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# INSTITUTIONAL OWNERSHIP AND FINANCIAL PERFORMANCE ON TAX AVOIDANCE IN INDONESIAN BASIC MATERIALS COMPANIES

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**Abstract**

This study aims to examine the effect of profitability, liquidity, leverage, and institutional ownership on tax avoidance in basic materials sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Tax avoidance is measured using the Cash Effective Tax Rate (CETR), while profitability is measured by Return on Assets (ROA), liquidity by Current Ratio (CR), leverage by Debt to Asset Ratio (DAR), and institutional ownership by the proportion of institutional shareholding. This research employs a quantitative approach with an associative research design. The sampling technique used is purposive sampling, resulting in 65 observations that meet the research criteria. The data analysis method applied is multiple linear regression analysis, supported by classical assumption tests including normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The results show that profitability has a negative and significant effect on tax avoidance, liquidity has a positive and significant effect on tax avoidance, leverage has no significant effect on tax avoidance, and institutional ownership has a negative and significant effect on tax avoidance. Simultaneously, all independent variables significantly affect tax avoidance. These findings indicate that financial performance and corporate governance play important roles in determining corporate tax behavior and provide useful insights for improving tax compliance and strengthening corporate governance practices.

**Keywords: Profitability, Liquidity, Leverage, Institutional Ownership, Tax Avoidance**

## INTRODUCTION

Taxation plays a vital role in supporting economic development and ensuring fiscal sustainability, particularly in emerging economies such as Indonesia. National development requires substantial financial resources, which are primarily derived from tax revenue, non-tax state revenue (PNBP), and grants. Among these sources, taxation constitutes the largest portion of the Indonesian state budget (APBN) and is used to finance national development and other government expenditures (Hardiningsih & Yulianawati, 2011). Over the past five years, the contribution of tax revenue to total state revenue has consistently exceeded 60%, highlighting its strategic importance in sustaining fiscal capacity (DDTC, 2023) . This condition reflects a broader global pattern in which taxation serves as the backbone of government revenue in most countries .

Tax collection in Indonesia is regulated under Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP). Tax is defined as a mandatory contribution imposed on individuals or entities, enforceable by law without direct compensation, and used for the greatest prosperity of society. Indonesia adopts a self-assessment system, in which taxpayers are responsible for calculating, paying, and reporting their own tax obligations, while the Directorate General of Taxes performs supervisory and enforcement functions (Diamastuti, 2018) .

Despite its significant role, Indonesia continues to face challenges in optimizing tax revenue. One of the key indicators used to evaluate tax performance is the tax ratio, which measures the

proportion of tax revenue relative to Gross Domestic Product (GDP). Although Indonesia's tax ratio has shown an increasing trend in recent years, rising from 8.33% in 2020 to 10.5% in 2024, it remains below the ideal threshold of 15% suggested by the International Monetary Fund (IMF). This relatively low tax ratio indicates the presence of untapped tax potential and may reflect inefficiencies in tax collection as well as the persistence of tax avoidance practices (Falbo & Firmansyah, 2021) .

One of the major obstacles in improving tax revenue is the prevalence of tax avoidance. Tax avoidance refers to efforts undertaken by taxpayers to minimize tax liabilities by exploiting loopholes in tax regulations (Hutagaol, 2007). Although legally permissible, such practices are often considered ethically questionable because they contradict the spirit of taxation (Fikri, 2017) . From a corporate perspective, taxes are viewed as a cost that reduces net income, thereby creating incentives for firms to minimize their tax burden. This condition leads to a conflict of interest between the government, which seeks to maximize tax revenue, and companies, which aim to reduce tax payments (Handayani, 2018) .

This conflict can be explained through agency theory, which describes the relationship between principals (shareholders) and agents (management) (Jensen & Meckling, 1976). In this context, managers are expected to act in the best interests of shareholders by maximizing firm value, including after-tax profits. Consequently, managers may engage in tax avoidance strategies as part of financial decision-making. Furthermore, information asymmetry between managers and shareholders allows managers to undertake opportunistic actions that may not always align with shareholders' interests (Sari et al., 2020; Sjahril et al., 2020) .

Several firm-specific characteristics are considered to influence tax avoidance behavior, including profitability, liquidity, leverage, and institutional ownership. Profitability reflects a firm's ability to generate earnings and is often used as an indicator of financial performance (Fahmi, 2014). Firms with higher profitability tend to face greater tax burdens, which may encourage them to engage in tax planning strategies to reduce tax liabilities (Dewinta & Setiawan, 2016). Profitability is commonly measured using Return on Assets (ROA), which indicates how efficiently a firm utilizes its assets to generate net income (Kurniasih & Sari, 2013). However, empirical findings on the relationship between profitability and tax avoidance remain inconsistent, as some studies report significant effects (Sari et al., 2020), while others find no significant relationship (Jamaludin, 2020)

Liquidity, defined as a firm's ability to meet its short-term obligations, also plays an important role in tax decision-making (Kasmir, 2019). Firms with high liquidity possess greater financial flexibility, which may enable them to engage in tax avoidance strategies (Jensen, 1986). However, excess liquidity may also increase the potential for managerial opportunism. Empirical evidence regarding the relationship between liquidity and tax avoidance remains mixed, with some studies finding a significant effect (Devi et al., 2022), while others report no significant relationship (Dewi et al., 2023) .

Leverage represents the extent to which a firm relies on debt financing. Higher leverage leads to greater interest expenses, which are tax-deductible and can reduce taxable income, thereby creating incentives for tax avoidance (Surbakti, 2012; Cahyono et al., 2016; Kasmir, 2019). This tax shield effect makes leverage an important determinant of corporate tax strategies. However, prior studies provide inconsistent findings regarding its impact on tax avoidance (Abdullah, 2020; Pitaloka & Merkusiawati, 2019; Rima & Destriana, 2021; Devi et al., 2022) .

In addition to financial factors, corporate governance mechanisms such as institutional ownership play a crucial role in influencing tax avoidance behavior. Institutional ownership refers to the proportion of shares held by institutional investors, including banks, insurance companies, and investment firms (Zahirah, 2017). These investors are generally more capable of monitoring

managerial actions, thereby reducing agency problems and limiting opportunistic behavior (Annisa & Kurniasih, 2012). Effective monitoring is expected to reduce aggressive tax avoidance practices (Dewi & Suardika, 2021). Nevertheless, empirical findings remain inconclusive (Nursari et al., 2017; Dewi et al., 2023) .

In the Indonesian context, tax avoidance practices have also been observed in the basic materials sector. One notable case involves PT Toba Pulp Lestari, which was alleged to have engaged in profit shifting practices, resulting in significant potential tax losses (Laia, 2020) . This case highlights the importance of examining tax avoidance behavior within this sector, which plays a strategic role in industrial development.

Given the inconsistencies in prior empirical findings and the importance of understanding corporate tax behavior, this study aims to examine the effect of profitability, liquidity, leverage, and institutional ownership on tax avoidance in companies within the basic materials sector listed on the Indonesia Stock Exchange during the 2020–2024 period. The findings are expected to contribute to the literature on taxation and corporate governance, particularly in emerging economies, while also providing practical insights for policymakers in improving tax compliance and regulatory effectiveness.

## LITERATURE REVIEW AND HYPOTHESIS FORMULATION

### Agency Theory

Agency theory explains the relationship between principals (shareholders) and agents (management), where principals delegate authority to agents to manage the company in their best interests (Jensen & Meckling, 1976). However, differences in objectives between principals and agents may lead to conflicts of interest, particularly when managers prioritize personal benefits over shareholder value.

One of the key issues in agency theory is information asymmetry, where managers possess more comprehensive information about the firm than shareholders. This imbalance creates opportunities for managers to engage in opportunistic behavior, including earnings management and tax avoidance strategies (Sari et al., 2020) . Tax avoidance can be viewed as a strategic decision aimed at reducing tax expenses and increasing after-tax profits, which may benefit shareholders but also serve managerial interests.

Furthermore, agency theory highlights that managerial decisions are often influenced by incentives, such as compensation and performance targets. Managers may engage in aggressive tax planning to improve financial performance and meet expectations, even though such actions may involve reputational risks and regulatory scrutiny (Sjahril et al., 2020) . Therefore, agency theory provides a strong theoretical foundation for explaining tax avoidance behavior and its relationship with firm characteristics.

### Tax Avoidance

Tax avoidance refers to corporate actions aimed at minimizing tax liabilities through legal means by exploiting loopholes in tax regulations (Hutagaol, 2007). Although tax avoidance does not violate the law, it is often perceived as unethical because it contradicts the purpose of taxation, which is to support public welfare (Fikri, 2017) .

From a business perspective, taxes are considered a cost that reduces net income. Therefore, companies are motivated to engage in tax planning strategies to reduce tax burdens and maximize profits. However, tax avoidance practices vary depending on firm characteristics, governance mechanisms, and regulatory environments.

In this study, tax avoidance is measured using the Cash Effective Tax Rate (CETR), which reflects actual tax payments relative to pre-tax income. A lower CETR indicates a higher level of tax avoidance .

**Profitability**

Profitability reflects a firm's ability to generate earnings and is a key indicator of financial performance (Fahmi, 2014). Firms with high profitability demonstrate efficient resource utilization and strong operational performance.

Profitability is measured using Return on Assets (ROA), which indicates how effectively a firm utilizes its assets to generate net income (Kurniasih & Sari, 2013). Firms with higher profitability tend to face higher tax obligations, which may encourage them to engage in tax avoidance strategies to reduce tax burdens (Dewinta & Setiawan, 2016) .

**Liquidity**

Liquidity refers to a firm's ability to meet its short-term obligations and reflects financial flexibility (Kasmir, 2019). Firms with higher liquidity have greater capacity to manage their financial resources effectively. From an agency perspective, firms with high liquidity may have more opportunities to engage in tax planning activities due to the availability of financial resources (Jensen, 1986) .

**Leverage**

Leverage represents the extent to which a firm uses debt financing and is measured using the Debt to Asset Ratio (DAR) (Cahyono et al., 2016; Kasmir, 2019). Debt financing generates interest expenses that are tax-deductible, creating a tax shield effect that reduces taxable income (Surbakti, 2012).

**Institutional Ownership**

Institutional ownership refers to the proportion of shares held by institutional investors such as banks and investment firms (Zahirah, 2017). These investors play a monitoring role in corporate governance (Annisa & Kurniasih, 2012).

**HYPOTHESIS FORMULATION**

**Effect of Profitability on Tax Avoidance**

Profitability is closely related to a firm's tax obligations, as higher profits result in higher taxable income. From an agency theory perspective, managers of highly profitable firms are under pressure to maintain or improve performance, which may encourage them to adopt tax avoidance strategies to reduce tax expenses.

Higher profitability provides both motivation and capacity for firms to engage in tax planning. Firms with strong financial performance have more resources to invest in tax planning strategies, including hiring tax experts and utilizing complex financial structures. This increases the likelihood of tax avoidance behavior.

Previous studies have shown inconsistent results regarding the relationship between profitability and tax avoidance. Some studies find that profitability has a significant positive effect on tax avoidance (Sari et al., 2020), while others report no significant relationship (Jamaludin, 2020). Despite these inconsistencies, theoretical arguments suggest a positive relationship.

***H1: Profitability has a positive effect on tax avoidance.***

**Effect of Liquidity on Tax Avoidance**

Liquidity reflects a firm's financial flexibility and its ability to meet short-term obligations. Firms with high liquidity have sufficient resources to support operational activities, including tax planning.

From an agency perspective, high liquidity provides managers with greater discretion in resource allocation, which may lead to opportunistic behavior such as tax avoidance. Firms with

higher liquidity are more capable of implementing tax planning strategies because they have sufficient financial resources.

However, firms with low liquidity may prioritize meeting operational needs and obligations, reducing their ability to engage in tax avoidance. Empirical findings on this relationship are mixed, indicating that liquidity does not always have a consistent effect on tax avoidance. Based on theoretical reasoning, firms with higher liquidity are expected to engage more in tax avoidance.

***H2: Liquidity has a positive effect on tax avoidance.***

**Effect of Leverage on Tax Avoidance**

Leverage is associated with the use of debt financing, which generates interest expenses that can be deducted from taxable income. This tax shield effect provides an incentive for firms to increase leverage as part of their tax planning strategy.

From a theoretical perspective, firms with higher leverage benefit from reduced taxable income, which lowers their effective tax rate. Therefore, leverage is expected to have a positive relationship with tax avoidance.

However, excessive leverage may increase financial risk and limit managerial flexibility. Empirical studies show mixed results regarding the relationship between leverage and tax avoidance (Rima & Destriana, 2021; Abdullah, 2020). Despite these inconsistencies, leverage is theoretically expected to influence tax avoidance.

***H3: Leverage has a positive effect on tax avoidance.***

**Effect of Institutional Ownership on Tax Avoidance**

Institutional ownership plays an important role in corporate governance by monitoring managerial actions. Strong institutional ownership is expected to reduce agency conflicts and limit opportunistic behavior.

From an agency perspective, institutional investors act as external monitors who can influence managerial decisions. Their presence can reduce aggressive tax avoidance practices by increasing oversight and accountability.

However, empirical findings are inconsistent. Some studies find that institutional ownership reduces tax avoidance, while others find no significant effect (Nursari et al., 2017; Dewi et al., 2023). Based on governance theory, institutional ownership is expected to reduce tax avoidance behavior.

***H4: Institutional ownership has a negative effect on tax avoidance.***

**RESEARCH METHODS**

This study employs a quantitative approach with an associative research design aimed at analyzing the relationship between independent and dependent variables. The associative method is used to examine the effect of profitability, liquidity, leverage, and institutional ownership on tax avoidance. The quantitative approach is selected because this study utilizes numerical data analyzed through statistical methods to test the proposed hypotheses.

The population of this study consists of all companies in the basic materials sector listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. This sector is selected due to its relevance to industrial activities and its potential exposure to tax-related practices. The sampling technique used is purposive sampling, which involves selecting samples based on specific criteria aligned with the research objectives. The criteria include: (1) companies consistently listed during the observation period, (2) companies that publish complete annual reports, and (3) companies that provide complete data required for all research variables.

The type of data used in this study is secondary data in the form of annual reports and financial statements obtained from the official website of the Indonesia Stock Exchange and respective company websites. The data include financial and ownership information related to profitability, liquidity, leverage, institutional ownership, and tax payments.

**Tax Avoidance**

Tax avoidance is defined as the effort made by firms to minimize tax liabilities through legal means by utilizing loopholes in tax regulations (Hutagaol, 2007). In this study, tax avoidance is measured using the Cash Effective Tax Rate (CETR), which reflects the proportion of cash taxes paid relative to pre-tax income. CETR is calculated as follows:

$$CETR = \frac{Cash\ Tax\ Paid}{Pre\ Tax\ Income}$$

A lower CETR indicates a higher level of tax avoidance.

**Profitability**

Profitability reflects a firm's ability to generate earnings from its operations. In this study, profitability is measured using Return on Assets (ROA), which indicates how efficiently a company utilizes its assets to generate net income (Kurniasih & Sari, 2013).

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

**Liquidity**

Liquidity refers to a firm's ability to meet its short-term obligations. It is measured using the current ratio, which compares current assets to current liabilities (Kasmir, 2019).

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

**Leverage**

Leverage represents the extent to which a firm uses debt financing in its capital structure. In this study, leverage is measured using the Debt to Asset Ratio (DAR), which indicates the proportion of assets financed by debt (Cahyono et al., 2016).

$$DAR = \frac{Total\ Debt}{Total\ Assets}$$

**Institutional Ownership**

Institutional ownership refers to the proportion of shares held by institutional investors such as banks, insurance companies, and investment firms (Zahirah, 2017). It is measured as follows:

$$INST = \frac{Institutional\ Shares}{Total\ Outstanding\ Shares}$$

**Data Analysis Technique**

The data analysis technique used in this study is multiple linear regression analysis to examine the effect of independent variables on tax avoidance. Prior to hypothesis testing, classical assumption tests are conducted, including normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test, to ensure the validity of the regression model.

Hypothesis testing is performed using the t-test to evaluate the partial effect of each independent variable, and the F-test to assess the simultaneous effect of all independent variables. Additionally, the coefficient of determination ($R^2$) is used to measure the explanatory power of the model.

## RESULTS AND DISCUSSION

### Descriptive Statistics

Table 1. Descriptive Statistics Results

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Profitability | 65 | 0.01 | 0.32 | 0.108 | 0.072 |
| Liquidity | 65 | 0.45 | 4.87 | 2.136 | 1.124 |
| Leverage | 65 | 0.30 | 0.66 | 0.471 | 0.055 |
| Institutional Ownership | 65 | 0.28 | 0.94 | 0.681 | 0.157 |
| Tax Avoidance | 65 | 0.08 | 0.32 | 0.198 | 0.096 |
| Valid N | 65 | | | | |

Source: Processed Data (2026)

Based on Table 1, the descriptive statistical analysis shows that all variables have varying values among the sampled companies, indicating differences in financial performance and corporate governance practices across firms in the basic materials sector during the 2020–2024 period. Profitability (ROA) has a minimum value of 0.01 and a maximum value of 0.32, with an average value of 0.108 and a standard deviation of 0.072. This indicates that the companies are able to generate an average return on assets of 10.8%, reflecting relatively stable profitability conditions among firms. The standard deviation value, which is lower than the mean, indicates that profitability data are relatively homogeneous and do not vary excessively among the sample companies. Liquidity (CR) shows a minimum value of 0.45 and a maximum value of 4.87, with a mean value of 2.136 and a standard deviation of 1.124. This suggests that, on average, companies have sufficient current assets to meet their short-term obligations. The variation in liquidity is relatively high, indicating differences in working capital management policies among firms. Leverage (DAR) has a minimum value of 0.30 and a maximum value of 0.66, with an average value of 0.471 and a standard deviation of 0.055. This means that approximately 47.1% of company assets are financed by debt. The relatively low standard deviation indicates that leverage levels among companies are fairly homogeneous, suggesting that debt financing is used consistently across firms and may explain why leverage does not significantly influence tax avoidance. Institutional Ownership has a minimum value of 0.28 and a maximum value of 0.94, with a mean value of 0.681 and a standard deviation of 0.157. This indicates that institutional investors hold approximately 68.1% of total outstanding shares on average. The relatively high proportion of institutional ownership reflects strong external monitoring of management decisions, including tax-related policies. Tax Avoidance, measured using Cash Effective Tax Rate (CETR), has a minimum value of 0.08 and a maximum value of 0.32, with an average value of 0.198 and a standard deviation of 0.096. The average CETR of 19.8% indicates that companies tend to pay taxes below the general corporate tax rate, suggesting the presence of tax avoidance practices through legal tax planning strategies. The variation in CETR values also indicates differences in the level of tax avoidance behavior among firms. Overall, these descriptive statistics indicate that the sampled companies have diverse financial characteristics and governance structures, providing a strong basis for further regression analysis to examine the determinants of tax avoidance.

### Classical Assumption Test

Table 2. Normality Test

| | Unstandardized Residual | Description |
|---|---|---|
| Asymp. Sig. (2-tailed) | 0,238 | Normally Distributed |

Source: Processed Data (2026)

Based on the test results presented in Table 2, the Asymp. Sig. (2-tailed) value is 0.238. This value is greater than 0.05, which indicates that the residual data in this study are normally

distributed. Therefore, it can be concluded that the regression model used has fulfilled the normality assumption and is appropriate for further testing. This condition shows that the distribution of data does not experience significant deviations and can provide more accurate estimation results in regression analysis. Thus, the model can be continued to the next stage of hypothesis testing.

Table 3. Multicollinearity Test

| Model | *Tolerance* | VIF | Description |
|---|---|---|---|
| (Constant) | | | |
| Profitability | 0.742 | 1.347 | Free from multicollinearity |
| Liquidity | 0.658 | 1.521 | Free from multicollinearity |
| Leverage | 0.614 | 1.628 | Free from multicollinearity |
| Institutional Ownership | 0.589 | 1.698 | Free from multicollinearity |

Source: Processed Data (2026)

Based on the test results presented in Table 3, it is known that the profitability variable has a tolerance value of 0.742 and a VIF value of 1.347, the liquidity variable has a tolerance value of 0.658 and a VIF value of 1.521, the leverage variable has a tolerance value of 0.614 and a VIF value of 1.628, and the institutional ownership variable has a tolerance value of 0.589 and a VIF value of 1.698. All independent variables show tolerance values above 0.10 and VIF values below 10. This indicates that there is no multicollinearity problem in the regression model used in this study. Therefore, it can be concluded that the regression model is free from multicollinearity symptoms and is appropriate to proceed to the next stage of analysis. This condition indicates that the independent variables do not have strong correlations with one another, so each variable can explain the dependent variable independently without causing bias in the regression estimation results.

Table 4. Autocorrelation Test

| Model | n | dU | Durbin Watson | 4 – dU | Description |
|---|---|---|---|---|---|
| 1 | 65 | 1.70 | 2.08 | 2.30 | Free from autocorrelation |

Source: Processed Data (2026)

Based on the test results presented in Table 4, the Durbin-Watson value obtained is 2.08. With a total sample (N) of 65 and four independent variables, the dU value is 1.70, resulting in a value of 4 – dU of 2.30. Thus, the Durbin-Watson value lies between dU and (4 – dU), namely: 1.70 < 2.08 < 2.30. This indicates that there is no autocorrelation problem in the regression model. Therefore, it can be concluded that the regression model has fulfilled the autocorrelation assumption and is appropriate for further analysis. This condition shows that the residual values in one observation do not correlate with the residual values in other observations, so the regression estimation results are more reliable and unbiased.

Table 5. Heteroscedasticity Test

| Model | Sig. | Description |
|---|---|---|
| (Constant) | | - |
| Profitability | 0.318 | No heteroscedasticity |
| Liquidity | 0.274 | No heteroscedasticity |
| Leverage | 0.356 | No heteroscedasticity |
| Institutional Ownership | 0.421 | No heteroscedasticity |

Source: Processed Data (2026)

Based on the test results presented in Table 5, it is known that the profitability variable has a significance value of 0.318, the liquidity variable has a significance value of 0.274, the leverage variable has a significance value of 0.356, and the institutional ownership variable has a significance value of 0.421. All independent variables show significance values above 0.05, which indicates that

there is no heteroscedasticity problem in the regression model used in this study. Therefore, it can be concluded that the regression model has fulfilled the heteroscedasticity assumption and is appropriate for further analysis. This condition indicates that the variance of residuals is constant across all observations, so the regression estimation results are more stable, reliable, and free from bias caused by unequal error variance.

**Model Fit Test**

Table 6. F-Test

| Model | F | Sig. |
|---|---|---|
| Regression | 9.472 | 0.000 |

Source: Processed Data (2026)

Table 6 shows that the calculated F-value is 9.472 with a significance level of 0.000, which is smaller than the alpha value of 0.05. This indicates that the regression model used in this study is fit and statistically significant. These results also indicate that profitability, liquidity, leverage, and institutional ownership simultaneously have the ability to explain tax avoidance. Therefore, all independent variables collectively influence the dependent variable, and the regression model is appropriate for hypothesis testing. This finding confirms that the model has good explanatory power and can be used to analyze the relationship between the independent variables and tax avoidance in basic materials sector companies listed on the Indonesia Stock Exchange.

Table 7. Coefficient of Determination Test

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.486 | 0.236 | 0.214 | 0.061 |

Source: Processed Data (2026)

Based on Table 7, the Adjusted R Square value is 0.214. This indicates that 21.4% of the variation in tax avoidance can be explained by profitability, liquidity, leverage, and institutional ownership in this study. Meanwhile, the remaining 78.6% is explained by other variables outside the research model that were not examined in this study. These may include factors such as company size, capital intensity, sales growth, executive characteristics, and other corporate governance mechanisms. This result shows that although the independent variables contribute to explaining tax avoidance, there are still many other factors influencing the dependent variable. Therefore, further research is recommended to include additional variables in order to improve the explanatory power of the model.

**Hypothesis Testing**

Table 8. T-Test

| Model | B | t | Sig. | Conclusion |
|---|---|---|---|---|
| (Constant) | 0.287 | 3.964 | 0.000 | - |
| Profitability | -0.148 | -2.563 | 0.013 | Significant Effect |
| Liquidity | 0.126 | 2.214 | 0.031 | Significant Effect |
| Leverage | 0.041 | 0.918 | 0.362 | No Effect |
| Institutional Ownership | -0.214 | -2.763 | 0.008 | Significant Effect |

Source: Processed Data (2026)

Based on Table 8, the t-test results show that the profitability variable has a coefficient value of -0.148, a t-value of -2.563, and a significance level of 0.013, which is smaller than 0.05. This indicates that profitability has a negative and significant effect on tax avoidance, so the first hypothesis (H1) is accepted. This means that the higher the profitability, the lower the level of tax avoidance practiced by the company.

The liquidity variable has a coefficient value of 0.126, a t-value of 2.214, and a significance value of 0.031, which is smaller than 0.05. This shows that liquidity has a positive and significant

effect on tax avoidance, so the second hypothesis (H2) is accepted. This means that companies with higher liquidity tend to have a greater ability to manage their tax burden efficiently.

Furthermore, the leverage variable has a coefficient value of 0.041, a t-value of 0.918, and a significance value of 0.362, which is greater than 0.05. This indicates that leverage does not have a significant effect on tax avoidance, so the third hypothesis (H3) is rejected. This means that the level of corporate debt does not significantly determine the company's tax avoidance practices.

Lastly, institutional ownership has a coefficient value of -0.214, a t-value of -2.763, and a significance value of 0.008, which is smaller than 0.05. This indicates that institutional ownership has a negative and significant effect on tax avoidance, so the fourth hypothesis (H4) is accepted. This means that higher institutional ownership tends to reduce tax avoidance practices in the company due to stronger monitoring and supervision by institutional investors.

**Effect of Profitability on Tax Avoidance**

The test results show that the profitability variable has a negative and significant effect on tax avoidance, as indicated by the significance value of 0.013, which is smaller than 0.05, with a regression coefficient value of -0.148. This finding indicates that the higher the level of corporate profitability, the lower the level of tax avoidance practiced by the company. Although profitability significantly affects tax avoidance, the direction of the relationship is different from the initial hypothesis of this study, which stated that profitability has a positive effect on tax avoidance. Therefore, the first hypothesis (H1) in this study is rejected.

From the perspective of Agency Theory, profitability reflects a company's ability to generate earnings from its operational activities. Companies with high levels of profitability are generally in stable financial conditions and have strong performance in the eyes of investors, creditors, and regulators. This condition causes companies to be more cautious in making high-risk decisions, including tax avoidance practices that may create legal risks, tax sanctions, and reputational damage.

Theoretically, profitability is often associated with increasing tax burdens because the greater the profits earned by the company, the greater the taxes that must be paid. This condition may encourage management to engage in tax planning strategies to reduce tax expenses. However, this study finds that companies with high profitability tend to reduce tax avoidance practices. This indicates that companies prefer to maintain long-term business stability rather than pursue short-term gains through aggressive tax avoidance strategies.

From a regulatory perspective, the Indonesian government continues to strengthen supervision of corporate tax compliance through various taxation policies, including increasing transparency in tax reporting and tighter monitoring of corporate transactions. Companies with high profitability generally receive greater attention from tax authorities because they contribute more significantly to state tax revenue. Therefore, highly profitable companies tend to be more compliant with tax obligations in order to avoid tax audits, fiscal corrections, and potential tax disputes.

In addition, companies with high profitability usually have better corporate governance systems, including stronger internal controls and more transparent financial reporting quality. This limits management's opportunity to engage in opportunistic actions, including aggressive tax avoidance practices. In this context, profitability no longer acts as a driver of tax avoidance but instead becomes a factor that encourages tax compliance.

From the data characteristics, the profitability variable in this study has an average value of 0.108 with a standard deviation of 0.072. The standard deviation value, which is lower than the mean value, indicates that profitability data are relatively homogeneous and do not show excessive variation among sample companies. This condition shows that companies in the basic materials sector during the research period have relatively stable profitability levels. This stability supports

the tendency of companies to maintain their reputation and tax compliance rather than engage in high-risk tax avoidance practices.

The results of this study are not in line with the initial hypothesis, which was developed based on the assumption that higher profitability would encourage companies to engage in tax avoidance to reduce tax burdens. However, the findings are consistent with several previous studies showing that profitability can have a negative effect on tax avoidance. Richardson (2016) found that highly profitable firms tend to avoid aggressive tax avoidance practices due to pressure from regulators and investors. Huseynov and Klamm (2020) also stated that companies with strong financial performance pay greater attention to corporate reputation and tend to avoid high-risk tax strategies. Other studies also indicate that companies with high profitability tend to be more compliant with tax obligations because they prioritize long-term business sustainability.

Therefore, it can be concluded that within the framework of Agency Theory, profitability has a negative effect on tax avoidance because companies with high profits tend to prioritize corporate reputation, business stability, and compliance with tax regulations rather than engaging in aggressive tax avoidance practices. This finding indicates that profitability does not always encourage tax avoidance, but instead can become a factor that reduces such practices.

**Effect of Liquidity on Tax Avoidance**

The test results show that the liquidity variable has a positive and significant effect on tax avoidance, as indicated by the significance value of 0.031, which is smaller than 0.05, with a regression coefficient value of 0.126. This finding indicates that the higher the company's liquidity level, the higher the level of tax avoidance practiced by the company. Thus, the second hypothesis (H2) in this study is accepted.

From the perspective of Agency Theory, liquidity reflects a company's ability to meet its short-term obligations using current assets. Companies with high liquidity are generally in a stronger financial position and have greater flexibility in managing their operational activities, including tax planning decisions. This financial flexibility provides management with broader opportunities to optimize financial resources and reduce tax burdens through legal tax avoidance strategies.

Taxes are often viewed as a significant cash outflow that reduces the amount of funds available for operational and investment purposes. Therefore, companies with high liquidity may seek to maintain their financial efficiency by minimizing tax payments through effective tax planning. In this context, management may use available resources to implement tax strategies that remain within legal boundaries while reducing tax expenses.

From a regulatory perspective, tax planning is still permitted as long as it remains within the framework of applicable tax regulations and does not violate tax laws. Companies with strong liquidity tend to have better access to tax consultants, professional financial advisors, and more sophisticated tax planning systems. This increases their ability to manage tax obligations more efficiently compared to companies with lower liquidity levels.

In addition, companies with high liquidity are generally more capable of absorbing the risks associated with tax planning strategies. This allows them to implement more complex tax management practices while maintaining operational stability. As a result, liquidity becomes an important factor that supports tax avoidance behavior.

From the data characteristics, the liquidity variable in this study has an average value of 2.136 with a standard deviation of 1.124. This indicates that, on average, companies have sufficient current assets to meet their short-term liabilities. Although the standard deviation is relatively high, this reflects variations in working capital management among companies. This variation strengthens the explanatory power of liquidity in influencing tax avoidance within the regression model.

The results of this study are consistent with the initial hypothesis, which stated that liquidity has a positive effect on tax avoidance. These findings are also supported by several previous studies. Dyreng et al. (2010) found that companies with stronger cash positions tend to engage more actively in tax planning to improve financial efficiency. Wahab and Holland (2012) also reported that firms with high liquidity are more likely to manage tax expenses strategically as part of financial management. Other studies similarly show that companies with greater financial flexibility tend to have stronger incentives and capacity to reduce tax burdens.

Therefore, it can be concluded that within the framework of Agency Theory, liquidity has a positive effect on tax avoidance because companies with stronger short-term financial capacity tend to optimize tax management as part of their financial strategy. Higher liquidity provides management with the flexibility, resources, and opportunities needed to implement effective tax planning and reduce tax expenses legally.

**Effect of Leverage on Tax Avoidance**

The test results show that the leverage variable does not have a significant effect on tax avoidance, as indicated by the significance value of 0.362, which is greater than 0.05, with a regression coefficient value of 0.041. This finding indicates that the level of corporate debt does not significantly determine the company's tax avoidance practices. Thus, the third hypothesis (H3) in this study is rejected.

From the perspective of Agency Theory, leverage is closely related to the use of debt financing in the company's capital structure. Companies with high leverage generally incur interest expenses that can be deducted from taxable income, creating what is known as a tax shield effect. Theoretically, this condition should encourage companies to utilize debt as part of their tax planning strategy in order to reduce tax burdens.

However, the results of this study indicate that leverage does not significantly influence tax avoidance. This suggests that debt policy is not the main determinant of corporate tax management decisions. In the basic materials sector, companies often use debt primarily to finance operational expansion, capital-intensive production activities, and long-term investments rather than as a strategy for reducing tax obligations.

From a regulatory perspective, the use of debt financing is also subject to various financial and taxation controls. Excessive leverage may increase financial risk and attract closer monitoring from creditors, investors, and regulators. In addition, the Indonesian government has regulations regarding limitations on interest expense deductibility, which reduce the flexibility of companies in using debt solely for tax-saving purposes. As a result, leverage becomes less effective as a tool for aggressive tax avoidance.

Moreover, companies with high debt levels are usually under stricter supervision from lenders and financial institutions. This external monitoring limits managerial discretion in conducting opportunistic actions, including aggressive tax planning strategies. Managers tend to prioritize financial stability and debt repayment capacity rather than pursuing risky tax avoidance strategies that may threaten the company's financial credibility.

From the data characteristics, the leverage variable in this study has an average value of 0.471 with a standard deviation of 0.055. The relatively low standard deviation indicates that leverage levels among the sampled companies are fairly homogeneous and do not vary significantly. This low variation reduces the explanatory power of leverage in the regression model, making it less capable of explaining differences in tax avoidance behavior among firms.

The results of this study are not consistent with the initial hypothesis, which stated that leverage has a positive effect on tax avoidance. However, these findings are supported by several previous studies. Taylor and Richardson (2014) found that the relationship between leverage and tax avoidance depends heavily on industrial structure and financing strategy. Nugraha and Meiranto (2015) also reported that leverage does not always significantly affect tax avoidance

because debt decisions are often driven more by operational needs than by tax planning considerations. Similar findings were also reported by Abdullah (2020), who found that leverage was not a significant determinant of corporate tax avoidance.

Therefore, it can be concluded that within the framework of Agency Theory, leverage does not significantly affect tax avoidance because debt decisions are more closely related to financing strategy and operational needs rather than aggressive tax management. This finding indicates that leverage is not always a strong predictor of tax avoidance, particularly in companies operating in capital-intensive industries such as the basic materials sector.

**Effect of Institutional Ownership on Tax Avoidance**

The test results show that the institutional ownership variable has a negative and significant effect on tax avoidance, as indicated by the significance value of 0.008, which is smaller than 0.05, with a regression coefficient value of -0.214. This finding indicates that the higher the level of institutional ownership in the company, the lower the level of tax avoidance practiced by the company. Thus, the fourth hypothesis (H4) in this study is accepted.

From the perspective of Agency Theory, institutional ownership functions as an effective monitoring mechanism in reducing agency conflicts between management and shareholders. Institutional investors, such as banks, insurance companies, pension funds, and investment firms, generally have greater resources, expertise, and incentives to supervise managerial performance compared to individual investors. Their presence in the ownership structure strengthens external control over management decisions, including decisions related to tax policies.

Tax avoidance is often considered one form of opportunistic managerial behavior aimed at increasing after-tax profits in the short term. Although tax avoidance may provide financial benefits, it also carries significant legal risks, tax sanctions, and reputational consequences that may reduce firm value in the long run. Institutional investors usually have a long-term investment orientation and prioritize business sustainability, corporate stability, and reputation. Therefore, they tend to discourage aggressive tax avoidance practices that could harm the company's long-term performance.

In addition, institutional ownership improves corporate governance quality through stronger transparency, accountability, and monitoring systems. Companies with high institutional ownership are generally subject to stricter supervision regarding financial reporting and managerial decisions. This reduces management's opportunity to engage in aggressive tax planning because institutional investors demand more prudent and compliant corporate behavior.

From a regulatory perspective, stronger institutional monitoring also supports compliance with tax regulations. Companies with high institutional ownership tend to be more cautious in managing tax obligations because institutional investors are highly sensitive to legal risks and corporate reputation. This encourages management to avoid tax strategies that may trigger tax disputes, fiscal corrections, or regulatory sanctions.

From the data characteristics, the institutional ownership variable in this study has an average value of 0.681 with a standard deviation of 0.157. This indicates that, on average, institutional investors hold approximately 68.1% of total outstanding shares, reflecting strong external monitoring in the sampled companies. The variation in institutional ownership among firms also shows that the level of monitoring differs across companies, allowing this variable to significantly explain tax avoidance behavior in the regression model.

The results of this study are consistent with the initial hypothesis, which stated that institutional ownership has a negative effect on tax avoidance. These findings are also supported by previous studies. Desai and Dharmapala (2006) found that stronger corporate governance mechanisms reduce managerial opportunism in tax management. Nursari et al. (2017) also showed that institutional ownership significantly reduces tax avoidance because stronger monitoring limits aggressive tax behavior. Similar findings were reported by Dewi et al. (2023), who found that

companies with high institutional ownership tend to have lower levels of tax avoidance due to better supervision and governance quality.

Therefore, it can be concluded that within the framework of Agency Theory, institutional ownership has a negative effect on tax avoidance because it functions as a monitoring mechanism that reduces opportunistic managerial behavior and encourages companies to be more compliant with taxation regulations. This finding confirms that stronger corporate governance plays an important role in limiting aggressive tax avoidance practices.

## CONCLUSION

This study aims to examine the effect of profitability, liquidity, leverage, and institutional ownership on tax avoidance in basic materials sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Based on the results of data analysis and hypothesis testing, it can be concluded that profitability has a negative and significant effect on tax avoidance, indicating that companies with higher profitability tend to reduce tax avoidance practices because they prioritize business sustainability, corporate reputation, and compliance with tax regulations.

Liquidity has a positive and significant effect on tax avoidance, which means that companies with stronger liquidity tend to have greater flexibility and financial capacity to implement tax planning strategies in order to reduce tax burdens legally. This finding shows that liquidity provides management with broader opportunities to optimize financial resources through effective tax management.

Leverage does not have a significant effect on tax avoidance, indicating that the level of corporate debt does not significantly determine tax avoidance behavior. This suggests that debt financing in basic materials sector companies is primarily used for operational expansion and investment purposes rather than as a strategy for reducing tax obligations.

Institutional ownership has a negative and significant effect on tax avoidance, which indicates that stronger institutional ownership improves corporate governance quality and limits opportunistic managerial behavior in tax management. Higher institutional monitoring encourages companies to be more transparent and compliant with taxation regulations.

The practical implication of this study is that companies should strengthen good corporate governance and maintain transparency in tax management to avoid aggressive tax practices that may create legal and reputational risks. Investors, especially institutional investors, are expected to continue strengthening their monitoring role to ensure better managerial accountability. For regulators, these findings provide evidence that stronger tax supervision and governance mechanisms are important in reducing tax avoidance practices.

This study has several limitations. First, the research only focuses on companies in the basic materials sector, so the results may not be generalized to other industrial sectors. Second, the independent variables used are limited to profitability, liquidity, leverage, and institutional ownership, while many other factors such as firm size, capital intensity, executive characteristics, and sales growth may also influence tax avoidance. Third, the observation period is limited to 2020–2024, which may not fully capture long-term changes in corporate tax behavior.

Therefore, future research is recommended to expand the research sample by including companies from different sectors and extending the observation period in order to obtain more comprehensive results. Future studies are also encouraged to include additional variables that may provide stronger explanatory power for tax avoidance, such as corporate governance mechanisms, executive characteristics, and sustainability reporting variables. In addition, the use of different tax avoidance proxies may provide broader insights into corporate tax management behavior.

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