



## The Effect of Deferred Tax Expense on the Relationships Between Foreign Ownership, Capital Intensity, and Financial Distress with Tax Avoidance

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### Abstract

*This research examines the effect of foreign ownership, capital intensity, and financial distress on tax avoidance, with deferred tax expense serving as a moderating variable. The sampling technique employed in this study utilizes the entire research population (census method), encompassing 844 non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The results indicate that foreign ownership and capital intensity have negative impacts on tax avoidance. Meanwhile, Financial distress has a significant positive effect on tax avoidance. Deferred tax expense can moderate the relationship between capital intensity and tax avoidance. However, it cannot moderate the relationship between foreign ownership and Financial Distress with tax avoidance. This study highlights an important implication that the tax authorities need to increase their supervision of high-risk companies.*

**Keywords:** Capital Intensity, Financial Distress, Deferred Tax Expense, Tax Avoidance.

### Abstrak

Penelitian menguji pengaruh kepemilikan asing, intensitas modal, dan tekanan keuangan terhadap penghindaran pajak, dengan menambahkan beban pajak tangguhan sebagai variabel moderasi. Teknik pengambilan sampel dalam penelitian ini menggunakan seluruh populasi penelitian (*census method*), mencakup 844 perusahaan non-keuangan terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2020 sampai 2024. Hasil penelitian menunjukkan bahwa kepemilikan asing dan intensitas modal memiliki pengaruh negatif signifikan terhadap penghindaran pajak. Sedangkan, tekanan keuangan memiliki pengaruh positif signifikan terhadap penghindaran pajak. Hasil penelitian juga menunjukkan beban pajak tangguhan mampu memoderasi hubungan intensitas modal dengan penghindaran pajak, namun tidak dapat memoderasi hubungan kepemilikan asing dan tekanan keuangan terhadap penghindaran pajak. Implikasi penting adalah otoritas pajak perlu meningkatkan pengawasan pada perusahaan yang berisiko tinggi.

**Kata Kunci:** Intensitas Modal, Tekanan Keuangan, Beban Pajak Tangguhan, Penghindaran Pajak.

## 1. INTRODUCTION

Taxes are a crucial aspect of the Indonesian economy, playing a strategic role as the primary source of state revenue (Kalbuana et al., 2023). Through tax revenue, the government can increase its revenue to meet the needs and support the activities carried out by the state. The function and role of taxes are not only the main instrument in increasing state revenue, but

also make a significant contribution to maintaining economic stability and encouraging state growth (Hendayana et al., 2024; Hidayat et al., 2024).

The amount of tax contributions to the country's economy is evident from the proportion of total tax sector revenue to the State Budget (APBN), which consistently accounts for a significant portion of total state revenue (Purnomo & Eriandani, 2023). Based on the state revenue realization report published by the Indonesian Central Statistics Agency, over the last five years (2020-2024), the tax sector's contribution has reached more than 75% of tax revenue every year (BPS, 2024). In 2020, the amount of tax contribution to state revenue reached 78% or IDR 1,285,136 billion, with a significant increase of up to 82% in 2024, reaching IDR 2,309,859 billion. This condition underscores the vital role of the tax sector as a key pillar in supporting the country's finances.

Although the contribution is substantial, these achievements still do not yield optimal results (Hidayat et al., 2024). In 2024, the realization of tax revenue is expected to reach only 97.2% of the target set in the State Budget, or approximately 1,932.4 trillion (Kurniati, 2025). In addition, other data from the Ministry of Finance (2025) indicate that Indonesia still has a low tax ratio, which was 10.31% of Gross Domestic Product (GDP) in 2023, and subsequently dropped to 10.07% in 2024. This figure is notably low compared to ASEAN countries, which are already above 12%, and significantly below the OECD average of around 33.9% (OECD, 2025). One of the factors that causes Indonesia's tax ratio to remain low is the practice of *tax avoidance* that is still often carried out by companies (Hidayat et al., 2024).

Tax avoidance is a strategy employed by companies to minimize their tax burden through legal means (Kalbuana et al., 2023). In practice, companies typically employ a range of specific methods and techniques to exploit loopholes or weaknesses in applicable tax regulations (Dakhli, 2022). Legally, tax avoidance does not violate the applicable tax provisions. However, the practice is contrary to the primary purpose of taxes as a source of state revenue to finance the development and administration of government. Thus, this condition encourages the government to continue to optimize the level of tax revenue every year (Kusuma & Rahayu, 2022).

The government's goal of optimizing tax revenue is inversely proportional to the company's goal as a corporate taxpayer that must pay taxes (Hendayana et al., 2024). Taxes for companies are often viewed as a burden that can reduce a company's profits (Widiastutik et al., 2024). The tax burden that is considered burdensome for companies encourages the emergence of various efforts to minimize tax liability, one of which is through tax avoidance practices (Firmansyah et al., 2022). This difference in perception often encourages companies to employ various tax avoidance strategies to minimize their tax obligations (Kusuma & Rahayu, 2022; Oktaviyani & Munandar, 2017).

One example was the case of PT Coca-Cola Indonesia in 2014. The company is suspected of engaging in tax avoidance by minimizing the amount of tax it must pay, resulting in a tax payment shortfall of IDR 49.24 billion. The results of the investigation by the Directorate General of Taxes (DGT) revealed that the company employed a tax avoidance strategy, resulting in a significant increase in its tax burden. The greater the reported burden, the smaller the tax owed. One of the expenses that drew attention was marketing expenses for the 2002–2006 period, which reached Rp566.84 billion, ultimately reducing the company's taxable income (Faradisty et al., 2019).

Several previous studies on foreign ownership have yielded mixed results regarding tax avoidance. Research that has been conducted by Hasan et al., (2022), Maisaroh & Setiawan, (2021), Pujiningsih & Salsabya (2022) and Widiastutik et al., (2024) shows that foreign ownership has a negative effect on tax avoidance. Meanwhile, research conducted by Shi et al., (2020) shows that foreign ownership has a positive effect on tax avoidance. In contrast to the previous study, Deef et al., (2021) revealed that foreign ownership does not affect tax avoidance.

This inconsistency suggests that other factors may influence the effectiveness of foreign ownership in controlling tax avoidance. Deferred tax expense becomes relevant as a moderation variable because it reflects the level of utilization of temporary differences in financial reporting, which can indicate the flexibility of a company's accounting (Iriyadi et al., 2024). When such flexibility is high, the supervisory role of foreign shareholders can become less effective. However, under certain conditions, the high level of deferred tax expense can also make supervision by foreign shareholders more sensitive to indications of tax avoidance practices, due to the presence of additional information regarding the use of deferred tax accounts that can signal management's discretionary behaviour (Machdar, 2025).

Furthermore, the capital intensity variable also showed mixed results on tax avoidance. Research conducted by Setiawan et al., (2022), Suciarti et al., (2020), and Wahyuningrum et al., (2024) indicates that capital intensity has a negative effect on tax avoidance. In another study by Kusuma & Firnanti (2023) and Mukhtaruddin et al., (2025), showed different results, namely, capital intensity has a positive effect on tax avoidance. Meanwhile, research by Marsahala et al., (2020) shows that capital intensity does not affect tax avoidance.

These differences in findings suggest the need to consider other variables that can influence the relationship. Deferred tax expense is relevant as a moderator because companies with high capital intensity generally have large asset structures and a more transparent depreciation process, which tends to limit management's discretion in carrying out tax avoidance. However, the high deferred tax expense also reflects the accounting flexibility that management can utilize (Machdar, 2025). This condition can weaken the natural supervisory effect of capital intensity, but in certain situations, it also has the potential to increase sensitivity to tax practices. Thus, it is essential to test whether deferred tax expenses strengthen or weaken the effect of capital intensity on tax avoidance.

Additionally, tax avoidance practices can be influenced by factors such as the company's financial condition, including financial distress. Research conducted by Richardson, Lanis, et al., (2015), Richardson, Taylor, et al., (2015), Dang & Tran (2021), Raainaa & Andriani (2025), and Syahputri (2025) found that financial distress has a positive effect on tax avoidance. Research by Ariff et al., (2025) found a negative influence between the two. Meanwhile, research conducted by Fauzan et al., (2021), and Kalbuana et al., (2023) shows that financial distress does not have a significant effect on tax avoidance.

These differences in results highlight the need to consider other variables that can explain when financial distress leads to increased tax avoidance and when it does not. Deferred tax expenses become relevant because companies facing financial stress often utilize temporary differences to manage their tax burdens. This flexibility can strengthen the encouragement of tax avoidance, but under certain conditions, it can also increase awareness of tax practices (Suyanto et al., 2021).

Based on the phenomenon of gaps and inconsistencies in previous research results, this study aims to provide more empirical findings on the influence of foreign ownership, capital intensity, and financial distress on tax avoidance in non-financial companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024. In addition, this study highlights the role of deferred tax expense to explain the inconsistency in previous research results. The addition of a moderating variable is necessary because the results of previous studies on these three variables have shown inconsistent findings, suggesting the existence of other factors that can influence the strength of the relationship. Thus, the use of a moderating variable becomes relevant to explain empirical variations that have not been described in previous studies. The results of this study are expected not only to contribute academically to expanding the understanding of the determinants of tax avoidance but also to be practically considered by tax authorities in formulating more effective supervisory policies and by company management in improving tax governance to minimize tax avoidance practices and optimize state revenue.

## **2. LITERATURE REVIEW AND HYPOTHESES FORMULATION**

### **Agency Theory**

Agency theory was first expressed by Jensen & Meckling (1976) in the article "Theory of the Firm: Managerial Behavior, Agency Cost, and Ownership Structure", which states that an agency relationship is a contract between one or more people (principals) who employ another person (agent) to perform several services and give authority in decision-making. According to Amidu et al., (2019), in his research, it is stated that in the theory of agency each party in the relationship acts to maximize its own interests. Agency theory posits that agency conflicts emerge when managers (agents) act in their self-interest, potentially conflicting with the interests of shareholders (principals).

Agency theory provides a practical analytical framework for understanding the context of tax avoidance. Agency conflicts arise due to information asymmetry and conflicts of interest between principals and agents when each party seeks to maximize its own welfare. Management, as an agent, seeks to minimize the tax burden to increase profits and shareholder satisfaction, while the tax authority, as a principal, aims for maximum tax payments (Alfiyah et al., 2022). This condition encourages management to take strategic steps, such as tax avoidance, to maintain company resources and increase company value (Pandapotan et al., 2023). This strategy, while it can result in an increase in net profit after tax, often still carries significant risks, especially if the action is contrary to tax law or business ethics norms (Sipayung et al., 2023).

### **Foreign Ownership and Tax Avoidance**

Agency theory posits that the separation between ownership and control within a company creates a potential conflict of interest between the principal and the manager (agent) due to the differing economic objectives of the two parties (Jensen & Meckling, 1976). In this context, ownership structures play an important role in reducing information asymmetry and minimizing management's opportunistic behaviors, including tax avoidance practices. Foreign ownership is viewed as one of the corporate governance mechanisms that can enhance the supervisory function of management, thereby reducing tax avoidance actions (Dakhli, 2022; Kovermann & Velte, 2019).

Research conducted by Widiastutik et al., (2024) shows that the higher the foreign ownership in a company, the lower the tax evasion rate. This result aligns with agency theory, which posits that the principal opposes the actions of agents who exploit the situation to avoid paying taxes. Principals prioritize the long-term value of the company over the short-term gains of tax avoidance practices. Therefore, foreign ownership tends to reject aggressive management actions against taxes because it has the potential to pose the risk of high compliance costs, unexpected costs, and ignorance costs due to institutional distance.

Other research, revealed by Hasan et al., (2022), Pujiningsih & Salsabyala (2022), and Maisaroh & Setiawan (2021), also showed the same results: the higher the foreign ownership, the stronger the supervision from external parties, resulting in a lower tendency for companies to practice tax avoidance. However, several other studies by Shi et al., (2020) reported different results, showing a positive effect on tax avoidance. Meanwhile, Deef et al., (2021) show that foreign ownership does not affect tax avoidance. Considering the conflicting results, the relationship between foreign ownership and tax avoidance is stated as follows:

**H1: Foreign ownership has a significant effect on tax avoidance.**

### **Capital Intensity and Tax Avoidance**

Capital intensity is the proportion of a company's long-term investment in fixed assets such as machinery, buildings, and equipment, which reflects the scale of operations and physical capital requirements in business processes (Novotna et al., 2020). Companies with a high *level of capital intensity* typically have capital-intensive production processes and large operational activities, resulting in higher revenues and greater tax liabilities. Under these conditions, a large asset structure tends to make the financial reporting process more transparent because the use of assets remains recorded and closely supervised. This level of transparency can limit managerial flexibility in tax reporting. Therefore, capital intensity is suspected to have a negative influence on the company's tax avoidance rate (Wahyuningrum et al., 2024). The results of the study align with those of Setiawan et al., (2022) and Suciarti et al., (2020) which also yielded consistent findings.

However, based on research conducted by Kusuma & Firnanti (2023) and Mukhtaruddin et al., (2025), they found different results, namely, capital intensity has a positive effect on tax avoidance. Meanwhile, research by Marsahala et al., (2020) explains that capital intensity does not have a significant effect on tax avoidance. Thus, the hypotheses that can be formulated in this study are as follows.

**H2: Capital intensity has a significant effect on tax avoidance.**

### **Financial Distress and Tax Avoidance**

According to agency theory, managers as agents have the responsibility to maximize the welfare of shareholders by managing the company's resources efficiently. When companies face financial distress, characterized by financial pressure resulting in a decline in economic performance and an increased risk of bankruptcy, managers tend to make opportunistic decisions to maintain business continuity (Raainaa & Andriani, 2025). In this context, tax avoidance is a rational strategy to reduce the cost burden and maintain the company's liquidity. Tax avoidance practices are considered a form of fiscal efficiency that can increase internal cash flow and reduce short-term financial pressures (Syahputri, 2025).

Previous research has shown mixed findings regarding the relationship between financial distress and tax avoidance. Research by Ariff et al., (2025) reveals a negative relationship between financial distress and tax avoidance. Companies in distress typically have limited resources and are subject to stricter regulatory supervision, which reduces the likelihood of tax evasion. On the other hand, Dang & Tran (2021), Raainaa & Andriani (2025) Richardson, Lanis, et al., (2015) and Syahputri (2025) found a positive relationship, where companies that experience financial stress tend to be more aggressive in avoiding taxes to maintain operational sustainability. Meanwhile, other studies such as Fauzan et al., (2021), and Kalbuana et al., (2023) show that financial distress does not have a significant influence on tax avoidance. Thus, the hypothesis proposed are as follows:

**H3: Financial distress has a significant effect on tax avoidance.**

Foreign ownership plays a crucial role in enhancing the quality of corporate governance. This is because foreign ownership usually requires a high level of transparency and strict compliance with international standards, including in the tax aspect (Kovermann & Velte, 2019). High foreign ownership tends to reduce tax avoidance rates, as it is more sensitive to reputation risks and higher compliance costs (Pujiningsih & Salsabya, 2022; Widiastutik et al., 2024). The high level of foreign ownership in a company can limit management's ability to undertake opportunistic actions, such as tax evasion, due to strict external supervision (Maisaroh & Setiawan, 2021).

However, the role of foreign ownership supervision is not always effective when there is high accounting flexibility in the company's financial statements. Deferred Tax Expense (DTE) reflects the temporary difference between accounting profit and fiscal profit, which can provide management with discretion in recognizing inter-period tax expense (Machdar, 2025). When the DTE value is high, it indicates a high level of accrual discretion used by management, making external controls carried out by foreign ownership less effective. In other words, even though foreign ownership is high, accounting flexibility through DTE can create greater opportunities for management to engage in tax avoidance.

Thus, high DTE has the potential to weaken the negative relationship between foreign ownership and tax avoidance. This means that the influence of foreign ownership, which is expected to reduce tax avoidance, becomes less significant as the value of DTE increases. High DTE, tax avoidance can increase even though the company has a high level of foreign ownership. Based on the explanation, the following hypothesis can be formulated:

**H4: Deferred tax expense weakens the relationship between foreign ownership and tax avoidance.**

According to agency theory, capital intensity is expected to reduce agency conflicts between managers and shareholders. Companies with a high level of capital intensity tend to have larger-scale operations and can generate higher profits as well. Companies with high profits will likely be accompanied by an increase in tax payments, which can attract attention from external parties, especially tax authorities. This condition narrows the discretionary space for management to engage in tax avoidance and encourages a higher level of tax compliance (Wahyuningrum et al., 2024).

On the other hand, the deferred tax expense reflects temporary differences between accounting profits and taxable income, which arise from discrepancies in the application of

accounting standards and tax rules. This difference allows managers to utilize specific accrual policies and estimates to adjust the reported tax burden (Amelia et al., 2022). Several previous studies have shown that a greater deferred tax expense can be interpreted as an indication of managerial flexibility in determining the timing of revenue and expense recognition, suggesting it has the potential to be used as an instrument in tax avoidance strategies (Amelia et al., 2022; Machdar, 2025).

Thus, although capital intensity increases transparency and supervision of company activities, the high deferred tax expense can provide additional space for managers to hide tax avoidance strategies through the postponement of tax payment obligations (Amelia et al., 2022; Machdar, 2025). Therefore, the deferred tax expense is expected to mitigate the negative influence of capital intensity on tax avoidance, as the flexibility provided by deferred tax accounts can reduce the effectiveness of monitoring management's tax decisions. Based on the explanation, the following hypothesis can be formulated:

**H5: Deferred tax expense weakens the relationship between capital intensity and tax avoidance.**

Financial distress refers to a condition in which a company is unable to meet its financial obligations (Dang & Tran, 2021). Companies with high levels of financial distress are characterized by a decline in economic performance and an increased risk of bankruptcy. Based on agency theory, financial distress encourages management to be more opportunistic in order to maintain business continuity, one of which is through tax avoidance practices. Previous research has consistently shown that financial distress has a positive effect on tax avoidance, as companies seek to increase cash flow by reducing their tax burden (Raainaa & Andriani, 2025; Syahputri, 2025).

In this condition, the existence of deferred tax expenses can reinforce this tendency. Deferred Tax Expense provides companies with greater flexibility in deferring tax payments and managing tax burdens across periods (Amelia et al., 2022). For companies experiencing financial distress, the high Deferred Tax Expense can be a tool that enables them to expand their tax avoidance strategies to maintain short-term liquidity. Thus, deferred tax expense is believed to strengthen the positive influence of financial distress on tax avoidance, because the higher the level of financial distress, the greater the tendency of companies to use tax deferral as a strategy to maintain operations.

**H6: Deferred tax expense strengthens the relationship between financial distress and tax avoidance.**

### **3. RESEARCH METHODS**

#### **Sample**

This study applies a quantitative research method with secondary data obtained through the official website of the Indonesia Stock Exchange (IDX) at the link ([www.idx.co.id](http://www.idx.co.id)). The research population comprises all non-financial companies listed on the Indonesia Stock Exchange (IDX) for the period from 2020 to 2024. Non-financial companies were chosen as the object of the study to minimize bias due to differences in industry characteristics and specific regulations applicable to the financial sector, such as provisions on capital ratios, leverage levels, and tax policies that are strictly regulated by supervisory authorities.

The sample selection technique used is the census method, which involves including all companies in the research population, without any elimination process based on sample criteria. This study employs a firm-year analysis unit, comprising a total of 844 companies and spanning a five-year observation period, resulting in 4.220 observations. This method was chosen to produce a comprehensive picture of tax avoidance behavior across the non-financial sector, while avoiding the selection bias that often arises when only a few companies are sampled.

To overcome the problem of lost data and extreme values (outliers) without having to discard observations, this study employs a winsorization process technique on all variables, limiting the values to the 1% percentile and 99% (Solikhah et al., 2025). The extreme values on the numerical variable are adjusted to the nearest percentile boundary, while the data gaps are filled in using the winsorized results. Thus, all 4.220 observations can be preserved intact in the analysis.

**Variable Measurement**

The variables analyzed included foreign ownership, capital intensity, and financial distress as independent variables, deferred tax expense as a moderating variable, and tax avoidance as the dependent variable. This study also included control variables to improve the accuracy of the model and strengthen the validity of the regression results. The control variables used are leverage and firm age. The basis for selecting control variables is previous research that demonstrates these factors can influence tax avoidance (Dakhli, 2022). The operational definition and measurement method for each variable are presented in Table 1.

**Table 1. Operational Definition of Variables**

Variables	Operational Definition	Symbol	Measurement
<b>Dependent Variable</b>			
Tax Avoidance (ETR)	The company's legal efforts to minimize tax burdens through tax planning. A low ETR value indicates that the higher the tax avoidance rate, the ETR value is multiplied by -1 to produce a measure that is in line with the increase in tax avoidance.  (Kovermann & Velte, 2019)	ETR	ETR = Income Tax Expense / Pre-Tax Income
<b>Independent Variables</b>			
Foreign Ownership (FOWN)	The proportion of company shares owned by foreign investors.  (Deef et al., 2021)	FOWN	FOWN = Foreign Owned Shares / Outstanding Shares
Capital Intensity (CINT)	The level of a company's investment in fixed assets compared to its total assets.  (Wahyuningrum et al., 2024)	CINT	CINT = Total Fixed Assets / Total Assets
Financial Distress (ZSCORE)	A condition in which a company experiences financial pressure and is at risk of defaulting on its obligations. A higher Z-score value indicates a lower level of financial distress, so the Z-score is changed by multiplying it by -1 to produce a measure that	ZSCORE	$Zscore = 1,2X_1 + 1,4X_2 + 3,3X_3 + 0,6X_4 + 0,999X_5$ $X_1 = Working\ capital / Total\ assets$ $X_2 = Retained\ earnings / Total\ assets$ $X_3 = EBIT\ (Earnings\ before\ interest\ and\ taxes) / Total\ assets$

	increases as financial distress increases.		$X_4 = \text{Market value of shareholders' equity} / \text{Total liabilities}$ $X_5 = \text{Revenue} / \text{Total assets}$
(Dang & Tran, 2021)			
<b>Moderating Variable</b>			
Deferred Tax Expense (DTE)	Deferred tax expense arising from temporary differences between commercial and fiscal accounting.	DTE	$\text{DTE} = \text{Deferred Tax Expense } t / \text{Total Assets } t-1$
(Amelia et al., 2022)			
<b>Control Variables</b>			
Leverage (Control)	The level of a company's use of debt in its financing structure.	DER	$\text{DER} = \text{Total Debt} / \text{Total Equities}$
(Solikhah et al., 2020)			
Firm Age (Control)	The age of a company is calculated from the date of its IPO to the year of the study.	AGE	$\text{AGE} = \text{Research Year} - \text{IPO Year}$
(Salsabila & Diantimala, 2023)			

### Research Model

The data analysis methods employed in this study include both descriptive and inferential statistical analyses. Hypothesis testing is carried out using two methods: Panel Data Regression and Moderated Regression Analysis (MRA). Panel data regression is used to test the influence of independent variables on dependent variables. Moreover, moderated regression analysis was employed to investigate the influence of additional independent variables on the relationship between the independent and dependent variables.

$$\text{Model 1: } ETR_{it} = \alpha + \beta_1 FOWN_{it} + \beta_2 CINT_{it} + \beta_3 ZSCORE_{it} + \beta_4 DTE_{it} + \beta_5 DER_{it} + \beta_6 AGE_{it} + \epsilon_{it}$$

$$\text{Model 2: } ETR_{it} = \alpha + \beta_1 FOWN_{it} + \beta_2 CINT_{it} + \beta_3 ZSCORE_{it} + \beta_4 DTE_{it} + \beta_5 FOWN_{it} * DTE_{it} + \beta_6 CINT_{it} * DTE_{it} + \beta_7 ZSCORE_{it} * DTE_{it} + \beta_8 DER_{it} + \beta_9 AGE_{it} + \epsilon_{it}$$

Description: ETR = Effective Tax Rate (Tax Avoidance), FOWN = Foreign Ownership, CINT = Capital Intensity, ZSCORE = Financial Distress, DTE = Deferred Tax Expense, DER = Leverage, AGE = Firm Age.

## 4. RESULTS AND DISCUSSION

### Descriptive Statistics

The descriptive statistics presented in Table 2 provide an overview of the basic characteristics of each variable used in the study, including the minimum, maximum, mean, and standard deviation values of dependent and independent variables. The tax avoidance variable is proxied using the opposite Effective Tax Rate ( $ETR \times -1$ ), so that the greater the value, the higher the tax avoidance rate. The minimum value of this variable is -1.0400, and the maximum value is -0.8114. The mean value of -0.896668 indicates that the company's *tax avoidance* rate in the sample falls within the medium category, where the company does not exhibit tax avoidance practices that are either too aggressive or too low. The standard deviation of 0.066927 indicates that the variation between companies in tax avoidance practices is relatively low.

**Table 2. Descriptive Statistic**

Variable	N	Mean	Median	Max	Min	Std. Dev
ETR	4220	-0.8966	-0.9322	-0.8114	-1.0400	0.0669
FOWN	4220	0.6842	0.7255	1.0000	0.4297	0.2322
CINT	4220	0,9645	0,9778	1,0281	0,8738	0.0382
ZSCORE	4220	-0.0519	-0.0170	0.1625	-1.5896	0.1771
DTE	4220	-0.0011	0.0000	0.0458	-0.0888	0.0118
DER	4220	0.9791	0.9902	1.1298	0.8460	0.0625
AGE	4220	11.0432	6.0000	38.9600	0.0000	11.5456

The foreign ownership variable, proxied by the proportion of foreign ownership to the total shares, has a minimum value of 0.4297 and a maximum value of 1.0000. The average value of 0.6842 shows that foreign ownership in public companies is quite dominant. The standard deviation of 0.2322 illustrates the lower level of foreign ownership of the currency, which varies among companies. The capital intensity variable, measured through total fixed assets divided by total assets, has a minimum value of 0.8738 and a maximum value of 1.0281. The mean value of 0.9645 indicates that most companies have a relatively high level of capital intensity. The standard deviation of 0.0382 indicates that the level of capital intensity between companies does not vary.

The financial distress variable, measured using Z-score and multiplied by -1, shows a minimum value of -1.5896 and a maximum of 0.1625. The mean value of -0.0519 indicates that most companies in the sample are in a relatively stable financial condition. The standard deviation of 0.1771 indicates that there is a variation in the level of financial health between companies, but the variation is not too extreme. The deferred tax expense variable, which is calculated based on the deferred tax burden on total assets, has a minimum value of -0.0888 and a maximum value of 0.0458. The mean value of -0.0011 indicates that the companies in the study have a minimal deferred tax burden recognition. The standard deviation of 0.0118 indicates variation between companies, although it is still on a relatively small scale.

The leverage variable, proxied with the Debt-to-Equity Ratio (DER), has a minimum value of 0.8460 and a maximum value of 1.1298. A mean value of 0.9791 indicates that companies tend to use a balanced funding structure between debt and equity on their own. The standard deviation of 0.0625 reflects that the proportion of corporate funding through debt is relatively homogeneous. The firm age variable, calculated from the difference between the research year and the IPO year, has a minimum value of 0, indicating the presence of a new company. In contrast, the maximum value reaches 38.9600, indicating a company that has been operating in the capital market for about 39 years. The mean value of 11.0432 indicates that, in general, the companies in the study are in the medium growth stage. The standard deviation of 11.5456 also indicates a high level of variation in the company's age.

### **Estimation Model Selection**

This test is conducted to determine the most suitable estimation approach for analyzing panel data. Table 3 presents the results of the model selection test using the Chow test and the Hausman test for the estimation model. The Chow Test is used to determine whether the Fixed Effect Model (FEM) is more accurate than the Common Effect Model (CEM) by comparing

the statistical probability value of F or Chi-square to a significant level of 0.05. Based on the test results in Table 3, the Cross-section F value of 4.3190 and the Cross-section Chi-square of 3091.4277 indicate a probability of 0.0000, which is smaller than 0.05. These findings indicate that FEM is more suitable for use than CEM.

**Table 3. Chow and Hausman Test Results**

Test	Statistic	d.f.	Prob.
Chow Test (Cross-section F)	4.3190	(843.3370)	0.0000
Chow Test (Cross-section Chi-square)	3091.4277	843	0.0000
Hausman Test (Cross-section random)	Chi-Sq. Statistic = 42.5904	Chi-Sq. d.f. = 6	0.0000

Furthermore, to determine whether FEM is also more accurate than the Random Effect Model (REM), the Hausman Test is carried out. The test results in Table 3 show a Chi-square value of 42.5904 with a probability of 0.0000, which is below the significance level of 0.05. Therefore, it can be concluded that FEM is the most appropriate model used in this study and was chosen as the main estimation model.

**Results**

The results of the hypothesis testing, which include regression testing and moderated regression analysis using fixed-effects models are presented in Table 4 below.

**Table 4. Hypothesis Testing**

Variable	Regression Test			Moderated Regression Analysis		
	Coefficients	t-Stat.	Probability	Coefficients	t-Stat.	Probability
C	-0.2754	-7.4982	0.0000	-0.2701	-7.3464	0.0000
FOWN	-0.0192	-2.1733	0.0298	-0.0201	-2.2741	0.0230
CINT	-0.4697	-11.9088	0.0000	-0.4737	-11.997	0.0000
ZSCORE	0.0209	2.8918	0.0039	0.0202	2.8005	0.0051
DTE	0.2630	3.5082	0.0005	5.5503	2.2356	0.0254
FOWN*DTE				-0.2797	-0.8628	0.3883
CINT*DTE				-5.2604	-2.0481	0.0406
ZSCORE*DTE				-0.3232	-0.6891	0.4908
DER	-0.1601	-7.7374	0.0000	-0.1612	-7.7932	0.0000
AGE	0.0002	0.4427	0.6579	0.0003	0.5010	0.6164
Adjusted R Square	0.4421			0.4429		
F-Statistic	4.9386			4.9370		
Prob(F-Statistic)	0.0000			0.0000		

Based on the results in Table 4, it is evident that the foreign ownership variable (FOWN) has a negative coefficient of -0.019245 and a significance level of 0.0298. Because the tax avoidance variable is proxied using  $ETR \times -1$ , the negative coefficient indicates that an increase in foreign ownership decreases the value (-ETR), thereby reflecting a decrease in the tax avoidance rate. The probability value of 0.0009 suggests that foreign ownership has a significant influence on tax avoidance. Thus, H1, which states that foreign ownership affects tax avoidance, is accepted.

Furthermore, the Capital Intensity variable (CINT) has a negative coefficient of -0.469704, indicating that the magnitude of Capital Intensity decreases the value of (-ETR), which suggests that tax avoidance decreases. The probability value of 0.0000 suggests that Capital Intensity significantly affects tax avoidance. As indicated by the negative coefficient

at (-ETR), capital intensity has a negative impact on tax avoidance. H2, which states that capital intensity affects tax avoidance, is accepted.

The financial distress variable (ZSCORE) showed a significant positive influence, with a coefficient value of 0.022756 and a probability value of 0.0023. This means that companies experiencing financial stress tend to intensify their efforts to minimize tax liabilities. Companies in distress tend to minimize their short-term tax liabilities more frequently. Thus, H3, which states that financial distress affects tax avoidance, is accepted.

The Deferred Tax Expense (DTE) variable has a coefficient value of 0.2630 and a probability value of 0.0005. This means that deferred tax expense has a significant positive effect on Tax Avoidance. Meanwhile, the Leverage control variable (DER) has a negative coefficient value of -0.160109, with a probability value of 0.0000, which is smaller than 0.05. Thus, it shows that leverage has a significant negative effect on tax avoidance. Meanwhile, the Firm Age (AGE) control variable has a positive coefficient of 0.0002 and a probability value of 0.6579, which is greater than 0.05, indicating that it does not have a significant effect on tax avoidance.

The Moderated Regression Analysis is presented in Table 4. The interaction coefficient of FOWN\*DTE is -0.2797, suggesting that DTE is unable to moderate the relationship between foreign ownership and tax avoidance. Thus, H4, which states that deferred tax expense weakens the influence of foreign ownership on tax avoidance, is rejected.

The CINT\*DTE interaction coefficient is -5.2604 with a probability value of 0.0406. These results suggest that DTE significantly moderate the relationship between capital intensity and tax avoidance. The negative coefficient indicates that DTE weakens the relationship between the two. Thus, H5 is accepted.

The ZSCORE\*DTE interaction coefficient is -0.3232 with a probability value of 0.4908. These results suggest that DTE is unable to moderate the relationship between financial distress and tax avoidance. Thus, H6 is rejected.

The Adjusted R-Square of 0.4429 suggests that 44.29% of tax avoidance practices can be explained through foreign ownership, capital intensity, financial distress, and deferred tax expense. Meanwhile, as many as 63.71% of tax avoidance practices were explained or influenced by other factors that were not proxied in this study.

## **Discussion**

### **The Effect of Foreign Ownership on Tax Avoidance**

The test of hypotheses showed that foreign ownership has a negative effect on tax avoidance. This means that the higher the level of foreign ownership in a company, the lower the likelihood of tax avoidance practices. This finding aligns with the agency theory, which posits that the greater the foreign ownership of a company, the stronger the external supervision over management's behavior in carrying out tax avoidance actions.

Based on agency theory, the principal will reject the actions of agents who attempt to exploit the situation through tax avoidance. This difference in interests is reflected between management and foreign ownership. For management that prioritizes profits, tax avoidance can provide benefits to the company, thereby increasing the likelihood of management receiving greater bonus incentives. Foreign ownership is one of the corporate governance mechanisms that also plays a role in supervising management actions. Foreign shareholders prioritize the

company's long-term value by maintaining its image to avoid tax evasion. Therefore, foreign ownership tends to reject aggressive management actions against taxes because it has the potential to reduce the company's reputation to sanctions from tax authorities. The results of this study are in line with the findings that have been carried out by Maisaroh & Setiawan, (2021), Hasan et al., (2022), Pujiningsih & Salsabya, (2022), and Widiastutik et al., (2024), namely that foreign ownership has a negative effect on tax avoidance

### **The Effect of Capital Intensity on Tax Avoidance**

Based on the results of this study, capital intensity has an effect on tax avoidance. This means that the higher the capital intensity of a company, the more it can suppress the company's tax avoidance actions. These findings suggest that companies with a higher proportion of fixed assets tend to have lower rates of tax avoidance. Large asset structures are typically associated with stricter recording and supervision processes, as fixed assets must be managed, capitalized, and depreciated in accordance with accounting and tax regulations. This creates a higher level of transparency in financial statements, reducing the scope for management to engage in manipulative practices, including tax avoidance strategies.

Additionally, fixed assets generate temporary differences that are relatively easy for regulators to identify, particularly in relation to depreciation. The mismatch between commercial and fiscal depreciation makes it impossible for companies to fully utilize depreciation to lower their taxable profits. The limitation of using depreciation to reduce taxable profits narrows the space for tax avoidance through this mechanism, making it less likely for companies with high capital intensity to engage in tax avoidance. Companies with large capital intensities generally also have an interest in maintaining reputation and credibility in the eyes of stakeholders and regulators, so the tendency to engage in aggressive tax practices is lower. Thus, capital intensity can reduce agency conflicts between management and principals. The results of this study are consistent with those of Setiawan et al., (2022), Suciarti et al., (2020), and Wahyuningrum et al., (2024), who also found that capital intensity has a significant negative effect on tax avoidance.

### **The Effect of Financial Distress on Tax Avoidance**

Based on the study's results, Financial Distress has a significant positive influence on tax avoidance. This finding suggests that the higher the level of financial distress experienced by the company, the greater its tendency to avoid tax avoidance. In line with the perspective of agency theory, when the company is in a state of financial distress, management tends to take opportunistic actions that can benefit internal parties, including through tax avoidance actions.

Financial distress indicates the company's weak financial performance, which can hinder its ability to meet both short-term and long-term obligations. In such situations, management seeks to maintain the available cash flow to sustain the company's operations. Management views tax avoidance as a means to increase cash availability without necessitating significant operational sacrifices. Tax avoidance practices are often considered a means for companies to survive, even if only in the short term. The results of this study are consistent with previous research conducted by Dang & Tran (2021), Raina & Andriani (2025), Richardson, Lanis, et al., (2015), and Syahputri (2025), who also found a positive relationship between financial distress and tax avoidance.

### **The Moderating Roles of Deferred Tax Expense in the Relationship Between Foreign Ownership and Tax Avoidance**

The results show that deferred tax expense cannot moderate the negative relationship between foreign ownership and tax avoidance. Empirically, foreign ownership has been shown to suppress tax avoidance practices, as it is considered to strengthen governance supervision and increase transparency, thereby reducing opportunistic management actions from an agency theory perspective. However, although deferred tax expense has a positive effect on tax avoidance, this variable is unable to strengthen or weaken the effect of foreign ownership supervision.

This means that the effectiveness of foreign ownership in preventing tax avoidance practices does not depend on the level of deferred tax expense generated by the company, so that the external supervision mechanism of foreign shareholders remains the dominant factor in suppressing opportunistic management behavior, even when there is an opportunity for accounting engineering through deferred tax expenses (Suyanto et al., 2021; Widiastutik et al., 2024).

### **The Moderating Roles of Deferred Tax Expense in the Relationship Between Capital Intensity and Tax Avoidance**

The results suggest that deferred tax expense mitigates the negative influence of capital intensity on tax avoidance. High capital intensity tends to reduce tax avoidance practices that management may carry out. However, the presence of deferred tax expenses reduces the strength of the relationship. These findings reflect the existence of managerial discretion in utilizing deferred tax expense as a tax planning instrument.

According to agency theory, management as an agent seeks to maximize its interests through flexible accounting opportunities. When the depreciation of fixed assets does not provide significant tax benefits, management can utilize other alternatives that offer greater flexibility in manipulating fiscal profits, such as deferred tax expense. Therefore, although capital intensity tends to reduce tax avoidance, profit management strategies through deferred tax accrual provide room for management to maintain tax avoidance practices (Amelia et al., 2022; Machdar, 2025; Wahyuningrum et al., 2024).

### **The Moderating Roles of Deferred Tax Expense in the Relationship Between Financial Distress and Tax Avoidance**

The results suggest that deferred tax expense is unable to moderate the positive relationship between financial distress and tax avoidance. Empirically, financial distress has been shown to increase tax avoidance, as companies are under financial pressure to attempt to reduce tax burdens to maintain cash stability and business continuity. However, although deferred tax expense has a positive effect on tax avoidance, this variable does not strengthen or weaken the influence of financial distress.

These findings align with agency theory, which suggests that when a company is under financial stress, management focuses more on the company's rescue strategy than on managing deferred tax accruals as a moderating tool. Thus, the increase in tax avoidance is more dominated by the company's financial needs than accounting motives through deferred tax expenses (Dang & Tran, 2021; Raainaa & Andriani, 2025; Suyanto et al., 2021).

## **5. CONCLUSIONS**

This study examines the impact of foreign ownership, capital intensity, and financial distress on tax avoidance, while also analyzing the role of deferred tax expense moderation in these relationships. This study uses a census method that includes non-financial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The study's findings indicate that foreign ownership and capital intensity have a significant negative impact on tax avoidance. This means that the higher the level of foreign ownership and capital intensity of a company, the more it can suppress tax avoidance actions due to stricter supervision from external parties. Meanwhile, financial distress has a significant positive effect on tax avoidance. Companies that are under financial pressure tend to increase tax avoidance practices as a strategy to maintain company performance. In addition, the study's results show that Deferred Tax Expense can mitigate the negative impact of negative capital intensity on tax avoidance. However, it is unable to moderate the relationship between foreign ownership and financial distress, as well as tax avoidance.

Based on the study's results, it is recommended that companies increase transparency and prudence in tax management to ensure that tax savings strategies comply with the rules and do not pose a risk of audits or reputational damage. Companies can optimize their fixed asset policies, deferred tax burdens, and cost management as part of a healthy and sustainable business strategy. For the government, especially the tax authorities, it is necessary to increase supervision of companies that experience financial distress because these conditions have been proven to encourage tax avoidance practices. In addition, the government needs to strengthen provisions and supervision systems related to the differences between commercial and fiscal accounting standards, particularly in terms of deferred and depreciation tax recognition, to minimize opportunities for tax calculation manipulation.

### **Limitations & Suggestions**

This research has several limitations that should be considered for future studies. Firstly, it focuses solely on non-financial companies listed on the Indonesia Stock Exchange, and the observed period is limited to 2020–2024. Consequently, the conclusions only reflect the situation within that timeframe and may not apply to a longer period. In addition, this study relies on only one proxy to measure tax avoidance, namely the Effective Tax Rate (ETR), which may result in a less comprehensive depiction of tax avoidance practices.

Based on the above research findings, it is recommended that future researchers consider additional variables to gain a deeper understanding of the determinants of tax avoidance. Future studies are also suggested to extend the observation period and broaden the sample coverage, not only for non-financial companies listed on the IDX but also for companies from other sectors, and even in cross-country research to make the results more comparative and comprehensive. Additionally, future research is recommended to use more than one proxy for tax avoidance, such as CETR, Cash ETR, BTM, or DTAX, which are expected to provide a more comprehensive picture of the tax avoidance strategies employed by companies.

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