), liquidity should therefore be interpreted carefully, as its relationship with corporate financial behavior is shaped by managerial objectives and firm-specific conditions.

Activity Ratio

The activity ratio reflects the efficiency with which a firm utilizes its assets to generate revenue. Firms with higher activity ratios demonstrate more efficient asset utilization, which may lead to improved operational performance and profitability. In the taxation context, operational efficiency may encourage firms to adopt more cautious tax management practices to avoid regulatory scrutiny and potential tax penalties (Richardson et al., 2013). Conversely, firms with lower asset utilization efficiency may resort to tax avoidance as a compensatory strategy for weaker operational performance. Accordingly, the activity ratio is considered an important indicator in explaining variations in corporate tax avoidance behavior. Furthermore, activity ratios provide insight into how effectively management controls and deploys corporate assets. High asset turnover indicates that firms are able to generate revenue efficiently from their existing asset base, which may reduce reliance on alternative financial strategies to support performance. In contrast, inefficient asset utilization may signal operational weaknesses that encourage management to seek financial adjustments to offset suboptimal performance. As a result, activity ratios are frequently incorporated into empirical studies as proxies for operational discipline and managerial efficiency, particularly in industries where asset management plays a central role (Fitriana, 2024).

Growth Ratio

Growth ratios reflect a firm's expansion potential and future prospects. Firms with high growth opportunities often require substantial internal funding to support investment activities. (Khan et al., 2022) argue that growth indicators capture strategic orientation and managerial expectations regarding future performance. (López-González et al., 2019) further highlight that growth reflects firms' long-term development strategies. As such, growth ratios are commonly employed in empirical corporate finance research. In a dynamic business environment, growth ratios also capture managerial expectations and strategic priorities related to long-term value creation. Firms with strong growth prospects often prioritize reinvestment and expansion over short-term financial outcomes. This strategic focus may influence how firms manage internal funds and allocate financial resources. Consequently, growth ratios serve as important indicators of a firm's strategic orientation and future-driven decision-making processes.

Operating Cash Flow

Operating cash flow represents cash generated from a firm's core operating activities and reflects actual liquidity conditions. (Hanlon & Heitzman, 2010) argue that cash flow availability influences managerial discretion in financial decision-making. (Dyreng et al., 2022) further highlight that operating cash flow plays a critical role in shaping corporate financial behavior. Therefore, operating cash flow is an important variable in understanding firms' financial strategies. Moreover, operating cash flow provides a clearer picture of a firm's actual financial capacity compared to accrual-based measures of performance. Strong operating cash flows indicate that firms can generate sufficient internal funds to support operations without excessive reliance on external financing. This condition enhances managerial flexibility in making strategic financial decisions. (Dyreng et al., 2022) emphasize that operating cash flow is closely linked to managerial discretion, as it determines the extent to which firms can finance activities internally. Therefore, operating cash flow is widely recognized as a key determinant of corporate financial strategies in empirical research.

Hypotheses Development



Figure 1. Research Framework.

This study develops hypotheses based on legitimacy theory and agency theory to explain the relationship between Corporate Social Responsibility (CSR) costs, firm financial characteristics, and tax avoidance practices. Legitimacy theory posits that firms seek social acceptance by aligning their activities with prevailing social norms, values, and regulations, including compliance with taxation obligations (Dowling & Pfeffer, 1975). Meanwhile, agency theory explains that conflicts of interest between managers (agents) and shareholders (principals) may encourage opportunistic managerial behavior, including aggressive tax planning strategies (Jensen & Meckling, 1976). Based on these theoretical perspectives and prior empirical evidence, the hypotheses are formulated as follows.

H1: Corporate Social Responsibility costs have a negative effect on tax avoidance.

Legitimacy theory posits that firms seek to align their operations with societal values and expectations to secure social approval and maintain organizational legitimacy (Dowling & Pfeffer, 1975). Corporate Social Responsibility (CSR) activities represent a firm's commitment to ethical conduct and social accountability, including compliance with taxation obligations. Firms that invest heavily in CSR are expected to avoid aggressive tax practices, as tax avoidance may undermine the credibility of their social responsibility efforts (Deegan, 2002). Empirical evidence, however, remains inconclusive. Several studies find that higher CSR engagement is associated with lower levels of tax avoidance, suggesting that socially responsible firms prioritize ethical tax behavior to reduce reputational risk (Winarno et al., 2017) (Lanis & Richardson, 2015). In contrast, other studies argue that CSR may be used strategically as a legitimacy mechanism to mask aggressive tax practices, particularly in emerging markets (Mkadmi & Ben Ali, 2024) (Dillareta & Wuryani, 2021) (Purwaningsih & Irawati, 2023). Given these mixed findings, CSR costs remain a relevant determinant of tax avoidance behavior.

H2: Profitability has a positive effect on tax avoidance.

Profitability reflects a firm's ability to generate earnings from its assets and operations. From an agency theory perspective, higher profitability increases taxable income and intensifies pressure on managers to maximize after-tax profits, thereby strengthening incentives for aggressive tax planning (Desai & Dharmapala, 2006). Managers may engage in tax avoidance to maintain reported performance and meet shareholders' expectations. Empirical studies provide mixed results regarding this relationship. Several studies document a positive association between profitability and tax avoidance, indicating that firms with higher profits are more likely to adopt aggressive tax strategies to reduce tax burdens (Zarkasih & Maryati, 2023) (Tarigan & Ubaidillah, 2023). Conversely, other studies find no significant effect, arguing that highly profitable firms are subject to greater regulatory scrutiny and public attention, which discourages aggressive tax behavior (Prasty & Merkusiwati, 2024) (Adiguna & Ritonga, 2024).

H3: Leverage has a positive effect on tax avoidance.

Leverage indicates the extent to which a firm relies on debt financing. Agency theory suggests that debt can function as a monitoring mechanism that constrains managerial opportunism due to oversight by creditors, while simultaneously providing tax benefits through interest deductibility (Desai & Dharmapala, 2007). As a result, leverage may influence firms' tax avoidance behavior in opposing directions. Empirical evidence also shows mixed findings. Several studies find that leverage is positively associated with tax avoidance, as firms exploit interest expenses to reduce taxable income (Frank et al., 2009) (Suhada & Ryanto, 2021). However, other studies report insignificant effects, suggesting that regulatory constraints on interest deductions and increased creditor monitoring limit the use of debt for tax avoidance purposes (Purwaningsih & Irawati, 2023) (Khan et al., 2022).

H4: Liquidity has a negative effect on tax avoidance.

Liquidity reflects a firm's ability to meet short-term obligations and maintain financial flexibility. Firms with strong liquidity positions are less pressured to reduce tax payments to preserve cash, which may reduce incentives for aggressive tax avoidance. From an agency theory perspective, sufficient liquidity can mitigate opportunistic managerial behavior by reducing short-term financial stress (Lubis et al., 2017). Empirical findings on liquidity remain inconsistent. Several studies report a negative relationship between liquidity and tax avoidance, suggesting that firms with adequate liquid assets are more compliant with tax obligations (Rahayu et al., 2022). In contrast, other studies find no significant relationship, arguing that tax avoidance decisions are driven more by strategic considerations than short-term liquidity conditions (Liu, 2022) (Mkadmi & Ben Ali, 2024).

H5: Activity ratio has a negative effect on tax avoidance.

Activity ratios measure the efficiency with which firms utilize their assets to generate revenue and reflect the quality of operational management. From an agency theory perspective, higher operational efficiency reduces information asymmetry between managers and shareholders and limits managerial discretion to engage in opportunistic behavior, including aggressive tax planning (Jirwanto et al., 2024). Firms with efficient asset utilization tend to rely more on operational performance rather than tax-based strategies to improve financial outcomes. Empirical evidence supports this argument. (Fitriana, 2024) finds that higher activity ratios are associated with lower levels of tax avoidance, indicating that efficient firms have less incentive to engage in aggressive tax practices. Similarly, (Putri & Ananda, 2022) document a negative relationship between operational efficiency and tax avoidance, suggesting that transparent and efficient operations constrain managerial opportunism. These findings indicate that firms with higher activity ratios are more likely to comply with tax obligations.

H6: Growth ratio has a positive effect on tax avoidance.

Firm growth reflects expansion opportunities, increasing operational scale, and future performance expectations. According to agency theory, firms experiencing high growth face stronger pressure to sustain performance and secure internal funding for investment activities, which may increase managerial incentives to engage in tax avoidance as a means of preserving cash flows (Tang & Firth, 2011). Growth oriented firms also tend to operate in more complex environments, providing greater opportunities for tax planning. Empirical studies support a positive relationship between growth and tax avoidance. (Mkadmi & Ben Ali, 2024) find that firms with higher growth opportunities are more likely to engage in aggressive tax behavior in emerging markets. Similarly, (Ardyanto et al., 2024) show that growing firms tend to adopt tax avoidance strategies to support expansion and investment needs. These findings suggest that firm growth plays a significant role in shaping tax avoidance behavior.

H7: Operating cash flow has a positive effect on tax avoidance.

Operating cash flow represents cash generated from core business activities and reflects a firm's internal liquidity position. From an agency theory perspective, higher operating cash flow increases managerial discretion by providing greater financial flexibility, which may be used to implement tax planning strategies (Hanlon & Heitzman, 2010). Firms with abundant

cash flows may therefore have stronger capacity to engage in sophisticated tax avoidance activities. Empirical evidence supports this view. (Dyreng et al., 2022) show that firms with higher operating cash flow tend to engage more actively in tax planning due to greater resource availability. (Selin et al., 2025) further document a positive relationship between cash flow and tax avoidance, indicating that internally generated funds facilitate aggressive tax strategies. These findings suggest that operating cash flow is an important determinant of tax avoidance behavior.

3. Research Method

Population and Sample

This study employs a quantitative approach using secondary data obtained from annual and sustainability reports of firms listed on the Indonesia Stock Exchange (IDX). The research population consists of 50 firms with the largest market capitalization listed on the IDX during the 2020-2024 observation period. All firms in the population are included as research samples using a census technique (Gujarati, D. N., & Porter, 2009), meaning that no partial sample selection is applied. The sample criteria include firms that are consistently listed throughout the observation period, publish audited annual financial statements, and provide complete and accessible data for all research variables. The focus on large market capitalization firms is motivated by their higher public exposure, more complex organizational structures, and greater transparency demands, making them suitable for examining corporate tax avoidance behavior. All data are collected from publicly available company reports and the official IDX platform.

Variables and Measurement

This study employs one dependent variable, tax avoidance, and seven independent variables consisting of Corporate Social Responsibility (CSR) cost, profitability, leverage, liquidity, activity ratio, growth ratio, and operating cash flow.

Tax avoidance is measured using Book-Tax Differences (BTD), defined as the difference between accounting income and taxable income. This measurement follows the framework developed by (Desai & Dharmapala, 2006), where a higher BTD value indicates a higher level of corporate tax avoidance. Corporate Social Responsibility (CSR) cost is measured based on the total CSR expenditure disclosed in the firms' annual reports, reflecting the actual implementation of corporate social responsibility activities. Profitability is measured using Return on Assets (ROA), calculated as net income divided by total assets, representing the firm's ability to generate earnings from its asset base. Leverage is measured using the Debt to Equity Ratio (DER), calculated as total liabilities divided by total equity, which reflects the firm's capital structure and reliance on debt financing. Liquidity is measured using the Current Ratio (CR), defined as current assets divided by current liabilities, indicating the firm's ability to meet short-term obligations. Activity ratio is measured using the Total Asset Turnover Ratio (TATR), which captures the efficiency of asset utilization in generating sales. Growth ratio is measured using asset growth, calculated as the annual growth rate of total assets, reflecting the firm's expansion and development capacity. Then, operating cash flow is measured using the operating cash flow ratio, calculated as cash flow from operating activities divided by total assets, which reflects the firm's ability to generate internal cash from core operations/.

4. Results

Table 1. Descriptive Statistical Analysis.

Variable	Mean	Max	Min	Std. Dev	N
Tax Avoidance	0.180818	4.901888	-1.909712	0.589511	232
CSR Cost	0.773588	0.961095	0.584475	0.066565	232
Profitability	0.073091	1.389374	-1.671262	0.183272	232
Leverage	1.571225	27.033807	0.019307	2.431979	232
Liquidity	1.617429	4.943872	0.117629	1.100942	232
Activity Ratio	0.598412	3.152405	0.000152	0.676132	232
Growth Ratio	0.099453	2.621811	-1.573450	0.317636	232
Cash Flow Operating	0.137936	2.361607	-0.353368	0.255703	232

Source: Output EViews, 12 (2025)

Table 1 presents the descriptive statistics for all research variables. Tax avoidance, measured using Book-Tax Differences (BTD), ranges from -1.91 to 4.90, with a mean value of 0.18 and a standard deviation of 0.59, indicating substantial variation in tax avoidance practices across firms, including significant differences between accounting income and taxable income. Corporate Social Responsibility (CSR) cost exhibits relatively low variability, with values ranging from 0.58 to 0.96, a mean of 0.77, and a standard deviation of 0.07, suggesting a relatively homogeneous level of CSR expenditure among large market capitalization firms. Profitability (ROA) shows considerable dispersion, ranging from -1.67 to 1.39, with a mean of 0.07 and a standard deviation of 0.18, reflecting substantial differences in firms' ability to generate profits, including the presence of loss-making firms. Leverage displays a very wide range, from 0.02 to 27.03, with a mean of 1.57 and a standard deviation of 2.43, highlighting significant heterogeneity in firms' capital structures. Liquidity ranges from 0.12 to 4.94, with an average value of 1.62 and a standard deviation of 1.10, indicating variation in firms' capacity to meet short-term obligations. The activity ratio ranges from 0.00 to 3.15, with a mean of 0.60 and a standard deviation of 0.68, suggesting differences in asset utilization efficiency across firms. The growth ratio ranges from -1.57 to 2.62, with a mean of 0.10 and a standard deviation of 0.32, indicating varying levels of expansion and contraction among firms. Finally, operating cash flow ranges from -0.35 to 2.36, with a mean of 0.14 and a standard deviation of 0.26, reflecting differences in firms' ability to generate cash from operating activities. All variables are analyzed based on 232 observations, indicating adequate panel data coverage for this study.

Table 2. Chow Test.

Effect Test	Prob.
Cross-section F	0.0000
Cross-section F Chi Square	0.0000

Source: Output EViews, 12 (2025)

Based on the Chow test results presented in Table 2, the probability values of the Cross-section F and Cross-section Chi-square statistics are both 0.0000, which are below the 5 percent significance level. Therefore, the null hypothesis is rejected, indicating that the Fixed Effect Model (FEM) is more appropriate than the Pooled OLS model for panel data estimation. Accordingly, the analysis proceeds with the Hausman test to further compare the Fixed Effect Model and the Random Effect Model.

Table 3. Hausman Test.

Test Summary	Prob.
Cross-section random	0.8682

Source: Output Eviews, 12 (2025)

Based on the Hausman test results reported in Table 3, the probability value is 0.8682, which exceeds the 5 percent significance level. Therefore, the null hypothesis is accepted, indicating that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM). Given that the model selection favors REM, the analysis is subsequently extended to the Lagrange Multiplier test to determine whether the Random Effect Model (REM) is superior to the Common Effect Model (CEM).

Table 4. Langrange Multiplier Test.

Null (no rand. Effect)	Cross-section
Breusch-Pagan	31.19489 (0.0000)

Source: Output EViews, 12 (2025)

The Lagrange Multiplier test results indicate a Breusch-Pagan statistic of 31.19 with a probability value of 0.0000, which is below the 5 percent significance level. Accordingly, the null hypothesis is rejected, confirming that the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM). Combined with the Hausman test results, this finding supports the selection of the Random Effect Model (REM) as the final estimation model in this study.

Table 5. Coefficient of Determination Test.

R-squared	0.652910
Adj. R-squared	0.642063

Source: Output EViews, 12 (2025)

Based on the table 5, the Adjusted R-squared value of 0.642 indicates that approximately 64.20% of the variation in tax avoidance is explained by the independent variables included in the model, namely CSR cost, profitability, leverage, liquidity, activity ratio, growth ratio, and operating cash flow, while the remaining variation is explained by factors outside the model.

Table 6. F-Fest Statistic.

F-statistic	60.19508
Prob (F-statistic)	0.000000

Source: Output EViews, 12 (2025)

Based on the F-test results presented in Table 6, the F-statistic is 60.20 with a probability value of 0.0000, which is below the 5% significance level. This indicates that the regression model is statistically significant simultaneously. Therefore, it can be concluded that CSR cost, profitability, leverage, liquidity, activity ratio, growth ratio, and operating cash flow jointly have a significant effect on tax avoidance.

Table 7. T-Test.

Variable	Coefficient	t-Statistic	Prob.
Constanta	-0.474793	-1.496930	0.1358
CSR Cost	0.541886	1.313798	0.1903
Profitability	0.058855	0.431168	0.6668
Leverage	0.002462	0.241549	0.8094
Liquidity	0.021700	0.870239	0.3851
Activity Ratio	-0.128750	-2.589968	0.0102
Growth Ratio	0.175425	2.594090	0.0101
Operating Cash Flow	1.861958	18.64154	0.0000

Source: Output EViews, 12 (2025)

The t-test is conducted to examine whether each independent variable partially has a significant effect on tax avoidance in the panel data regression model. Based on the t-test results presented in Table 4.10, the partial effects can be interpreted as follows: (1) CSR cost has a probability value of $0.1902 > 0.05$, indicating that CSR cost does not have a significant effect on tax avoidance. (2) Profitability, measured by Return on Assets (ROA), shows a probability value of $0.6639 > 0.05$, suggesting that profitability does not significantly affect tax avoidance. (3) Leverage has a probability value of $0.8099 > 0.05$, indicating that leverage does not have a significant effect on tax avoidance. (4) Liquidity shows a probability value of $0.3847 > 0.05$, implying that liquidity does not significantly affect tax avoidance. (5) Activity ratio has a probability value of $0.0102 < 0.05$, indicating that the activity ratio has a significant effect on tax avoidance. (6) Growth ratio shows a probability value of $0.0101 < 0.05$, indicating that the growth ratio significantly affects tax avoidance. (7) Operating cash flow has a probability value of $0.0000 < 0.05$, indicating that operating cash flow has a significant effect on tax avoidance.

5. Discussions

The Effect of Corporate Social Responsibility (CSR) Cost on Tax Avoidance

Based on the t-test results presented in Table 7, Corporate Social Responsibility (CSR) cost shows a probability value of 0.1902, which is higher than the 5 percent significance level. This finding indicates that CSR cost does not have a significant effect on tax avoidance. In other words, the magnitude of corporate expenditure on CSR activities is not sufficient to influence firms' tendencies to engage in tax avoidance practices. Accordingly, the first hypothesis (H1) is not supported. This result suggests that CSR-related spending, within the context of large market capitalization firms in Indonesia, does not function as a strategic instrument for managing tax burdens.

This finding is consistent with prior studies that emphasize the contextual nature of the relationship between CSR and tax avoidance in emerging economies. (Mkadmi & Ben Ali, 2024) argue that the CSR and tax avoidance nexus in developing countries is complex and highly dependent on institutional settings. Similarly, (Dillareta & Wuryani, 2021) find that CSR activities do not significantly affect tax avoidance practices among mining companies in Indonesia, while (Purwaningsih & Irawati, 2023) report that CSR expenditures in Indonesia are largely driven by regulatory compliance rather than tax efficiency considerations. From the perspective of legitimacy theory, firms engage in CSR activities primarily to gain social acceptance and maintain long-term corporate reputation. As a result, CSR costs are oriented toward social compliance and image-building objectives rather than serving as a mechanism for reducing tax liabilities, thereby explaining the insignificant relationship between CSR cost and tax avoidance.

The Effect of Profitability on Tax Avoidance

Based on the t-test results presented in Table 7, profitability (X2), measured using Return on Assets (ROA), shows a probability value of 0.6639, which exceeds the 5 percent significance level. This result indicates that profitability does not have a negative and significant effect on tax avoidance. Accordingly, the second hypothesis (H2) is not supported. This finding suggests that variations in firms' profitability levels are not able to explain differences in tax avoidance behavior among large market capitalization firms in Indonesia.

This result is consistent with prior empirical studies. (Zarkasih & Maryati, 2023) find that only transfer pricing and foreign ownership significantly affect corporate tax behavior, while profitability does not have a significant impact. Similarly, (Tarigan & Ubaidillah, 2023) argue that profitability is not a statistically significant determinant of tax avoidance, as corporate tax behavior is more strongly influenced by governance mechanisms rather than the magnitude of profits generated. This finding is further supported by (Adiguna & Ritonga, 2024), who conclude that profitability does not significantly affect tax avoidance and that changes in profitability cannot be considered a reliable indicator for predicting firms' tax avoidance behavior.

From the perspective of agency theory, this finding indicates that higher profitability does not necessarily motivate managers to engage in greater tax avoidance, as opportunistic behavior is not solely driven by profit levels. Strong monitoring mechanisms, effective corporate governance, and regulatory oversight imposed by principals and external authorities constrain managerial discretion. Consequently, even when firms generate higher profits, the scope for engaging in aggressive tax avoidance practices remains limited, explaining the insignificant relationship between profitability and tax avoidance.

The Effect of Leverage on Tax Avoidance

Based on the t-test results presented in Table 7, leverage (X3), measured using the Debt to Equity Ratio (DER), shows a probability value of 0.8099, which is higher than the 5 percent significance level. This result indicates that leverage does not have a significant effect on tax avoidance. Accordingly, the third hypothesis (H3) is not supported. This finding suggests that firms' reliance on debt financing does not directly influence their tendency to engage in tax avoidance practices.

This result implies that although firms with higher leverage incur interest expenses that can reduce taxable income, such benefits are not necessarily utilized as an effective tax avoidance strategy. Large firms in Indonesia tend to adopt prudent financing policies to avoid excessive financial risk, which may limit the strategic use of debt for tax minimization purposes. Consequently, leverage does not consistently translate into lower tax burdens through interest deductions.

These findings are consistent with prior studies. (Putu & Gunaasih, 2021) and (Purwaningsih & Irawati, 2023) report that the relationship between leverage and tax avoidance is inconsistent across firms and contexts. Similarly, (Khan et al., 2022), in their study of firms in Nigeria and Pakistan, find that leverage does not have a significant relationship with tax avoidance practices. From an agency theory perspective, firms with higher leverage are

subject to stricter monitoring by creditors, which constrains managerial discretion and limits opportunistic behavior such as aggressive tax avoidance. As a result, the presence of external monitoring reduces the effectiveness of leverage as a mechanism for influencing tax avoidance behavior.

The Effect Of Liquidity On Tax Avoidance

Based on the t-test results presented in Table 7, liquidity (X4), measured using the Current Ratio, shows a probability value of 0.3847, which is higher than the 5 percent significance level. This result indicates that liquidity does not have a significant effect on tax avoidance. Accordingly, the fourth hypothesis (H4) is not supported. This finding suggests that firms' ability to meet short-term obligations does not directly influence the extent to which they engage in tax avoidance practices.

This result implies that firms with higher liquidity levels, while having sufficient cash to meet tax obligations, are not necessarily more compliant or more aggressive in avoiding taxes. Tax avoidance decisions appear to be driven by broader financial strategies rather than short-term liquidity conditions. This finding is consistent with (Mkadmi & Ben Ali, 2024), who report that liquidity has a negative but insignificant effect on tax avoidance in firms operating in emerging economies, indicating that high cash holdings do not automatically encourage aggressive tax behavior. Similarly, (Dillareta & Wuryani, 2021) find that liquidity does not significantly affect tax avoidance among mining companies in Indonesia, as the current ratio primarily reflects operational capacity rather than tax management strategies. (Purwaningsih & Irawati, 2023) also report insignificant results, suggesting that liquidity in consumer goods firms is mainly allocated to maintaining operational continuity rather than serving as an instrument for tax efficiency.

From an agency theory perspective, firms with strong liquidity positions tend to face closer scrutiny from shareholders and regulators, which limits managerial incentives to engage in opportunistic behavior such as tax avoidance. Conversely, firms with lower liquidity levels are more likely to prioritize maintaining operational cash flows over pursuing tax minimization strategies. Consequently, liquidity is not a significant determinant of tax avoidance behavior in this study.

The Effect Of Activity Ratio on Tax Avoidance

Based on the t-test results presented in Table 7, the activity ratio (X5), measured using the Total Assets Turnover Ratio (TATR), shows a probability value of 0.0102, which is below the 5 percent significance level. This result indicates that the activity ratio has a significant negative effect on tax avoidance. Accordingly, the fifth hypothesis (H5) is supported. This finding suggests that higher efficiency in asset utilization is associated with a lower tendency for firms to engage in tax avoidance practices.

This result indicates that firms with higher activity ratios generally exhibit more efficient operational performance and greater transparency in their business activities, thereby reducing managerial opportunities to manipulate tax burdens. Efficient asset utilization also reflects more stable cash flow conditions, which lessen firms' incentives to minimize tax liabilities through aggressive tax avoidance strategies. Consequently, firms that are able to generate higher sales from their assets tend to rely more on operational efficiency rather than tax-driven financial engineering.

These findings are consistent with prior empirical studies. (Abd-Elmageed & Abo Ashour, 2021) find that asset turnover, as a key indicator of activity ratio, has a significant negative effect on tax avoidance, as firms that effectively optimize their assets are typically in more stable operational conditions and have less need for tax avoidance strategies. Similarly, (Sari & Madjid, 2025) report that operational efficiency, reflected through sales growth, is negatively associated with tax avoidance, as indicated by higher Book-Tax Differences as a proxy for tax compliance. From an agency theory perspective, efficient operational activity reduces information asymmetry and mitigates conflicts of interest between managers and shareholders. When firm performance is transparently reflected in financial statements,

managers have fewer incentives and opportunities to engage in aggressive tax policies. Therefore, higher activity efficiency is associated with a lower propensity for tax avoidance.

The Effect Of Growth Ratio on Tax Avoidance

Based on the t-test results presented in Table 7, the growth ratio (X6), measured using asset growth, shows a probability value of 0.0101, which is below the 5 percent significance level. This result indicates that the growth ratio has a significant effect on tax avoidance. Accordingly, the sixth hypothesis (H6) is supported. This finding suggests that firms experiencing higher levels of growth tend to exhibit a greater propensity to engage in tax avoidance practices.

This result is consistent with prior empirical studies. (Mkadmi & Ben Ali, 2024) find that asset and sales growth significantly influence tax avoidance in firms operating in emerging economies. Similarly, (Tang & Firth, 2011) argue that firm growth is associated with increased investment activities and greater operational complexity, which provide broader opportunities for managers to engage in tax planning through both temporary and permanent adjustments in taxable income. Furthermore, (Ardyanto et al., 2024) demonstrate that asset growth encourages firms to engage in tax avoidance in order to maintain earnings stability during periods of expansion.

From the perspective of agency theory, firm growth tends to intensify conflicts of interest between managers and shareholders. Rapidly growing firms face greater pressure to demonstrate strong financial performance, which may incentivize managers to engage in opportunistic behavior, including tax avoidance, to sustain higher after-tax earnings and meet principals' expectations. Consequently, higher growth levels increase managerial incentives to pursue tax avoidance strategies as part of broader financial performance management.

The Effect Of Operating Cash Flow on Tax Avoidance

Based on the t-test results presented in Table 7, operating cash flow (X7) shows a probability value of 0.0000, which is below the 5 percent significance level. This result indicates that operating cash flow has a significant effect on tax avoidance. Accordingly, the seventh hypothesis (H7) is supported. This finding suggests that firms with higher operating cash flows tend to exhibit a greater propensity to engage in tax avoidance practices.

This result indicates that higher operating cash flow provides firms with greater financial flexibility to manage fiscal strategies, including tax planning activities conducted within legal boundaries. Strong operating cash flows enable firms to defer, shift, or manage tax obligations more effectively in order to achieve fiscal efficiency without disrupting operational activities. Consequently, firms with robust cash-generating capabilities possess greater capacity to implement tax avoidance strategies as part of their overall financial management.

These findings are consistent with prior empirical studies. (Mkadmi & Ben Ali, 2024) report that operating cash flow has a positive and significant effect on tax avoidance in firms operating in emerging economies, as strong cash flows provide financial flexibility for tax planning without compromising operational performance. Similarly, (Du & Li, 2024), in their study of firms in BRICS countries, find that higher operating cash flows contribute to increased tax aggressiveness, as firms with sufficient liquidity are better able to manage tax burdens through structured and planned strategies. (Putu & Gunaasih, 2021) also document a significant positive relationship between operating cash flow and tax avoidance among firms included in the IDX80 index, indicating that firms with stronger cash positions are more capable of achieving tax efficiency compared to firms with limited cash resources. From an agency theory perspective, high operating cash flow may create opportunities for managers to engage in opportunistic behavior, including tax avoidance, due to greater control over corporate cash flows. However, such practices also entail reputational risks and may intensify conflicts of interest between managers and shareholders.

6. Conclusions

Based on the empirical results, this study concludes that tax avoidance practices among firms with the largest market capitalization in Indonesia are influenced by specific financial factors. The activity ratio is found to have a significant negative effect on tax avoidance, indicating that firms with higher asset utilization efficiency tend to engage in lower levels of tax avoidance. In contrast, the growth ratio and operating cash flow exhibit significant positive effects, suggesting that firms experiencing higher growth and stronger operating cash-generating capacity are more likely to engage in tax avoidance practices.

Meanwhile, Corporate Social Responsibility (CSR) cost, profitability, leverage, and liquidity do not show significant effects on tax avoidance. These findings indicate that CSR implementation among large Indonesian firms tends to be normative and primarily driven by regulatory compliance rather than tax-related considerations. Furthermore, the level of profitability, capital structure, and liquidity position are not the main determinants of corporate tax avoidance behavior in this context.

Overall, the results demonstrate that financial variables reflecting operational efficiency, firm growth, and cash-generating capability play a more dominant role in influencing tax avoidance practices compared to other financial characteristics. This evidence suggests that tax planning decisions among large firms in Indonesia are largely shaped by operational dynamics and business expansion rather than short-term financial conditions.

7. Limitations and Suggestions

This study is subject to several limitations. The sample is limited to 50 firms with the largest market capitalization in Indonesia, which may restrict the generalizability of the findings to smaller firms with different financial characteristics and lower levels of external monitoring. In addition, the observation period (2020-2024) coincides with economic fluctuations caused by the COVID-19 pandemic and the subsequent normalization phase, which may have influenced firms' financial performance and the relationships among the variables examined.

Future studies are encouraged to include additional variables such as firm size, ownership structure, audit quality, and corporate governance to provide a more comprehensive analysis of tax avoidance determinants. Expanding the sample size and extending the observation period beyond large market capitalization firms would also improve the robustness of future findings. Practically, firms should enhance financial reporting transparency and strengthen sustainable CSR commitments to reduce incentives for tax avoidance, while regulators are expected to intensify supervision of tax compliance. For investors, these findings may serve as a reference in assessing corporate risk and long-term sustainability.

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