

THE EFFECT OF FIRM'S PROFITABILITY, AND OTHER FACTORS ON TAX AVOIDANCE

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Abstract: *The purpose of this research is to gather empirical evidence on the effect of firm profitability, firm size, firm leverage, institutional ownership, financial distress capital intensity, audit quality, CEO tenure on tax avoidance. The population used for this research are all manufacturing companies listed in the Indonesia Stock Exchange (IDX) over three-year period from 2021-2023. The sample was selected using multiple regression and purposive sampling method with the total 195 data collected. The result of this research showed capital intensity have positive effect on tax avoidance. Other independent variables such as firm profitability, firm size, firm leverage, institutional ownership, financial distress, audit quality, and ceo tenure have no effect on tax avoidance.*

Keywords: *Audit Quality, Capital intensity, CEO Tenure, Financial Distress, Firm Profitability, Firm Size, Firm Leverage, Institutional Ownership, Tax Avoidance*

Abstrak: Tujuan dari penelitian ini adalah untuk mengumpulkan bukti empiris mengenai pengaruh profitabilitas perusahaan, ukuran perusahaan, leverage perusahaan, kepemilikan institusional, financial distress capital intensity, kualitas audit, masa jabatan CEO terhadap penghindaran pajak. Populasi yang digunakan untuk penelitian ini adalah seluruh perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) selama periode tiga tahun dari tahun 2021-2023. Sampel dipilih dengan menggunakan metode regresi berganda dan purposive sampling dengan total 195 data yang terkumpul. Hasil penelitian ini menunjukkan intensitas modal berpengaruh positif terhadap penghindaran pajak. Variabel independen lainnya seperti profitabilitas perusahaan, ukuran perusahaan, leverage perusahaan, kepemilikan institusional, *financial distress*, kualitas audit, dan masa jabatan CEO tidak berpengaruh terhadap penghindaran pajak.

Kata Kunci: *Audit Quality, Capital intensity, CEO Tenure, Financial Distress, Firm Profitability, Firm Size, Firm Leverage, Institutional Ownership, Tax Avoidance*

INTRODUCTION

Taxation is referred when a taxing body, typically the government, imposes a financial responsibility on its inhabitants or residents ([Kagan Julia 2024](#)). According to the Undang-Undang Republik Indonesia Nomor 16 Tahun 2009 tentang Ketentuan Umum dan Tata Cara Perpajakan (Republic of Indonesia Law Number 16 of 2009 concerning General Provisions and Procedures for Taxation, hereinafter referred to as "UU No. 16 Tahun 2009"), a tax is an obligatory payment or contribution made by individuals or businesses to the state, which is used for the maximum welfare of the populace and is based on regulations and coercion rather than direct reciprocation Diantari and Ulupui ([2016](#)).

Tax avoidance and tax evasion are terms used to describe taxpayer attempts to reduce their tax obligations; These actions can be taken legally or illegally. Tax Avoidance is a strategy used by businesses to lower their tax liabilities despite seeing increases in sales and income. Because tax avoidance uses the flaws in tax legislation, it is done in an approach that does not violate applicable legal restrictions, unlike tax evasion, which is done illegally in order to distinguish tax avoidance from tax evasion. This research is a development of previous research conducted by Hossain et al. ([2024](#)) by making adjustment to independent variables used, but this research is using tax avoidance in Indonesia, while the previous research using tax avoidance in Bangladesh. Several independent variables were added, namely institutional ownership, institutional ownership, capital intensity, and audit quality which refers to the researcher by Darsani and Sukartha ([2021](#)), and Pandapotan, Oktavianthie, and Setiany ([2024](#))

Agency Theory

Earlier studies used the agency theory to explain the nexus profitability, firm size and leverage on tax avoidance ([Hossain et al., 2024](#)). Agency theory is one of the first theories

in the management and economics literature ([Daily, Dalton 2003](#)). Agency theory addresses the issues that arise in businesses due to owners and managers being apart and strongly emphasizes how to lessen these issues. This idea supports applying several governance systems in jointly held firms to regulate the people's action. To the disadvantage of investors, tax avoidance helps save money that can be utilized for better purposes or by managers for their own gain, the managers decisions on tax planning may be explained by the agency theory Singh ([2023](#)).

The agency theory states that when corporate profitability is high, managers try to minimize personal benefits by reducing the corporation tax burden Prawitasari ([2022](#)). Management can employ tax planning techniques with the resources at their disposal. Agency theory is based on the idea that everyone is driven by the desire to maximize their interests, even while it also focuses on the behavior of specific managers and other relevant parties Godfrey ([2010](#)).

Tax avoidance

Tax avoidance is the legal practice of avoiding taxes while complying with the law ([Suardana, 2014](#)). Tax avoidance refers to the planning and execution of transactions by businesses in order to receive tax benefits, advantages, or reductions in the way that tax law intends without going against the relevant tax regulators ([Anisa, 2015](#)). Firms will attempt to reduce and even avoid the amount of tax due as taxpayers due to the disparity in interests between the government and the corporation about taxes, both legally (Tax Avoidance) and illegally (Tax Evasion). Most of the international firm transactions involving corporations with special links involve tax avoidance strategies ([Rachmat Halim Abdul Radhi, 2021](#)).

Tax avoidance is known as the use of legal methods to reduce the amount of income tax that has a person or business must pay ([Oktaviani, 2019](#)). In general, this is done by

utilizing as many credits and deductions as are permitted. It can also be accomplished by giving tax advantaged investments like purchasing local bonds priority (Salehi, Khazei 2019). Tax laws are not intended to prohibit tax avoidance, even though it frequently attracts unwanted attention due to the perception that it is less nationalistic or has a bad connotation (Sunarto 2021).

Firm profitability and Tax avoidance

Return on Assets is connected with the signaling theory, as per the explanation of the theory provided above. According to the signaling theory, a high firm profitability would indicate that the company is performing well. When a firm has large earnings, it will attempt to keep their taxes as low as possible to make the profit or net profit appear high and convey to investors that the firm is performing well. Based on the results of previous research conducted by Hossain et al. (2024), Prabowo (2020), Sofiamanan, Machmuddah, and T.A.H (2023), A. O. Siregar (2021), Abdul et al. (2021), Fitriyani and Oktris (2023), Laksono and Handayani (2024), Yanti (2022), profitability that using ROA has a positive effect on Tax Avoidance. The more taxes assessed, the more likely it is for firms to avoid taxes. From the following conclusion above raised a hypothesis as follows:

H₁: Firm profitability has an effect on Tax Avoidance

Firm size and Tax avoidance

According to the agency theory, agency costs increase with the size of the firm. Firm usually reveal more details in order to cut the agency expenses. Based on the results of the previous research conducted by Hossain et al. (2024), Prabowo (2020), Sofiamanan, Machmuddah, and T.A.H (2023), A. O. Siregar (2021), Ulfa, Suprapti, and Latifah (2021), Suryatna et al. (2023), Pamungkas (2022), Firm Size has an effect on Tax Avoidance. Firm size is divided into three categories: Large Firms, Medium Firms, and Small Firms. The capital

structure of a firm is influenced by its size since larger firms tend to grow their sales at a faster rate, which makes them more willing to issue additional shares and take in larger loans.

Because huge profits come with a big tax burden, firms that consistently make great profits are more prone to engage in tax avoidance. Due to a shortage of experienced tax professionals, small firm need more tax specialists to adequately address the tax burden placed on them. Means the larger the firm size, the greater the tax avoidance in firm. From the following conclusion above raised a hypothesis as follows:

H₂: Firm Size has an effect on Tax Avoidance

Firm leverage and Tax avoidance

According to A. O. Siregar (2021) and Hossain et al. (2024), Leverage has a positive effect on Tax Avoidance. Leverage is a funding that is obtained by businesses through the use of debt, which has the potential to save tax costs because using debt can result in interest costs that lower the taxable revenue of the business. The leverage ratio of the firm serves as a good indicator of the funding decision policy that it has established. In the other hand, according to the research conducted by Yanti (2022) shows that Leverage has a negative effect on Tax Avoidance. A high debt can cause a low CETR that it shows a high tax avoidance. From the following conclusion above raised a hypothesis as follows:

H₃: Firm Leverage has an effect on Tax Avoidance

Institutional ownership and Tax avoidance

Based on the previous research stated that institutional ownership positively and significantly affects tax avoidance. Therefore, the increase in institutional ownership of shares implies that some of the corporate employee will try to lower the tax burden mandated by tax laws, leading to a raise in tax avoidance. The relationship between managers and

stakeholders in a firm's management is explained by agency theory.

This indicates that there is a positive correlation between the percentage of institutional ownership and the probability of tax avoidance. The ability of external parties to control a firm increases with institutional ownership, creating opportunities for tax avoidance. This aligns with the goals of shareholders who seek substantial profits hence, managers must reduce expenses using tax avoidance. From the following conclusion above raised a hypotheses as follows

H₄: Institutional Ownership has an effect on Tax Avoidance

Financial distress and Tax avoidance

Financial distress raises the incentives for shareholders and their representatives to engage in risk shifting. When making a decisions on whether to lend money to or invest in a failing company, creditors and investors are typically more circumspect during a financial crisis. It is common for stakeholders to react negatively to the existing situation. According to ([Laksono and Handayani 2024](#)) Financial Distress has a positive impact on Tax Avoidance, but in the other hand ([Monika and Noviari 2021](#)) stated that Financial Distress has a negative effect on Tax Avoidance. From the following conclusion above raised a hypothesis as follows:

H₅: Financial Distress has an effect on Tax Avoidance

Capital intensity and Tax avoidance

Based on the results of the previous research, Yanti ([2022](#)), Noor, Fadzilah & Mastuki ([2010](#)), Pratomo and Gusti Raharja ([2021](#)), Ulfa, Suprapti, and Latifah ([2021](#)), Capital Intensity has a positive impact on Tax Avoidance. Capital Intensity is defined as the percentage of Total assets to Fixed Assets (Machinery, Properties, and Equipment) Noor, Fadzilah & Mastuki ([2010](#)).

In the other hand, based on the result of the previous research Monika and Noviari ([2021](#))

Capital Intensity does not affect Tax Avoidance. Contrary to research findings, a company's large fixed asset investment serves its operational objectives and does not influence the company's propensity to engage in tax avoidance. In contrast to rising depreciation expenses, a company with high fixed assets will expand its operational operations and boost net profit. The company's substantial fixed asset holdings are not meant for tax evasion, but rather for operational needs. From the following conclusion above raised a hypothesis as follows:

H₆: Capital Intensity has an effect on Tax Avoidance

Audit quality and Tax avoidance

Based on the result of the previous research Monika and Noviari ([2021](#)), stated that Audit Quality has a negative effect on Tax Avoidance. Because The audits carried out by Big Four and non-big four public accounting firms do not differ significantly. The code of ethics for the public accounting profession established by the Indonesian Institute of Certified Public Accountants, as well as the audit quality control standards set by the Professional Standards Board for Public Accountants of the Indonesian Institute of Certified Public Accountants, serve as guidelines for every public accounting firm auditing financial statements.

In the other hand, based on the result of Pandapotan, Oktavianthie, and Setiany ([2024](#)) stated that Audit Quality has a positive effect on Tax Avoidance. The principal (investor) grants the agent (manager) the power to choose what's best for the principal, according to agency theory. Presenting the financial statements is one of the company's duties as an agent. To lessen information asymmetry and produce accurate financial statements in compliance with financial accounting and auditing standards, agents also have the right to choose certified auditors. From the following conclusion above raised a hypothesis as follows:

H₇: Audit Quality has an effect on Tax Avoidance

CEO Tenure and Tax avoidance

Based on the results of the previous research ([Nathan Goldman, Kathleen Powers 2017](#)), and ([Doho and Santoso 2020](#)) they stated that CEO tenure has an effect on tax avoidance. Company executives are undoubtedly involved in tax avoidance as decisions-makers. CEO Tenure is one factor that can influence tax avoidance.

In the other hand, ([Noviawan and Dara Nida Utamie 2020](#)) stated that CEO tenure has no effect on tax avoidance. This study demonstrates that CEOs with short tenure are not encouraged to engage in tax avoidance to enhance their public image. So that tax avoidance is unaffected by the length of the CEO's employment.

H₈: CEO Tenure has an effect on Tax Avoidance

Research model

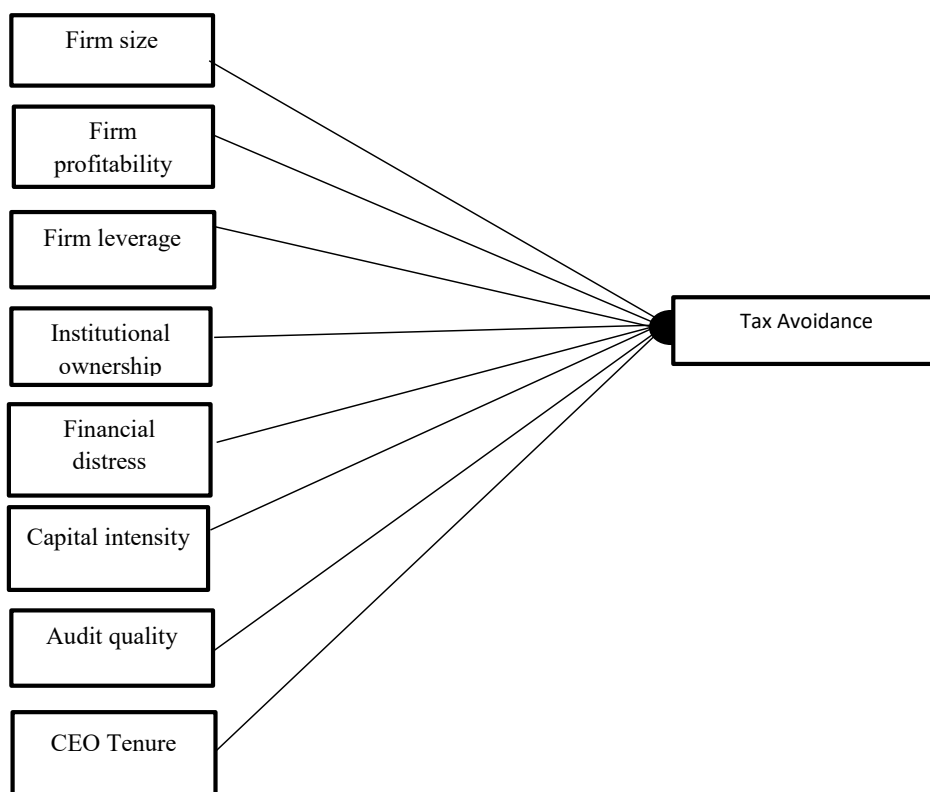


Figure 1 Research Model

RESEARCH METHODS

Table 1. Sampling criteria

No	Criteria	Total companies	Total data
1	Manufacturing companies in Indonesia stock exchange from 2021-2023	164	492
2	Manufacturing companies which publish audited financial statements ended on 31 December 2021 - 31 December 2023	-16	-48
3	Manufacturing companies that use IDR as their currency for reporting use in the financial statements from 2021-2023	-28	-84
4	Manufacturing companies which consistently not experience loss from 2021-2023	-43	-129
5	Manufacturing companies which consistently stated their income tax payment in the financial statements from 2021-2023	-2	-6
6	Manufacturing companies that consistently not stated their value added tax on their payment for income tax in the financial statements from 2021-2023	-3	-9
7	Manufacturing companies that consistently did not stated tax refunds in their financial statement from 2021-2023	-2	-6
8	Manufacturing companies that consistently not has a value of CETR >1 or < 0	-5	-15
Total sample		65	195

Source: Indonesia Stock Exchange

This research is using manufacturing companies that listed in Indonesia Stock Exchange (IDX) from the period of 2021-2023. This research was conducted using multiple regression and purposive sampling. The criteria used for sample selection are shown in Table 1.

Tax Avoidance

The dependent variable in this research is Tax Avoidance. Tax avoidance refers to the planning and execution of transactions by businesses in order to receive tax benefits, advantages, or reductions in the way that tax law intends without going against the relevant tax regulators (Anisa, 2015). The tax avoidance measurement estimation model uses CETR (Cash Effective Tax Rate) model, which is expected to assess the aggressiveness of corporate tax planning (Ngadiman and Puspitasari 2017). CETR was used by several researcher (Hossain et al. 2024). The method

used to measure tax avoidance involves the cash tax paid that divided pre-tax income.

The proxy can also be understood in the following steps:

$$\text{CETR} = \frac{\text{Tax payable by the company}}{\text{Company income before tax}}$$

Firm Profitability

Firm's profitability is a firm's capacity to turn a profit on sales, assets, and dividends on capital Desda (2020). ROA (Return on Assets) was used in this study to measure profitability. A company's profitability is determined by dividing its profit margin from its total assets. The amount of taxes payable increases with profitability Prabowo (2020).

ROA is measured as follows:

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

Firm's Size

The capital structure of a firm is influenced by its size because larger firms tend to have higher sales growth rates, which makes them more willing to issue new shares, also the need to employ loan amounts is increasing A. O. Siregar (2021). Larger firm's usually have greater resources available to them for better tax planning, and previous research examined the relationship between tax avoidance and firm size Firmanysah (2021). The firm size is stated in IDR and is reflected in the total assets of the firm. Firm size variable is measured using the natural logarithm of the total assets carried by the firm Putri, Ulum, and Prasetyo (2019).

Firm size is measured as follows:

$$\text{Firm size} = \ln(\text{Total Assets})$$

Firm's Leverage

Leverage is a ratio that is used to determine how much of a firm's debt is carried relative to its assets, or how much of its assets are supported by debt Kurniasih and Ratna Sari (2013). Leverage is a measure of the amount of debt a business employs to funds its activities (Artinasari and Mildawati 2018).

Firm leverage is measured as follows:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Institutional Ownership

Institutional ownership refers to the ownership of business shares by an organization that can effectively oversee, reprimand, and influence managers to prevent them from acting selfishly. The manager's (agent's) goal is to boost the business's earnings to meet shareholders' expectations. While the government (principal) demands the highest feasible tax to support growth objectives, businesses attempt to pay the lowest possible tax because taxes are thought to lower revenue or net profit. Since institutional ownership can lessen managers' opportunistic behavior, it is advised to monitor tax planning activities more closely. Institutional ownership essentially gives

them great authority over the ongoing operations of the company Jamei (2017).

Institutional ownership is measured as follows:

$$\text{Institutional Ownership} = \frac{\text{Proportion of Shares Owned by Institutions}}{\text{Number of Shares Issued}}$$

Financial Distress

Financial Distress is when a firm is said to be in financial difficulties if its financial situation decreases to bankruptcy or liquidation (Monika and Noviani 2021). Financial distress referred when there is not enough cash on hand to pay for ongoing expenses (Wruck 1990).

Financial Distress is measured as follows:

$$Z = (1.2 \times A) + (1.4 \times B) + (3.3 \times C) + (0.6 \times D) + (1 \times E)$$

Z = Overall Index

A = Working Capital/Total Assets

B = Retained Earnings/Total Assets

C = Earnings Before Interest and Taxes/Total Assets

D = Total equity/Total Debt

E = Sales/Total Assets

Capital Intensity

The capital intensity ratio shows how much of a firm's capital is invested in fixed assets. The firm will spend money on fixed assets to receive a tax reduction for depreciation costs (Monika and Noviani 2021). Capital intensity also known as the ratio of fixed assets, such as machinery, properties and equipment, to total assets (Noor, Fadzilah & Mastuki 2010). Capital intensity is also known as the amount of capital invested in the firm's fixed assets to gain benefits (Dewi & Oktaviani 2021).

Capital Intensity is measured as follows:

$$\text{Capital Intensity} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

Audit Quality

In the auditing process, audit quality is a performance auditor that follows the professional public accountant standards (Monika and Noviani 2021). Audit quality referred

as the performance of the auditor in reviewing the financial accounts of the company in accordance with relevant standards, as established by The Big Four (PWC, Deloitte, EY and KPMG).

The audit quality was determined by measuring the auditor size using dummy variables. A company audited by one of the Big Four public accounting firms would have a maximum value of 1, and a company audited by a public accounting firm other than the big four would have a minimum value of 0 Jeong (2020).

1 = Company audited by big four

0 = Company not audited by big four

CEO Tenure

Company executives are undoubtedly involved in tax avoidance as decisions-makers. CEO Tenure is one factor that can influence tax avoidance. the long tenure The CEO will increase the company's loyalty by refusing to make tax avoidance decisions to gain temporary advantages.

CEO Tenure is measured as follows:

CEO Tenure = Number of years of tenure held by the CEO

Table 2. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
CETR	195	0,0051556	0,8544934	0,2435979	0,1293195
ROA	195	0,0062650	0,3636199	0,0914425	0,0691235
CSIZE	195	25,160995	33,73062	28,989127	1,6648955
DER	195	0,0337636	3,9283978	0,6354837	0,6443659
INSOWN	195	0	0,9942964	0,6406375	0,2769101
FINDES	195	-0,0318015	18,936579	4,2614806	2,4967411
CAPIN	195	0,018209	0,814416	0,3707477	0,1847045
AQ	195	0	1	0,50	0,501
TENURE	195	0	52	9,69	12,528

Source: Statistic Output Data

Table 3. Distribution of Audit Quality (AQ)

	Frequency	Percentage
No Big four	97	49,7
To Non-big four	98	50,4

Source: Statistic Output Data

Table 4. T test result

Variabel	B	Sig	Decision	Conclusion
Constanta	0,198	0,988	0,324	-
ROA	-0,142	-0,978	0,329	H ₁ Not supported
CSIZE	0,003	0,506	0,613	H ₂ Not supported
DER	-0,002	-0,100	0,920	H ₃ Not supported
INSOWN	0,042	1,219	0,225	H ₄ Not supported
FINDES	-0,004	0,945	0,346	H ₅ Not supported
CAPIN	-0,099	-1,917	0,057	H ₆ Supported
AQ	-0,017	-0,756	0,450	H ₇ Not supported
TENURE	0,000	-0,376	0,707	H ₈ Not supported

Source: Statistics output data

Conclusion

The results of the residual data normality test before the outlier test ($n=195$) and after the outlier test ($n=190$) show that the data is not normally distributed, both before and after the outlier test is carried out. Therefore, this research uses data before the outlier test, which is 195 before the outlier test.

Tables 2 and 3 present the results of descriptive statistical analysis. This study includes 1 dummy variable, namely audit quality. Based on the results of data frequency, there are 97 data or 49.7% audited by Big Four KAP, while the data audited by non-Big Four KAP is 98 or 50.4%.

Based on the results of the classical assumption test, the research model does not show multicollinearity or autocorrelation. However, heteroscedasticity was found in the ROA and DER variables.

The results of the correlation coefficient analysis (R test) indicate a moderate relationship between the independent variable and the dependent variable. Based on the analysis of the coefficient of determination or the Adjusted R square test, it is known that the variation in the dependent variable can be explained by the independent variable by -0.2%, while the remaining 99.8% is influenced by other factors not included in the research model. The F test that has been carried out indicates that this research model is fit and feasible to use.

Table 3 presents the results of the t-test data conducted on each independent variable on the dependent variable. The results showed that the Firm profitability (ROA) has a significance value of 0,329 higher than 0,05. H_1 is not supported which means firm size has no effect on tax avoidance. Because the more profit a firm makes, the more likely it is to hide taxes since it wants to show off their big profits by lowering their tax liability A. O. Siregar (2021). If the profitability ratio is high it shows that management is operating efficiently. In contrast, a lower return on assets equates to a lower cash

effective tax rate (CETR) it means the tendency of firm to do tax avoidance will rise.

Firm size (CSIZE) has a significance value of 0,613 lower than 0,05. H_2 is not supported which means firm leverage has no effect on tax avoidance. The firm size not have an impact on its ability to avoid pay taxes. The result of this study is contradict the notion of political power, which holds that big companies have significance financial resources that allow the to shape politics in a country to suit their interests, including controlling operations to maximize tax savings Lestari and Solikhah, (2019).

Firm leverage (DER) has a significance value of 0,920 higher than 0,05. H_3 is not supported which means firm leverage has no effect on tax avoidance. The research presented here work's opposite to the older researcher Yanti, (2022). However, this research is comply with A. O. Siregar (2021). The result indicated that firm with greater leverage have lower CETR. This implies that the degree of tax avoidance increases with decreasing CETR. This implies that the degree of tax avoidance increases with firm leverage.

Institutional ownership (INSOWN) has a significance value of 0,225 higher than 0,05. H_4 is not supported which means institutional ownership has no effect on tax avoidance. This research is contrast with previous researcher Suryatna et al. (2023) and Darsani and Sukartha (2021) which stated that they have effect on their research.

Financial distress (FINDES) has a significance has a significance value of 0,450 higher than 0,05. H_5 is not supported which means capital intensity has no effect on tax avoidance. As the potential benefits of tax avoidance grow more substantial during times of financial difficulty, the company may discover methods that were previously thought to be risky or costly to be more alluring and practical. In addition, companies may believe that tax avoidance has more advantages than disadvantages, which could encourage

management to take on riskier tactics to reduce the company's present tax liabilities Laksono and Handayani (2024).

Capital intensity (CAPIN) has a significance value of 0.057 smaller than 0.05. H_6 is supported, which means that capital intensity has an effect on tax avoidance. On the other hand, lower capital intensity values will lead to less tax avoidance. This is due to the fact that each company's fixed assets will depreciate, which can be utilized to lower the amount of earnings before taxes. In this way, the companies will work to maximize its fixed assets investments in order to reduce its tax liability Noor, Fadzilah & Mastuki (2010).

Audit quality (AQ) has a significance value of 0,450. H_7 is not supported which means audit quality has no effect and does not affect tax avoidance. Because auditors from both big four and non-big four accounting firms use the same procedures, they both equally skilled in auditing and may identify deliberate or inadvertent fraudulent activity in the financial reports of the company. This research has the same result as Pandapotan, Oktavianthie, and Setiany (2024) where audit quality has no effect on tax avoidance. This result is contrast with the researcher by Doho and Santoso (2020) stated that audit quality has a positive affects tax avoidance.

CEO tenure (TENURE) has a significance value of 0,707. H_8 is not supported which means CEO tenure has no effect and does not affect tax avoidance. The CEO and the tax authorities have different interests, which causes agency conflicts, according to the agency theory. Short tenured CEO's will engage in tax avoidance in an effort to boost their cash flows and profits. In this case, it is in the CEO interest to show his best. Therefore, the greater the tax avoidance

rate, the shorter the CEO's term Ulfa, Suprapti, and Latifah (2021).

CLOSING

Based on the research results, it can be concluded that Capital Intensity have a positive effect on tax avoidance. While other variables such as Firm profitability, Firm size, Firm leverage, Institutional ownership, Financial distress Capital intensity, Audit quality and CEO tenure have no effect on tax avoidance.

In this research, there is a few limitations which are:

- 1) The research population is restricted only in manufacturing companies listed in Indonesia Stock Exchange (IDX).
- 2) The research was conducted over not much period of three years, from 2021-2023. It is unable to accurately describe long term conditions.
- 3) There is only 0,2% of the variation in dependent variables that can be explained by independent variables, according to the Adjusted R-square. Consequently, the research model still does not cover all of the variables.

To solve the limitation mentioned above, these are the recommendation for future research:

- 1) Further research is suggested to apply another research population other than manufacturing companies.
- 2) Further research is recommended to use long period of time in order to analyze the long-term effects. I recommend to do the research for 5 years
- 3) Added more variables such as sales growth, audit report lag and etc.

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