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FINANCIAL DISTRESS, PROFITABILITY, CAPITAL INTENSITY AND TAX AVOIDANCE

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Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh *financial distress,* profitabilitas dan intesitas modal terhadap penghindaran pajak pada perusahaan yang masuk dalam kategori LQ45 tahun 2019-2021. Pendekatan penelitian yang digunakan yaitu pendekatan kuantitatif dengan teknik pengumpulan data sekunder berupa laporan keuangan perusahaan yang dipublikasikan di Bursa Efek Indonesia. Teknik pengambilan sampel penelitian menggunakan *purposive sampling* dan pengujian data penelitian dilakukan dengan menggunakan regresi linear data panel. Hasil penelitian menunjukkan bahwa *financial distress* yang diukur dengan *Z-score* berpengaruh positif terhadap penghindaran pajak yang diukur dengan CETR (*Cash Effective Tax Rate*), sedangkan profitabilitas dan intensitas modal berpengaruh negatif terhadap CETR. Hasil penelitian ini memiliki implikasi dalam pengembangan kebijakan dan aturan untuk meminimalkan praktik penghindaran pajak yang dilakukan oleh perusahaan khususnya perusahaan yang mengalami kesulitan finansial.

Kata Kunci: *Financial Distress; Intensitas Modal; Penghindaran Pajak; Profitabilitas*

Abstract

This study aims to investigate the effect of financial distress, profitability, and capital intensity on tax avoidance using a quantitative approach with secondary data. The data were collected through purposive sampling of companies listed in the LQ45 ranking on the Indonesia Stock Exchange over a period of three years from 2019 to 2021. The results indicate that financial distress, as measured by Z-score, has a positive effect on tax avoidance, while profitability and capital intensity have a negative effect on tax avoidance, as measured by Cash Effective Tax Rate (CETR). These findings have significant implications for policymakers and regulators aiming to reduce tax avoidance practices by firms, especially those facing financial challenges.

Keywords: *Financial Distress; Capital Intensity; Tax Avoidance; Profitability*

INTRODUCTION

Taxes are the main source of income for a country. In Indonesia, taxes make the largest contribution to the State Revenue and Expenditure Budget (APBN). Laporan APBN tahun 2021 shows that Indonesia's state revenue from taxes is IDR 1,277.53 trillion. This tax revenue is greater than the target set by the government, which is IDR 1,229.58 trillion. The realization of tax revenue in 2021 has reached up to 103.90 percent. Even though tax revenue has reached the target desired by the government, the Minister of Finance of the Republic of Indonesia, Sri Mulyani explained that taxpayers (WP) are still carrying out various activities to avoid tax obligations. One form of tax avoidance carried out by taxpayers is to report any losses that have occurred over the past five years. The number of corporate taxpayers reporting losses has continued to increase from 2012 as many as 5,199 WP and almost doubled to 9,496 corporate WP in 2019 (Putri, 2021).

Tax avoidance carried out by taxpayers aims to minimize the amount of tax that must be paid to the state by taking advantage of loopholes in the applicable tax regulations (Aryatama & Raharja, 2021). Even though tax avoidance is a legal matter, the government generally does not support the practice of tax avoidance by taxpayers. Aryatama dan Raharja (2021) explain that there are many factors that influence taxpayers to avoid taxes, one of which is related to the company's financial condition. Companies that have good financial condition probably will not do tax evasion. However, companies with poor financial conditions will tend to carry out tax avoidance activities.

In 2020-2021, most companies in Indonesia are experiencing financial instability because of Covid-19 pandemic. Most companies experience a decrease in revenue to a loss which encourages companies to lay off employees to minimize expenses. This phenomenon shows that during the Covid-19 pandemic, companies generally experienced financial distress. Kurubah dan Adi (2022) explain that companies experiencing financial distress will tend to be more aggressive in tax evasion. The company try to minimize expenses in order to recover its financial condition. Apart from financial distress, Djolafo (2022) also explains that the level of profitability which is a measure of a company's financial performance is also one of the factors that influence companies to do tax evasion. The level of profitability indicates that the company has high profits in its business processes. As a result of these advantages, the tax burden that must be paid by the company will also be greater. So companies with high levels of profitability will tend to avoid taxes to obtain maximum profits.

Lukito dan Sandra (2021) states that if a company has a high level of profitability, the company tends to avoid taxes by increasing costs incurred. This is related to the company's capital intensity. Capital intensity is a form of activity that shows how much the company's investment is in the form of fixed assets. The company's ownership of fixed assets will cause depreciation costs to appear in the financial statements every year. Based on tax rules, the cost of depreciating fixed assets is a cost that can be charged and is a deduction from profits in the tax year (Maharani & Merkusiwati, 2021). Putri *et al.* (2022) also explained that investment in the form of fixed assets is a form of strategy used by company management to minimize tax payments. Thus, if the company has a high number of fixed assets, the company's tax burden will be lower.

Research related to financial distress, profitability and capital intensity has been carried out by several researchers such as Lukito dan Sandra (2021) which found that financial distress and profitability have no effect on tax evasion. Meanwhile, capital intensity has a positive effect on tax avoidance. Then, Maharani dan Merkusiwati (2021) which prove that capital intensity has a positive effect on tax avoidance but profitability has a negative effect on tax avoidance. Then, Aryatama dan Raharja (2021) show that profitability has no effect on tax avoidance, but capital intensity has a positive effect on tax avoidance. Based on the results of previous studies which showed inconsistencies in research results, this study aims to re-examine the effect of the variables financial distress, profitability and capital intensity on tax evasion by using LQ45 companies as research samples. The use of LQ45 companies as a research sample is because in 2019-2021 most companies in Indonesia are experiencing financial instability which affects their business activities. However, companies that fall into the LQ45 category represent an industry that has a high level of liquidity and large capitalization despite experiencing a decline in revenue. This research is expected to provide benefits in the development of tax literature related to tax avoidance and can be used as a basis for the development of subsequent research.

LITERATURE REVIEW

Agency Theory

Agency theory is a model for describing problems between management and owners (Siregar, 2016). The different interests of shareholders and agents cause conflicts of interest (Jensen & Meckling, 1976). According to Karla *et al*. (2020) shareholders will focus more on creating results from investments in companies in the form of dividends. Meanwhile, management will focus more on policies that provide benefits to management. Management as an agent is required to be able to fulfill the interests of the principal, namely the owner. So that in achieving the interests of the owner, the agent is given authority in making decisions in carrying out company activities. Management as an agent is required to be able to fulfill the principal's interests, namely the owner (Firmansyah & Ardiansyah, 2021). So that in achieving the interests of the owner, the agent is given authority in making decisions in carrying out company activities.

To reduce the agency costs, companies make policies in the form of contracts by adjusting management and shareholder incentives. One of the incentives that can be given is a bonus for management based on profit after tax. So that management will focus on minimizing the tax burden, so that the incentives given are even greater. Management will carry out all forms of tax avoidance practices both legally and illegally in order to obtain high after-tax profits.

Profitability

Company profitability describes the company's ability to generate profits during a certain period. Profitability is a company measurement tool to measure whether its operational activities are running effectively. Profitability is a tool for measuring the performance of a company (Subagiastra *et al.*, 2017). According to Subagiastra *et al.* (2017) an overview of a company's financial performance in generating profit from asset management is known as Return On Assets (ROA). ROA is measured by dividing the current year's net profit by total assets. The higher the ROA, the better the company is at generating profits (Mayndarto, 2022). In addition, ROA can show the level of efficiency of an entity in utilizing its assets (Sudibyo, 2022). According to Rogate dan Sofie (2018) the higher the profit level of a company, the more difficult it is for the company to experience bankruptcy. The link between profitability and taxation is that the higher the company generates profit, the higher the tax that must be paid.

Financial Distress

Financial distress was first expressed by Altman (1968), the concept of distress shows that bankruptcy is a situation where a company is unable to pay lenders, shareholders and other parties. Financial distress can be said to be the beginning of bankruptcy for a company. Financial distress is a company that is weak in earning profits and even experiencing a deficit (Meilia & Adnan, 2017). Companies in a state of distress will experience financial and financing difficulties. Various factors can cause financial distress (Indradi & Sumantri, 2020). Internal factors can be caused by companies that do not have responsive management in dealing with problems that result in a decrease in financial performance. While external factors can be caused by government policies or threats from other companies. Financial distress affects tax aggressiveness, companies that experience difficult conditions will do so by manipulating accounting policies (Rogate & Sofie, 2018). The company will manipulate the company's profit, especially operating profit with the aim that the company's debt is paid off and the company will carry out aggressive tax reporting.

Capital Intensity

Capital intensity is a ratio that shows how much a company invests in fixed assets (Muzakki, 2015). Capital intensity or capital intensity ratio can indicate the level of efficiency of a company in using its assets (Ariyani *et al.*, 2019). Almost all fixed assets experience depreciation every year. The company will turn asset depreciation into depreciation expense in the financial statements (Dwiyanti & Jati, 2019). According to Muzakki (2015) depreciation costs can be deducted from income which will affect tax calculations. In Indonesia, it is stated in Law no. 36 of 2008 Article 6 paragraph 1 (b) regarding Income Tax. The contents of the regulation state that depreciation of expenditures to acquire tangible assets and amortization of expenditures to acquire rights and other costs that have a useful life of more than one year are deductible expenses.

Tax Avoidance

In business, companies generally consider paying taxes to be a burden, so companies will try to minimize burdens and maximize profits. The background is the difference in the tax paradigm for the government and companies. For the government, taxes are the main source of income in government financing. Whereas for companies it is a burden that reduces net profit, so companies will try to manage taxes to a minimum with the aim of getting maximum profit (Kusuma & Maryono, 2022). Therefore, in saving taxes the company will do tax avoidance. According to Kusuma dan Maryono (2022) tax savings are also known as tax aggressiveness.

Legal tax avoidance, was done to avoid tax costs without violating the law (Yohanes & Sherly, 2022). According to Devi et al., (2022) tax evasion by various companies in Indonesia is carried out by looking for loopholes in the tax laws. Even though tax avoidance is included in tax engineering, it is still in the tax provisions (Suandy, 2017). Even though tax evasion is legal, it is detrimental to the state (Devi et al., 2022).

HYPOTHESIS DEVELOPMENT

Financial distress and tax avoidance

Financial distress is a condition that indicates a company experiencing financial difficulties. Kurubah and Adi (2022) explain that financial distress occurs because companies do not have sufficient funds to run or continue their business. In addition, financial distress also refers to the company's inability to fulfill its obligations to creditors when payment is due. Companies experiencing financial distress will usually try to minimize costs incurred. Fadhila dan Andayani (2022) explain that company management tends to change accounting policies so that they can reduce expenses, one of which is related to the tax burden that should be paid.

Kurubah and Adi (2022) explain that companies experiencing financial distress have the potential to manipulate accounting policies. This indicates that financial distress can be one of the factors that encourage tax avoidance practices. However, the research results of Kurubah and Adi (2022) and Ari and Sudjawoto (2021) show that financial distress has no effect on tax evasion. That is, the higher the condition of financial difficulties faced by the company does not encourage the company to do tax evasion. The results of this study differ from research conducted by Fadhila dan Andayani (2022) which shows that financial distress has a positive effect on tax evasion. The level of company's financial difficulty will encourage the company to avoid taxes so that the company's cash derived from the practice of tax avoidance can be used to pay debts and finance its operational activities. Thus, the first hypothesis is formulated as follows:

H_1: *Financial distress* has positive relation to company tax avoidance

Profitability and tax avoidance

Profitability is one indicator that shows the financial performance of a company. The higher the level of profitability indicates that the company's prospects are getting better. This will encourage investors to invest in companies (Rudangga dan Sudiarta, 2016). Besides that, Maharani and Merkusiwati (2021) explain that profitability is a factor that encourages companies to practice tax avoidance. Company managers will tend to minimize the costs that must be incurred by the company with the aim of making a profit. In addition, Aryatama dan Raharja (2021) also explain that the increase in company profits is in line with the increase in the tax burden that must be paid by the company. So that companies will tend to do tax avoidance to minimize the costs incurred to pay taxes.

Lukito dan Sandra (2021) research shows different results from the opinions of Aryatama dan Raharja (2021). The results of this study indicate that profitability has no effect on tax evasion. The higher the company's profit does not affect the company to practice tax avoidance. In addition, the results of his research also show that profitability has a negative effect on tax evasion. This means that the higher the level of profitability, the lower the level of tax evasion. Meanwhile, the results of Maharani dan Merkusiwati (2021) show that profitability has a positive effect on tax evasion. Thus, the second hypothesis is formulated as follows:

H_2: Profitability has positive relationship to tax avoidance

Capital intensity and tax avoidance

Capital intensity refers to how much the company invests in fixed assets. Investments in the form of fixed assets will cause depreciation expenses to appear in the company's income statement each period. Fixed asset depreciation expense is one of the expenses that can reduce income based on tax rules. The results of Aryatama dan Raharja (2021) show that capital intensity has a positive effect on tax evasion. The higher the fixed assets owned by the company, the higher the level of tax avoidance. In addition, to improve company performance, management will tend to invest in fixed assets and take advantage of depreciation of fixed assets to minimize the amount of tax that must be paid by the company (Prasetyo and Arif, 2022).

The results of Prasetyo dan Arif (2022)show that capital intensity has no effect on tax evasion. This means that the greater the company's investment in the form of fixed assets does not cause the company to do tax evasion. However, the research results of Lukito dan Sandra (2021), Maharani dan Merkusiwati (2021) and Sihombing dan Sudjiman (2022) show that capital intensity has a positive effect on tax evasion. The higher the company's investment in the form of fixed assets, it will encourage companies to reduce the tax burden through depreciation costs for these fixed assets. Thus the third hypothesis is formulated as follows:

H_3: *Capital intensity* has positive relationship with tax avoidance

RESEARCH METHOD

This research is a quantitative study that aims to examine the effect of financial distress, profitability and capital intensity on tax evasion. The type of data used in this research is secondary data with documentation techniques. Data was obtained through the official website of the Indonesia Stock Exchange, namely www.idx.co.id. Furthermore, the sampling technique in this study was carried out using purposive sampling, namely sampling based on the following criteria:

1. The companies used as samples are companies included in the LQ45 ranking
2. The company discloses financial statements in full according to the 2019-2021 research period
3. The company's financial statements use the rupiah currency

Measurement of Variable

Financial Distress

Financial distress is a situation when a company experiences financial difficulties which can cause the company to go bankrupt. Financial distress is generally characterized by the company's inability to fulfill its obligations to creditors (Lukito dan Sandra, 2021). Financial distress in this study is measured using the Altman Z-score formula as follows:

$$Z = 1{,}2\,A + 1{,}4\,B + 3{,}3\,C + 0{,}6\,D + 1\,E$$

Explanation:

A = Current assets – current liabilities / total assets

B = Retained earnings / total assets

C = pre-tax income / total assets

D = Number of shares x price per share / total liabilities

E = sales / total assets

Profitability

Profitability is one measure of a company's financial performance. Profitability shows the extent to which a company is able to utilize its resources to generate profits for the company (Fadhila dan Andayani, 2022). Profitability in this study is measured using Return on Assets (ROA). ROA is a measure that reflects how much a company's assets can generate profits. ROA is formulated as follows:

$$ROA = \frac{\textit{Net Profit of this year}}{\textit{Total Asets}}$$

Capital Intensity

Capital intensity is the proportion of fixed assets of the total assets owned by the company. Prasetyo dan Arif (2022) explain that capital intensity shows the amount of company investment in the form of fixed asset acquisition which describes how efficient a company is in using assets to generate sales. Capital intensity in this study is measured using the capital intensity ratio which is formulated as follows:

$$CINT = \frac{\textit{Total Fixed Assets}}{\textit{Total Assets}}$$

Tax Avoidance

Tax avoidance is an action to minimize the amount of tax by exploiting loopholes in the applicable tax rules. Tax avoidance aims to maximize profits owned by the company. Tax avoidance in this study is measured using the Current Effective Tax Rate (CETR), which is formulated as follows:

$$CETR = \frac{\textit{Current tax}}{\textit{Income Before tax}}$$

Data analyses

The data analysis technique in this study was carried out using linear regression of panel data which was processed using eviews 9. Data processing began by conducting a stationarity test to find out whether the research data was stationary or not. Then, a model test was carried out using the Chow, Hausman and Lagrange multiplier models. Testing this model aims to determine the most appropriate model to be used in hypothesis testing. After that, hypothesis testing will be carried out using one of three models, namely the fixed effect model (FEM), the random effect model (REM) or the common effect model (CEM). The hypothesis will be accepted if the probability value of the model is <0.05. Furthermore, the panel data linear regression model in this study is formulated as follows:

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

Explanation:

α = Constant

β = Coefficient of determination

Y= Tax avoidance

X_1= *Financial distress*

X_2= Profitability

X3= *Capital intensity*

e= *error*

RESULTS AND DISCUSSION

Descriptive Statistics

The mean, minimum value, maximum value, and standard deviation of each variable are used in the study to illustrate descriptive statistics (Sugiyono, 2016). Financial distress, as determined by Z-altman, has a minimum

value of -0.847 and a maximum value of 6.372, according to Table 1. Financial distress has a mean of 1.810 and a standard deviation of 1.732. The average rating of 0.264 shows that the enterprises are in financial hardship. This is due to the fact that the study analyzes data from the years 2019 to 2021, when the Covid-19 pandemic, which had an effect on the financial health of the companies, was occurring.

Return on Assets (ROA), a measure of variable profitability, with a minimum value of 0.000 and a maximum value of 0.566. This variable's standard deviation is 0.083 and its mean value is 0.072. This suggests that the company's profitability is now in a respectable state. Since the profitability of LQ-45 enterprises surpasses 5%, the profitability is regarded as good. The fact that the businesses can effectively employ all of the resources at their disposal to make money is what makes them good.

The capital intensity variable has a range from 0.009 to 0.928, with 0.009 being the least value. The standard deviation is 0.301 and the mean value is 0.467. This suggests that the business has a significant amount of fixed assets. The business frequently makes substantial investments in fixed assets. The tax avoidance variable, on the other hand, has a maximum value of 1.138 and a maximum value of 0.004. This variable's standard deviation is 0.230 and its mean value is 0.264. Given that the average tax avoidance is greater than 25% of the corporate tax rate, this suggests that the corporation does not actively pursue tax avoidance.

Table 1. Descriptive Statistics

Variable	Min	Max	Mean	Std. Dev.
Financial Distress	-0,847	6,372	1,810	1,723
Profitabilitas	0,000	0,566	0,072	0,083
Capital Intensity	0,009	0,928	0,467	0.301
Penghindaran Pajak	0,004	1,138	0,264	0,230

Test for Stationarity

The unit root test along with the Hadri test is used in this study's stationarity test. If the likelihood is less than 0.05, the data is regarded as stationary. When testing stationarity, the first difference level and second difference level will be used if the data is not stationary at the level degree.

Table 2. Stationarity Test

Variable	Degree of Integration	Prob.	Description
Tax avoidance	Level	0,00	Stationery data
Capital Intensity	Level	0,00	Stationery data
Profitability	Level	0,00	Stationery data
Financial Distress	Level	0,00	Stationery data

According to Table 2, all of the study's data are steady at the level degree. This suggests that there are no study variables with variances that significantly differ from the mean value, allowing for additional testing.

Model Validation

The Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) are the three types of regression models that can be used when conducting panel data regression. The Chow test, Hausman test, and Lagrange Multiplier test are among the tests used to select models. The results of the Chow test are shown in Table 3, where a probability value of 0.000—which is greater than (0.05)—is shown. FEM is the chosen model as a result. The Hausman test is used to determine if the model stays as FEM or converts to CEM after the Chow test. The Hausman test yields a probability value of 0.0033, which is less than (0.05), according to the results. As a result, the FEM model is used in this work.

Table 3. Model Validation

Panel A		
Chow Test	*Prob.*	*Result*
Cross-section F	0.0000	*Fixed Effect Model*
Panel B		
Hausman Test	*Prob.*	*Result*
Cross-section Random	0.0033	*Fixed Effect Model*

Testing Hypotheses

The probability values and coefficients shown in Table 4 serve as the foundation for the hypothesis testing using the Fixed Effect Model. If the probability is greater than 0.05, the hypothesis is accepted. The results of the hypothesis testing show that a probability of 0.00210.05 and a coefficient of -0.04848 exist for financial distress. This suggests that financial distress, as determined by Z-altman, influences tax evasion, as determined by CETR, in a favorable way. The tax burden decreases and tax avoidance rises as the severity of financial distress rises. H1 is therefore approved for this study.

Profitability and tax evasion were tested again, and the results show a significance value of 0.04140.05 and a coefficient of -0.54844. This suggests that CETR is negatively impacted by profitability. In other words, the tax burden decreases and tax avoidance increases as profitability levels rise. H2 is therefore approved in this study. A probability value of 0.00320.05 and a coefficient of -0.44112 are obtained from the third hypothesis test between capital intensity and tax evasion. This suggests that capital intensity affects CETR negatively. The tax burden decreases and tax avoidance rises as capital intensity rises. H3 is therefore approved in this study.

Table 4. Testing Hypotheses

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*	Description
Financial Distress	0,596978	0,077789	7,674342	0,0000	H1 accepted
Profitabilitas	-0,54844	0,262204	-2,09167	0,0414	H2 accepted
Capital Intensity	-0,44112	0,14293	-3,08625	0.0032	H3 accepted

The influence of financial distress on tax avoidance

According to the findings of the hypothesis testing in Table 4, the financial distress variable has a favorable impact on tax evasion as measured by CETR. The Altman Z-score, which is used to measure financial distress, states that the better the company's condition, the higher the Z-score value. As a result, the CETR-measured relationship between financial distress and tax evasion suggests that as a company's health improves, the tax burden rises, which in turn results in less tax evasion. On the other hand, when the economy is unhealthy, taxes become less burdensome and tax evasion is more common. These results support H1 because they are consistent with the put forth hypothesis. Companies that are experiencing financial difficulties are more aggressive in their tax avoidance (Fadhila & Andayani, 2022).

The research findings support the study conducted by Ningsih and Noviari (2021), which indicates that financial distress has a positive influence on tax avoidance. Companies experiencing financial instability tend to minimize their expenses, and taxes are obligatory costs, leading companies to engage in tax avoidance practices. This finding is also consistent with the agency theory, which explains the conflict of interests between managers and shareholders. When a company faces financial distress, managers are pressured by shareholders to improve business activities and avoid liquidation. This can incentivize managers to engage in tax avoidance to obtain sufficient funds to meet the company's needs and fulfill the shareholders' desires. Additionally, Ningsih and Noviari (2021) explain that managers are inclined to maintain the company's positive image by engaging in tax avoidance to generate profits, even in the face of financial difficulties.

The influence of profitability on tax avoidance

According to the results of the hypothesis testing shown in Table 4 above, profitability, as measured by ROA, has a detrimental effect on tax evasion, as measured by CETR. This implies that greater profitability promotes both greater tax avoidance and lower tax burdens. As a result, H2 is supported in this study because the findings are consistent with the formulated hypothesis. Companies that are more profitable typically have to pay more in taxes. To maximize profits and apply them to upcoming operational activities, however, company management will work to engage in tax avoidance practices. Additionally, increasing profits is frequently a sign of good managerial performance and can affect bonuses. As a result, one method for achieving these goals within the legal framework is to use tax avoidance strategies.

The study by Djolafo (2022), which shows that profitability has an impact on tax avoidance, is supported by the research findings. Additionally, Yohanes and Sherly's (2022) study, which demonstrates a favorable correlation between profitability and tax avoidance, is in line with this study's findings. Companies with higher profitability have a propensity to maximize deductibility of expenses, lowering taxes paid, according to Yohanes and Sherly (2022). Additionally, the findings of this study are in line with agency theory, which relates to managers' individual interests in receiving bonuses when their companies make profits. According to Irawan et al. (2017), managers will make an effort to manage tax burdens to avoid having their performance-based compensation reduced as a result of declining company profits. This increases the likelihood of managers engaging in tax avoidance practices to maximize earnings and fulfill the desires of both shareholders and themselves.

Capital intensity's impact on tax avoidance

According to the hypothesis testing findings in Table 4 above, capital intensity has a detrimental effect on tax evasion as measured by CETR. This implies that the tax burden decreases as capital intensity rises, leading to higher tax evasion. These results confirm the put forth theory, accepting H3. According to Aryatama and Raharja (2021), tax authorities are looking for businesses with high fixed assets in order to impose tax payments. The amount of taxes paid by a company increases with the amount of fixed assets it has. Depreciation costs, however, are brought on by the presence of fixed assets. Due to the fact that tax laws allow depreciation expenses to be deducted from pre-tax profits, businesses that engage in tax avoidance frequently depreciate their fixed assets each year to lower their tax liability.

The results of this research are in line with those of studies by Sihombing and Sudjiman (2022), Maharani and Merkusiwati (2021), and Lukito and Sandra (2021), which demonstrate the influence of capital intensity on tax evasion. Companies that invest heavily in fixed assets are more likely to aggressively avoid taxes by depreciating their fixed assets. These results also support agency theory, emphasizing the goals of shareholders and managers to maximize profits and bonuses. Because the depreciation value of these assets can be used to lower the tax burden, managers are encouraged to make sizable investments in the form of fixed assets as part of the management team. As a result, the company becomes more profitable, which results in bonuses for the managers.

CONCLUSION

The purpose of this study was to investigate how capital intensity, profitability, and financial distress all affect tax evasion. The study's findings suggest that financial distress, as determined by Z-score, has a favorable impact on tax evasion, as determined by CETR. Therefore, a greater degree of financial distress increases the likelihood that businesses will avoid paying taxes. Furthermore, CETR is negatively impacted by profitability and capital intensity. As a result of higher company profits and increased investment in fixed assets, businesses pay less tax, which reflects a higher level of tax avoidance strategies.

This study has some limitations, such as using only LQ45 companies as the sample and only collecting data from 2019 to 2021. However, the Covid-19 pandemic caused businesses to experience financial instability in the 2019–2020 period, which led to the exclusion of data from many loss-making businesses during the data processing. This study is anticipated to advance our understanding of taxation, particularly as it relates to tax avoidance. Future research is urged to build on this study by including additional elements, such as transparency as a moderating factor. Additionally, since this can affect the research findings, future studies might use information from stable financial eras when businesses are not going through financial instability.

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