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Profitability, Capital Intensity, Leverage, And Tax Avoidance: Firm Size As A Moderating Variable

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ABSTRACT

This research investigates how profitability, capital intensity, and leverage influence tax avoidance practices, while also assessing whether firm size moderates these relationships. The research focuses on consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. This research adopts a quantitative approach with a causal-comparative research design. A purposive sampling method was used to select 120 panel data observations from 30 companies out of 63 consumer goods firms. With the help of SPSS version 22, the data were analyzed using multiple linear regression analysis and moderated regression analysis, preceded by descriptive statistical tests and classical assumption tests. The results revealed that profitability, capital intensity, and leverage together significantly influence tax avoidance, as indicated by a significance level of 0.046. Partially, only leverage shows a significant positive impact on tax avoidance, with a coefficient of 0.045 and a significance level of 0.027, whereas profitability and capital intensity do not demonstrate a meaningful effect. These findings confirm that companies with high levels of debt use interest expense as a tax shield to reduce tax liabilities. In addition, the results also show that firm size cannot moderate the effect of profitability, capital intensity, and leverage on tax avoidance..

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INTRODUCTION

Tax avoidance has become one of the central issues in the world of taxation and global business that continues to experience complex developments in line with the dynamics of the modern economy. The practice of tax avoidance is a strategy carried out by companies to reduce the tax burden that must be met, by utilizing loopholes in applicable tax regulations and laws, without violating the formal provisions stipulated. This issue becomes very important because of its great impact on state revenue. As a developing country, Indonesia relies heavily on tax revenue as one of the main sources in financing various development programs and public services. Empirical reality shows that tax avoidance practices in Indonesia have experienced a worrying trend, especially in the consumer goods industry, which significantly contributes to the national economy. The consumer goods sector was chosen as the focus of the study due to its unique characteristics, namely having a broad consumer base, a relatively stable level of profitability, and a diverse capital structure that allows for variations in tax avoidance strategies (Rani et al., 2021). Companies in this sector generally have a large scale of operations with high transaction complexity, thus providing higher potential for tax avoidance through various complex tax planning schemes.

The phenomenon of tax avoidance in Indonesia has surfaced to the public through various cases involving multinational and domestic companies. One of the cases that attracted public attention was related to the tobacco company British American Tobacco (BAT) through its subsidiary, PT Bentoel Internasional Investama. BAT is suspected of engaging in tax avoidance practices by utilizing income transfer schemes outside of Indonesia. The allegations centered on the

use of intercompany loans from Rothmans Far East BV in the period 2013 to 2015, which were used to repay bank loans and procure equipment and machinery. The interest payments on the bank loans potentially lowered taxable income, thereby reducing the amount of tax payable (Kontan.co.id, 2019). Tax avoidance practices often fall in the gray area between legal tax avoidance and unlawful tax evasion, posing a major challenge for tax authorities in conducting supervision and enforcement.

Various previous studies have identified fundamental factors that influence the company's decision to implement tax avoidance, with three factors receiving significant attention being profitability, capital intensity, and leverage. Profitability as an indicator of the company's financial performance has a complex relationship with tax avoidance, where companies that show a high level of profitability usually have a stronger incentive to reduce their tax obligations, so that the profits earned can be maximized for the benefit of shareholders (Nabila & Kartika, 2023). However, the results of studies on the link between profitability and tax avoidance have proven to be inconsistent. The results of a study belonging to (Mahdiana & Amin, 2020) state that profitability has a significant positive effect on tax avoidance. In contrast, the results of the studies (Gultom, 2021) and (Budianti & Curry, 2018) show that profitability has a negative impact on tax avoidance.

Capital intensity, which describes the ratio of fixed assets to total company assets, is one of the important elements that have an impact on the level of tax avoidance. Companies with high capital intensity usually bear a large enough depreciation expense, which can be used as a deduction for taxable income so that in theory it can reduce the company's effective tax rate (Prabowo & Sahlan, 2021). However, the results of research related to the influence of this factor still show inconsistencies. Research belonging to (Zahrani et al., 2023) proves that capital intensity has a positive impact on tax avoidance. In contrast to that, the study results from (Pravitasari et al., 2022) and (Zoebar & Miftah, 2020) prove that there is no impact or influence of capital intensity on tax avoidance.

Meanwhile, the level of debt (leverage) has dual implications for tax avoidance practices. On the one hand, companies with high levels of debt have large loan interest expenses that can be used to reduce tax liabilities. But on the other hand, the amount of leverage can also indicate the company's unhealthy financial condition, thus reducing the company's ability to carry out complex tax planning (Amiah, 2022). The dynamics of the relationship between leverage and tax avoidance is becoming increasingly interesting to review because the results of the study show that there are still inconsistencies. The results presented by (Agustina et al., 2023) and (Sulaeman, 2021) prove that leverage has a significant negative impact on tax avoidance. Meanwhile, research by (Pasaribu & Mulyani, 2019) along with (Handayani, 2018) resulted in leverage having no significant effect on tax avoidance practices.

The complexity of the relationship between these three factors and tax avoidance increases when considering the role of company size as a moderating factor. Company size can affect the company's ability to carry out sophisticated tax planning, access to professional tax consultants, and the level of supervision from tax authorities. Large companies tend to have more complete resources to carry out complex tax planning, but on the other hand companies are also under tighter supervision from tax authorities compared to smaller companies.

The research period chosen, 2020-2023, is a very relevant period to study given the various economic and regulatory dynamics that occurred during this time. This period includes the corona virus disease pandemic in 2019 (COVID-19) which had a substantial effect on the company's financial performance, the implementation of various government stimulus policies, and changes in tax regulations aimed at increasing state revenue amid global economic pressures (Yehezkiel & Gultom, 2024). These conditions certainly affect the company's business and tax strategies, making it an interesting period to analyze tax avoidance behavior. The importance of this study is further strengthened by the inconsistency of previous research results regarding the factors that influence tax avoidance, especially in the context of the consumer goods sector in Indonesia. Some studies found that profitability has a positive effect on tax avoidance, while other studies found a negative

or even insignificant effect. Similarly, the capital intensity and leverage factors show mixed results between studies. The inconsistency of these results indicates the need for a more in-depth study by considering moderating factors that can explain the differences in these results (Pertiwi & Purwasih, 2023).

This study aims to analyze the impact of profitability, capital intensity, and leverage variables on tax avoidance, with company size as a moderating variable. This study focuses on consumer goods companies listed on the Indonesia Stock Exchange during the period 2020-2023. Specifically, this study aims to identify and analyze the direct effect of each independent variable on tax avoidance, as well as to analyze the moderating role of company size variables in strengthening or weakening this relationship. The examination of company size variables as moderating variables is still very rare. Therefore, this study will contribute to research outcomes with a more complex research model that includes moderating variables.

One of the main theoretical contributions of this study is to examine company size as a moderating variable. This study tests whether and how company size strengthens or weakens the influence of profitability, capital intensity, and leverage on tax avoidance. The addition of this moderating variable deepens the theoretical understanding of the complexity of the relationship between variables and introduces a new perspective in the development of theoretical models related to corporate tax strategies. With a data background from a developing country (Indonesia), this study also contributes to filling the gap in the literature, which has been dominated by studies from developed countries. The results of this study can provide more relevant theoretical insights for different economic environments, where regulations, market structures, and tax compliance can vary greatly. Meanwhile, the practical contribution of this study is expected to provide insight for tax authorities in designing more effective policies and supervision strategies to reduce tax avoidance practices, as well as for company management in understanding the implications of financial decisions on corporate taxation strategies (Ulinuha & Nurdin, 2024).

LITERATURE REVIEW AND HYPOTHESES

Agency Theory

Agency theory, pioneered by Michael C. Jensen and William H. Meckling in 1976, became the fundamental basis for understanding the phenomenon of corporate tax avoidance, where there is a conflict of interest between management as agents and shareholders as principals. In the context of taxation, management is incentivized to minimize tax burdens in order to maximize net profits, which ultimately benefits shareholders through increased investment returns. This theory explains that tax avoidance practices are a manifestation of management's efforts to fulfill its role as an agent acting in the best interests of the principal by optimizing the company's financial structure to achieve maximum tax efficiency. (Asianingrum & Nursyirwan, 2024).

Signal Theory

The signal theory proposed by Michael Spence in 1973 also has significant relevance in explaining companies motivation for tax avoidance. According to this theory, management uses financial information as a signal to external parties regarding the quality and future prospects of the company. Tax avoidance practices can be viewed as a positive signal that indicates management's ability to manage the company's resources efficiently, including in terms of tax burden management. Companies with optimal levels of tax avoidance can signal to investors that management is competent in creating added value for shareholders through sophisticated taxation strategies (Ramdhania & Kinasih, 2021).

Tax Avoidance

Tax avoidance efforts are common in companies, both in Indonesia and around the world. Currently, tax avoidance needs to be taken seriously by tax authorities. Although tax avoidance can be considered legal, in reality it is very detrimental to the government, which is trying to increase state revenue from taxes paid by companies.

Tax avoidance refers to efforts made legally and safely by taxpayers without violating applicable tax regulations. The methods and techniques applied generally take advantage of loopholes in tax laws and regulations to reduce the amount of tax payable (Pohan, 2016).

Hypothesis Development

Profitability on Tax Avoidance

Profitability is a company's ability to generate profits from sales, total assets, or capital owned (Gultom, 2021). The high profitability generated by the company means that the taxes payable will also be higher. In agency theory, management that is authorized by stakeholders to manage company profits will certainly engage in tax avoidance through tax planning aimed at increasing company profits. Thus, better financial performance will result in greater incentives from the principal to management as the agent. Research conducted by (Mahdiana & Amin, 2020) and (Martinus et al., 2021) shows that profitability has a positive effect on tax avoidance. The results of this study indicate that companies with high profitability tend to have greater motivation to engage in tax avoidance in order to maintain optimal profits for shareholders. From the description and results of the previous study, the first hypothesis that can be proposed is:

H1: Profitability has a positive influence on tax avoidance.

Capital Intensity on Tax Avoidance

Research on the impact or influence of capital intensity on tax avoidance also shows attractive results for further study. A study by (Wijaya et al., 2025) on companies in the basic and chemical industries found that capital intensity has a positive impact on tax avoidance. This finding is explained through the mechanism of fixed asset depreciation, which can be used as a deduction from taxable income, thereby enabling companies with a high proportion of fixed assets to legally reduce their tax burden. This research finding is supported by the findings of (M. R. Sari & Indrawan, 2022), which demonstrate a similar pattern. Therefore, based on the explanation and previous findings, the second hypothesis is:

H2: Capital intensity has a positive influence on tax avoidance.

Leverage on Tax Avoidance

The relationship between the amount of leverage and tax avoidance is the most controversial topic in the corporate taxation literature. Studies conducted (P. I. P. Sari & Ramli, 2023) and (Nathania et al., 2021) state that leverage has a positive influence on tax avoidance. This finding explains that companies with high levels of debt have large interest expenses that can be utilized as a tax shield to reduce the Effective Tax Rate (ETR). Thus, companies can reduce tax obligations without violating applicable tax provisions. Based on the description and results of previous studies, the third hypothesis is:

H3: Leverage has a positive influence on tax avoidance.

Profitability on Tax Avoidance Moderated by Firm Size

Firm size can be measured through total assets and sales to understand the situation and condition of the company (Fauziah, 2021). High profitability will result in large profits and be directly proportional to the increase in tax liabilities payable by the company, which can lead to tax avoidance (Yuni & Setiawan, 2019). In the context of tax avoidance, more profitable companies theoretically have greater incentives to minimize their tax burden in order to maintain high net profits. This is in line with agency theory, which states that managers may be motivated to engage in tax management to increase shareholder welfare. In addition, large companies certainly have greater capabilities in accessing professional tax consulting services and implementing complex tax planning strategies. Based on the description that has been presented, the fourth hypothesis is:

H4: Firm size can strengthen the effect of profitability on tax avoidance.

Capital Intensity on Tax Avoidance Moderated by Firm Size

Capital intensity is a ratio that shows how much wealth a company has in terms of investment in the form of fixed assets to increase profitability (Rahmadani et al., 2022). Capital intensity refers to the extent to which a company invests its resources in fixed assets (such as machinery, buildings, and equipment). Fixed assets owned by a company will certainly have an impact on high productivity in producing products for sale. This can lead to increased profits or revenues for the company, which is directly proportional to the increase in tax liabilities that the company must pay. According to agency theory, increased profits may compel management to use depreciation expenses from fixed assets to reduce taxable income, which ultimately results in lower tax expenses. Large companies tend to have greater resources and can be more effective in managing their tax expenses through complex tax planning strategies, including maximizing the benefits of capital intensity. Therefore, the fifth hypothesis proposed is:

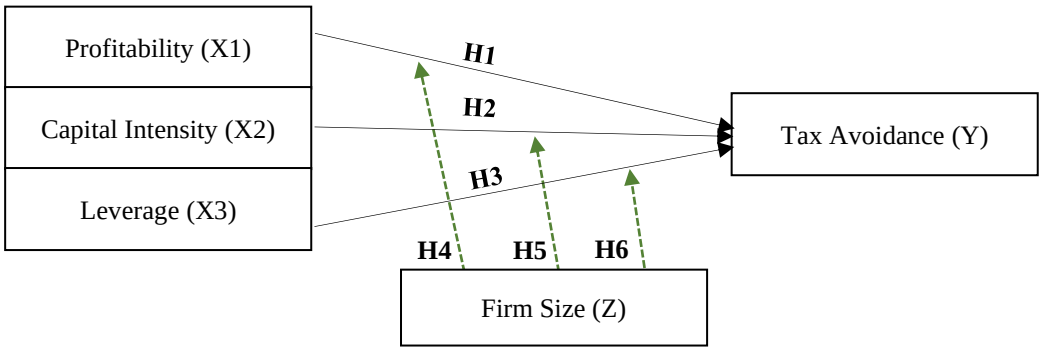
H5: Firm size can strengthen the influence of capital intensity on tax avoidance.

Leverage on Tax Avoidance Moderated by Firm Size

The level of leverage is a ratio to estimate how much the company uses its debt to finance the company's assets (Khairunnisa et al., 2023). In theory, leverage affects tax avoidance because interest expenses on debt can be deducted from taxable income (tax shield), so companies with high leverage tend to have greater incentives to take advantage of the tax benefits of debt. Large companies generally have broader access to financing sources and professional tax services, enabling them to design financing structures that are optimal from a taxation perspective. On the other hand, large companies also face stricter scrutiny from regulators and the public, so they may be more cautious in using aggressive tax avoidance strategies. However, from an agency theory perspective, companies with high debt levels can provide options for management acting as agents to use interest expenses as part of tax avoidance practices through corporate tax planning. Based on the explanations provided, the sixth hypothesis is:

H6: Firm size can strengthen the influence of leverage on tax avoidance.

Figure 1
Research Framework



RESEARCH METHODS

A quantitative approach was used in this study with a comparative causal design, aiming to test the causal relationship between independent and dependent variables (Santoso & Madiistriyatno, 2021). The quantitative method was chosen because this study seeks to test previously formulated hypotheses and analyze the influence of profitability, capital intensity, and leverage on tax avoidance with company size as a moderating variable (Agustianti et al., 2022). The data used in this study is secondary data sourced from the Indonesia Stock Exchange (IDX). The data analyzed in this study were obtained from the annual financial reports of companies

operating in the consumer goods sector from 2020 to 2023, which were obtained from the IDX website http://www.idx.co.id. The analysis in this study was conducted using SPSS (Statistical Product and Service Solutions) version 22 as a tool to test the data obtained.

Population and Sample

The population in this study includes all companies engaged in the consumer goods sector and listed on the Indonesia Stock Exchange (IDX) during the period 2020 to 2023. The selection of the consumer goods sector was based on industry characteristics that exhibit relative stability in the face of economic fluctuations, a diverse capital structure, and consistent profitability levels. The sampling method employed was purposive sampling, where samples were selected based on specific criteria. The criteria used are outlined in table 1 below:

Table 1
Research Population and Sample

No.	Description	Total
1	Total consumer goods companies listed on the IDX for the 2020-2023 period	63
2	Companies that were delisted during the 2020-2023 period	(6)
3	Companies that incurred losses in the 2020-2023 period	(20)
4	Companies with incomplete data for research variables	(7)
	Total companies included in the sample	30
	Total years of research from 2020 to 2023	4
	Total Research Sample (30x4)	120

From Table 1, it can be seen that the sampling technique began with identifying all consumer goods companies listed on the Indonesia Stock Exchange for the period 2020-2023, totaling 63 companies. From this number, 6 companies that were delisted during the study period were eliminated to ensure data continuity and consistency in the analysis. Furthermore, 20 companies that incurred losses during the 2020-2023 period were excluded from the sample because loss conditions could affect a company's motivation and ability to engage in tax avoidance, potentially introducing bias in the research results.

The next elimination criterion was to exclude companies with incomplete data for the research variables (total fixed assets, total assets, total liabilities, total equity, profit before income tax, current tax, and profit after income tax), resulting in a reduction of 7 companies. After undergoing this selection process, the final sample consisted of 30 companies that met all the established criteria. With a research period of 4 years (2020–2023), the total observations used in this study were 120 panel data.

Operational Variables

This study involves one dependent variable, namely tax avoidance, and three independent variables consisting of profitability, capital intensity, and leverage. In addition, company size is used as a moderating variable in this research model. The following table presents the operationalization of the variables used to support the analysis and obtain the research results:

Table 2
Variable Operationalization

Variable	Indicator / Formula	Scale
Tax Avoidance (ETR)	ETR = Income Tax Expense / Income Before Tax	Ratio
Profitability (ROE)	ROE = Net Income / Total Equity	Ratio
Capital Intensity (CAPIN)	CAPIN = Fixed Assets / Total Assets	Ratio
Leverage (DAR)	DAR = Total Liabilities / Total Assets	Ratio
Firm Size (SIZE)	SIZE = Ln (Total Assets)	Ratio

Data Analysis Techniques

The data analysis techniques used are multiple linear regression analysis and Moderated Regression Analysis (MRA). Multiple linear regression analysis is used as an analytical technique to test the extent to which two or more independent variables influence a dependent variable (Ghozali, 2016). These two data analysis techniques are used to test the hypothesis that has been formulated previously, to determine whether the hypothesis can be accepted or rejected, after first going through classical assumption testing.

RESULTS AND DISCUSSION

Descriptive Statistical Test Results

Table 3
Descriptive Statistical Test Results

Descriptive Statistics

	N	Minimum	Maximum	Average	Standard Deviation
ETR	120	0.17	0.29	0.2223	0.02529
ROE	120	0.02	1.45	0.2115	0.24726
CAPIN	120	0.04	0.80	0.3115	0.17213
DAR	120	0.10	0.80	0.3572	0.17008
SIZE	120	27.00	33.00	29.3417	1.56911
Valid N	120				

Source: Processed Secondary Data, 2025

Table 3 presents summary statistics for all 120 observations in this study. ETR (Effective Tax Rate) shows an average result of 0.2223 with values ranging from 0.17 to 0.29 and a standard deviation of 0.02529, which indicates low variation in tax avoidance.

ROE (Return on Equity) variable obtained an average statistical result of 0.2115 with values ranging from 0.02 to 1.45 with a standard deviation of 0.24726. This shows the large variation in ROE between companies, ranging from low ROE to exceeding the total capital or equity itself.

CAPIN (Capital Intensity) variable shows a minimum value of 0.04, a maximum of 0.80, with an average of 0.3115 and a standard deviation of 0.17213. These results indicate moderate variation, which means that there are companies that invest little in their fixed assets, but there are also those that invest their assets in the form of fixed assets quite a lot.

DAR (Debt to Asset Ratio) variable obtained a minimum result of 0.10 to a maximum of 0.80 with an average of 0.3572 and a standard deviation of 0.17008. This variable has a moderate level of data diversity. This means that there are variations in the level of Debt to Asset Ratio (DAR) between companies, where some companies have low ratios, while others show relatively high numbers.

The last variable is SIZE (Company Size) as a moderating variable, which obtained a minimum result of 27.00 to a maximum of 33.00 with an average of 29.3417 and a standard deviation of 1.56911. These results show that there is some variability in SIZE, but it is relatively small compared to the range.

Classical Assumption Test Results

Normality Test

Table 4
Normality Test Results After Transformation

One-Sample Kolmogorov-Smirnov Test

	Result	**Description**
Asymp. Sig. (2-tailed)	0.200	Data are normally distributed

Source: Processed Secondary Data, 2025

Based on testing of data transformed using the natural logarithm (LN), the results are presented in Table 4. The significance value is 0.200, which is less than 0.05. Therefore, it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 5
Multicollinearity Test Results After Transformation

Variable	Tolerance	VIF
ROE	0.962	1.039
CAPIN	0.998	1.002
DAR	0.964	1.038

Source: Processed Secondary Data, 2025

Multicollinearity is tested through the tolerance value and Variance Inflation Factor (VIF). From the multicollinearity test results after the transformation presented in table 5, it can be seen that the independent variables all have tolerance values greater than 0.10 and VIF smaller than 10. Therefore, it can be concluded that there are no multicollinearity symptoms in the data.

Heteroscedasticity Test

Figure 2
Scatterplot Graph After Transformation

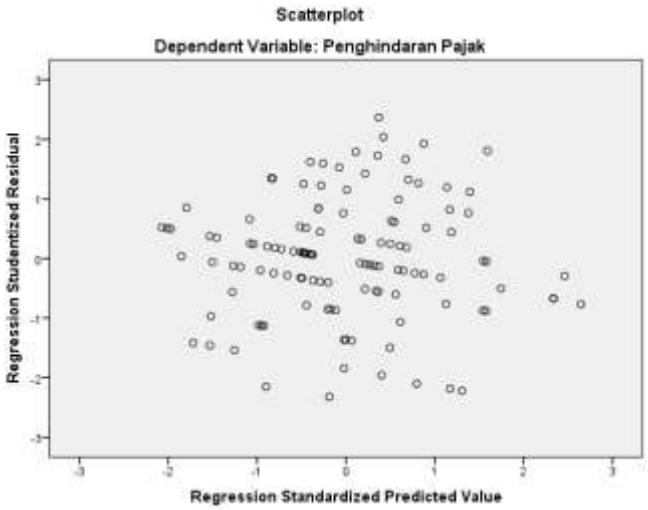


Table 6
Glejser Test Results After Data Transformation

Variable	Coefficients (B)	Std. Error	Beta	T Calculate	Sig.
Constant	0.96	0.024	—	3.989	0.000
ROE	-0.018	0.009	-0.179	-1.952	0.053
CAPIN	0.015	0.010	0.137	1.522	0.131
DAR	0.021	0.012	0.160	1.745	0.084

Source: Processed Secondary Data, 2025

Based on Figure 2, it can be seen that the points are scattered randomly above and below the number 0 on the Y-axis and there is no specific pattern. Apart from Figure 2, the results in Table 6 show that ROE, CAPIN, and DAR have significance values greater than 0.05. Therefore, these two results indicate that there are no issues with heteroscedasticity and that they can be used in the research model.

Autocorrelation Test

The way to find out whether there is autocorrelation or not in the study, it can use the Durbin-Watson test. The results obtained from the Durbin-Watson test will then be compared with the value contained in the d-table at α = 5%, the comparison results will produce the following conclusions:

1) If the Durbin-Watson (DW) value is below -2, this indicates positive autocorrelation.
2) If the Durbin-Watson (DW) value is between -2 and +2, it can be concluded that there is no autocorrelation.
3) If the Durbin-Watson (DW) value is above +2, this indicates negative autocorrelation.

Table 7
Autocorrelation Test Results After Transformation

Model Summary

R	R Square	Adjusted R Square	Std. Error	Durbin-Watson
0.258	0.066	0.042	0.11105	1.173

Source: Processed Secondary Data, 2025

From Table 7, the Durbin-Watson results show a value of 1.173. The Durbin-Watson value in these results indicates that there is no autocorrelation in the regression model, because -2 < 1.173 < +2. Therefore, this regression model is still suitable for use in this study.

Hypothesis Test Results
Determination Coefficient Test (R^2)

Table 8
Determination Coefficient Test Results (R^2) After Transformation

Model Summary

R	R Square	Adjusted R Square	Std. Error
0.258	0.066	0.042	0.11105

Source: Processed Secondary Data, 2025

In Table 8, the Adjusted R Square value of 0.042 indicates that the independent variables in the study explain 4.2% of the tax avoidance variable, with the remainder explained by other variables. This indicates that the model has relatively low predictive power but still suitable for use in a socioeconomic research context.

F-test (Simultaneous)

Table 9
F-test Results (Simultaneous) After Transformation

ANOVA

Sources of Variation	Sum of Square	df	Mean Square	F Calculate	Sig.
Regression	0.102	3	0.034	2.748	0.046
Residual	1.431	116	0.012		
Total	1.532	119			

Source: Processed Secondary Data, 2025

Table 9 shows that the F-test results indicate an F value of 2.748 with a significance level of 0.046 (< 0.05), which means that ROE, CAPIN, and DAR have a significant simultaneous effect on ETR practices. These F-test results confirm that companies with good profitability, a significant amount of fixed assets, and high debt levels are more likely to engage in ETR.

T-test (Partial)

Table 10
T-test Results (Partial) After Transformation

Variable	Coefficients (B)	Std. Error	Beta	T Calculate	Sig.
Constant	-1.524	0.040	—	-38.541	0.000
ROE	-0.017	0.015	-0.101	-1.102	0.273
CAPIN	-0.026	0.016	-0.149	-1.654	0.101
DAR	0.045	0.020	0.204	2.234	0.027

Source: Processed Secondary Data, 2025

Based on the results of the T-test presented in Table 10, this shows that ROE does not have a significant effect on ETR, as indicated by Sig. = 0.273 (>0.05). This finding indicates that the level of profit earned by consumer goods companies is not a major determinant in the decision to engage in tax avoidance practices. The negative ROE regression coefficient (-0.017) shows a relationship that is contrary to the research hypothesis, where an increase in ROE tends to decrease the ETR rate, although not statistically significant. The insignificant effect of ROE on ETR can be explained through the signaling theory perspective presented in the theoretical framework of this study. Companies that achieve high ROE often maintain their reputation and credibility among stakeholders by avoiding aggressive tax avoidance strategies. This aligns with the argument that profitable companies prefer to demonstrate tax compliance as a positive signal to investors and regulators regarding the quality of management and the sustainability of long-term business operations (Leonardi et al., 2024). The results of this study are supported by research conducted by (Hartono, 2024) which states that profitability has no significant effect on tax avoidance efforts.

Based on Table 10, statistical analysis shows that CAPIN has no effect on ETR with a significance level of 0.101, which exceeds the critical alpha limit of 0.05. Although the regression coefficient shows a negative direction (-0.026), the effect does not reach the level of significance required to support the research hypothesis. This finding indicates that the proportion of fixed assets to total assets owned by a company is not a factor in the decision to engage in tax avoidance for consumer goods companies listed on the IDX. The insignificant effect of CAPIN can be attributed to the complexity of Indonesia's tax regulations related to fixed asset depreciation, which have been harmonized with international accounting standards. Although theoretically companies with high CAPIN have the potential for a tax shield through depreciation expenses, its practical implementation in the context of consumer goods companies does not provide sufficient incentives to engage in ETR. This can be caused by regulatory restrictions that reduce the flexibility of companies in optimizing the tax benefits of fixed assets (Wuriti & Noviari, 2023). This finding confirms the results of (Monika & Noviari, 2021) which states that capital intensity does not have a significant impact on tax avoidance.

In Table 10, it is found that DAR has a positive and significant effect on ETR, with a regression coefficient value of 0.045 and a significance level of 0.027, which is smaller than the alpha limit of 0.05. This finding confirms the research hypothesis which states that the company's DAR level has a positive relationship with ETR. The positive regression coefficient means that every one unit increase in DAR will increase the company's tendency to add ETR by 0.045 units. The significance of the effect of DAR on ETR can be explained through the tax shield mechanism resulting from debt interest expense. Companies with a high enough DAR have a large loan interest expense that can be used to reduce taxable income, thus effectively reducing the company's ETR. This finding is in line with the results of the analysis of (Nathania et al., 2021) which found a positive effect of leverage on tax avoidance in the mining sector. The consistency of results across industry sectors indicates that the tax shield mechanism from interest expense is a universal phenomenon that is not limited to specific industry characteristics.

MRA Test

Table 11
MRA Test Results After Transformation

Variable	Coefficients **(B)**	Std. Error	T Calculate	Sig.
Constant	-1.526	0.042	-36.053	0.000
ROE	-0.164	0.264	-0.624	0.534
CAPIN	0.068	0.299	0.226	0.821
DAR	0.083	0.462	0.181	0.857
ROE*SIZE	0.005	0.009	0.560	0.576
CAPIN*SIZE	-0.003	0.010	-0.319	0.750
DAR*SIZE	-0.001	0.016	-0.078	0.938

Source: Processed Secondary Data, 2025

In table 11, the MRA test results show that there is no effect of SIZE as a moderating variable in the relationship between ROE and ETR, because the value of Sig. = 0.576 which means greater than 0.05. Therefore, the fourth hypothesis cannot be accepted. Large companies usually find it easier to generate profits, so companies that earn high profits tend to be more compliant with company's tax obligations. Based on agency theory, large companies should have stronger oversight, both from the board of commissioners, shareholders, and regulators. The size of a company is often associated with high external oversight and reputational pressure, which in turn can limit managers from taking aggressive actions, including ETR. However, the empirical results of this study do not support this assumption. SIZE does not play a significant role in moderating the influence of ROE on ETR. This suggests that, in practice, the influence of ROE on ETR does not depend on the size of the company. Both large and small companies, when profitable, still have relatively the same potential and incentives to engage in ETR. These findings are in line with research (Faizah, 2022) which concluded that company size is unable to strengthen the effect of profitability on tax avoidance.

Based on the results of the MRA test contained in table 11, SIZE proved unable to strengthen the influence of CAPIN on ETR because the results of Sig. = 0.750 (CAPIN*SIZE), these results are greater than 0.05. Thus, the fifth hypotheses of the study were rejected. According to agency theory, in large companies, there should be a stricter monitoring system—from top management, the board of commissioners, and regulators—that can limit managerial behavior that conflicts with the interests of owners, including the use of aggressive tax avoidance strategies. Thus, theoretically, SIZE should moderate the relationship between CAPIN and ETR. For example, companies can use professional consultants to design complex but not overly aggressive tax planning strategies.

However, the results of this study show that in practice, SIZE does not play a significant role in strengthening or weakening this relationship. This implies that large and small companies, when they have high CAPIN, behave relatively similarly in terms of ETR. In this context, CAPIN still provides opportunities for ETR, and large companies do not always reduce or avoid these opportunities, even under strict supervision. SIZE is not a benchmark for company management to avoid taxes by utilizing depreciation costs from existing fixed assets. This finding is in line with the thesis results of (Ramadani, 2023) which concluded that company size is not able to moderate the respective effects of capital intensity on tax avoidance.

Based on the results of the moderation regression test in Table 11, the significance value of the interaction between DAR and SIZE on ETR is 0.938 (DAR*SIZE), which is well above the significance threshold of 0.05. Therefore, the sixth hypothesis is rejected. These results indicate that SIZE does not play a significant role as a moderating variable in strengthening or weakening the effect of DAR on ETR. When linked to signaling theory, SIZE can serve as a signal of compliance and credibility in the eyes of investors, the public, and tax authorities. Larger companies are typically subject to stricter oversight and tend to be more cautious in making strategic decisions, including those related to ETR. They may avoid overly aggressive ETR strategies to maintain their

reputation, investor confidence, and stable relationships with regulators. Theoretically, it can be assumed that large companies with high DAR will be more cautious in exploiting ETR opportunities compared to small companies. Thus, SIZE should be able to moderate the influence of DAR on ETR.

Nevertheless, the findings of this study do not align with the proposed assumption. The moderating role of SIZE on the relationship between DAR and ETR is not statistically significant. This indicates that, in practice, both large and small firms demonstrate a comparable tendency to utilize debt as a means of reducing tax obligations, reflecting a shared strategic approach regardless of organizational scale. This result is consistent with the findings of (Ramadani, 2023), whose thesis concluded that firm size does not significantly moderate the influence of DAR on ETR.

CONCLUSIONS AND SUGGESTION

Based on the results of data analysis and discussion that has been carried out, it can be concluded that of the three independent variables studied, only DAR is proven to have a positive and significant influence on ETR in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023 with a regression coefficient of 0.045 and a significance level of 0.027. This finding confirms that companies with considerable DAR tend to use interest expense as an instrument of tax savings through the tax shield mechanism allowed in tax regulations. In contrast, ROE and CAPIN do not show a significant effect on ETR, indicating that the level of corporate profits and the proportion of fixed assets are not the main determinants in making decisions to avoid taxes on companies engaged in the consumer goods sector. In addition, the results of the study also show that SIZE has no effect in moderating the relationship between ROE, CAPIN, or DAR on ETR. Therefore, this study can also be a practical contribution for tax authorities in understanding corporate ETR behavior in the consumer goods sector, which has a relatively high DAR level, so that tax authorities can create better regulations than before. On the other hand, the results of this study can also contribute as a reference for other researchers, especially in studies that use SIZE as a moderating variable.

Based on the results of this study, tax authorities should be able to increase observations of companies with high DAR levels and review regulations related to deductible interest expense to prevent abuse of the tax shield mechanism. For company management, it is recommended to consider the trade-off between the tax benefits of high DAR and the risk of increased financial distress, and develop a tax strategy that is balanced between tax efficiency and long-term business sustainability. Future researchers are advised to replace the moderating variable of SIZE with other variables, as well as expand the scope of the research sample to different industrial sectors in order to obtain a more thorough understanding of the determinants that influence ETR in Indonesia.

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