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The Effect of Capital Intensity and Profitability on Tax Avoidance

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ABSTRACT

Purpose: This study aims to examine the effect of capital intensity and profitability on tax avoidance in transportation companies listed on the Indonesia Stock Exchange (IDX).
Methodology: This study employed a quantitative approach using secondary data from annual reports of 36 transportation companies during 2020–2024, resulting in 180 firm-year observations. Tax avoidance was measured using the Cash Effective Tax Rate (CETR), capital intensity using the fixed asset ratio, and profitability using Return on Assets (ROA). Data were analyzed using multiple linear regression.
Results: The results show that capital intensity has a negative but insignificant effect on tax avoidance (β=-0.653; p=0.170). Profitability also has a negative and insignificant effect on tax avoidance (β=-0.008; p=0.993). These findings indicate that asset investment and profitability do not significantly determine corporate tax avoidance behavior.
Conclusions: Transportation companies primarily utilize fixed assets for operational purposes rather than tax reduction strategies, while higher profitability does not necessarily encourage tax avoidance practices.
Limitations: This study is limited to transportation companies and only examines two financial determinants of tax avoidance.
Contribution: This study contributes to corporate taxation literature by providing empirical evidence on the role of financial characteristics in explaining tax avoidance behavior.

Keywords: Capital Intensity, Corporate Tax Strategy, Profitability, Tax Avoidance, Transportation Companies

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1. Introduction

Tax is one of the main sources of state revenue, in addition to grants, non-tax state revenue (PNBP), and dividends (Putra & Jati, 2018). According to Afifah and Prastiwi (2021), tax is a mandatory contribution imposed by law on individuals or entities, enforceable without direct compensation, and utilized to finance public expenditures. The government, through the Ministry of Finance, continuously seeks to maximize tax revenue to support national economic growth, while companies aim to minimize tax payments in order to maximize profits (Oliviana & Muid, 2021). Halim, Bawono, and Dara (2020) states that taxation serves two primary functions: the budgetary function to finance government expenditures and the regulatory function to support economic and social policies.

The national tax revenue target and realization from 2018 to 2022 show fluctuations in government revenue performance. In 2018, the tax revenue target was 1,618.1, while the realization reached 1,518.8, representing 93.86% of the target. In 2019, the target increased to 1,786.4, but the realization amounted to 1,546.1 or 86.55%. In 2020, the target decreased to 1,404.5, with a realization of 1,285.1 or 91.50%. However, tax revenue performance improved in 2021, when the realization reached 1,547.9 from a target of 1,444.5, achieving 107.16%. This positive trend continued in 2022, with a target of 1,485.0 and realization of 1,716.8, exceeding the target with a realization percentage of 115.61%. These figures indicate an improvement in national tax revenue collection performance after experiencing a decline during the previous period.

The development of the tax ratio from 2018 to 2022 indicates fluctuations in Indonesia's tax revenue contribution to Gross Domestic Product (GDP). In 2018, GDP was recorded at 14,832.03, with tax revenue reaching 1,518.8 and a tax ratio of 10.24%. In 2019, GDP increased to 15,824.97, accompanied by tax revenue of 1,546.1, while the tax ratio slightly declined to 9.77%. In 2020, GDP decreased to 15,483.13, and tax revenue fell to 1,285.1, resulting in the lowest tax ratio during the period at 8.30%. However, economic recovery was reflected in 2021, when GDP rose to 16,972.59 and tax revenue increased to 1,547.9, leading to a tax ratio of 9.12%. In 2022, tax revenue further improved to 1,716.8, with a tax ratio of 10.40%, despite GDP slightly declining to 16,507.69. These changes demonstrate that tax revenue performance is influenced by economic conditions and reflects ongoing efforts to optimize tax contributions to national economic development.

Based on data from Statistics Indonesia, Indonesia's tax ratio remains below the global average of 13.5%. The Minister of Finance, Sri Mulyani, has indicated that the low tax ratio is partly caused by loopholes in tax regulations and the persistence of tax avoidance practices. Tax avoidance refers to legally reducing tax obligations by exploiting weaknesses or grey areas within tax regulations (Aisyah & Bawono, 2025). Indonesia's self-assessment system grants taxpayers the authority to calculate, pay, and report their own tax obligations, which may increase opportunities for tax avoidance (Yasa & Suprapti, 2015). Although tax avoidance does not violate tax laws, it is considered undesirable because it reduces government revenue and harms the state (Fauzan, Ayu, & Nurharjanti, 2020). According to reports by the Tax Justice Network, Indonesia experiences substantial tax revenue losses annually due to tax avoidance, particularly by corporations and multinational companies (Fadhila & Andayani, 2022). One notable case involved PT Adaro Energy

Tbk, which was alleged to have engaged in transfer pricing practices to shift profits abroad and reduce its tax burden.

Tax avoidance practices are not limited to the energy sector but may also occur in the transportation sector, which plays a vital role in Indonesia's economy. Despite experiencing significant growth, several transportation companies reported consecutive losses while continuing operations and business expansion, indicating potential tax avoidance practices (Dhanayanti & Suardana, 2017). Previous studies have examined various factors influencing tax avoidance, including capital intensity and profitability. Capital intensity reflects a company's investment in fixed assets, which generates depreciation expenses that may reduce taxable income (Dharma & Ardiana, 2022). However, prior research has produced inconsistent findings regarding the effect of capital intensity on tax avoidance (Humairoh, & Triyanto, 2023; Marlinda, Titisari, and Masitoh (2020)).

Profitability, commonly measured using Return on Assets (ROA), indicates a company's ability to generate profits from its assets (Arianandini & Ramantha, 2020). Highly profitable companies tend to have greater incentives to engage in tax avoidance strategies, including transfer pricing (Anouar & Houria, 2017). Nevertheless, empirical evidence regarding the relationship between profitability and tax avoidance remains inconclusive (Permata, Nurlaela, & Masitoh, 2023). Given these inconsistencies, this study focuses on transportation companies listed on the Indonesia Stock Exchange during the 2020–2024 period, encompassing the pre- and post-COVID-19 pandemic era. The study aims to re-examine the effect of capital intensity and profitability on tax avoidance using different sectoral characteristics and a more recent observation period.

2. Literature Review and Hypothesis/es Development

2.1 Stakeholder Theory

Stakeholder theory explains that a company is not solely responsible to its shareholders but also to a wide range of stakeholders who can influence or are influenced by corporate activities, including the government, society, employees, creditors, and the environment (Harmoni, 2023; Siboro and Santoso (2021)). Hörisch, Schaltegger, and Freeman (2020) emphasize that corporate sustainability and accountability require firms to balance the interests of all stakeholders rather than focusing exclusively on profit maximization. According to Supriyati and Hapsari (2021), companies are social entities that must create value for stakeholders while minimizing potential harm arising from business activities. Stakeholder theory therefore serves as a framework for management to enhance value creation and reduce stakeholder losses (Devi, Budiasih, & Badera, 2017). This perspective implies that corporate decisions, including tax-related strategies, should consider broader social and governmental consequences. The government acts as a key stakeholder with regulatory authority, particularly in taxation (Tebiono & Sukandan, 2022). Through tax regulations such as Law No. 7 of 2021 on the Harmonization of Tax Regulations, the government seeks to ensure compliance and optimize public welfare. However, firms may still exploit regulatory gaps to minimize tax payments legally through tax avoidance practices, which can conflict with stakeholder interests (Pohan, 2022).

Stakeholder theory provides an important perspective in understanding corporate tax avoidance because taxation represents a social obligation that directly affects the relationship between companies and the government as well as society. Taxes are not merely viewed as financial costs that reduce corporate profitability, but also as contributions that support public infrastructure, economic development, and social welfare programs. Therefore, aggressive tax avoidance strategies may create reputational risks and weaken stakeholder trust when companies are perceived as failing to fulfill their social responsibilities. From a managerial perspective, corporate tax decisions reflect a balance between achieving financial efficiency and maintaining legitimacy among stakeholders. Companies that prioritize short-term financial benefits through excessive tax avoidance may experience long-term consequences, including increased regulatory scrutiny, negative public perception, and reduced investor confidence. Conversely, companies that implement responsible tax management practices demonstrate commitment to ethical business behavior and sustainable value creation. In this context, stakeholder theory highlights the importance of transparency, accountability, and responsible decision-making in corporate taxation. The application of this theory suggests that tax avoidance behavior is not solely determined by internal financial factors but is also influenced by external pressures from stakeholders, regulatory environments, and societal expectations. Thus, examining tax avoidance through the stakeholder theory lens provides a broader understanding of how companies manage the tension between profitability objectives and their obligations toward broader stakeholder interests.

2.2 Theory of Planned Behavior

The Theory of Planned Behavior (TPB) explains how individual intentions influence behavior through attitudes, subjective norms, and perceived behavioral control. Intention reflects the strength of an individual's willingness to perform a behavior and is considered a strong predictor of actual behavior. TPB consists of three key beliefs, such as behavioral beliefs shaping attitudes, normative beliefs forming subjective norms, and control beliefs influencing perceived behavioral control (Kalbuana, Widagdo, & Yanti, 2020). These components collectively determine whether an individual decides to engage in a particular action. A stronger intention, supported by favorable beliefs and perceived control, increases the likelihood of behavior execution. In the taxation context, TPB helps explain taxpayer behavior. Taxpayers with sufficient tax knowledge and positive beliefs about tax savings may be motivated to engage in tax avoidance within legal boundaries (behavioral belief), whereas strong normative pressures and awareness of the importance of taxes for public welfare may encourage compliance (normative belief) (Ariska et al., 2020).

In relation to corporate tax avoidance, the Theory of Planned Behavior provides a behavioral perspective for understanding how managerial intentions influence corporate tax decisions. Although tax avoidance is generally associated with organizational strategies, the decision to implement certain tax planning mechanisms is ultimately influenced by the perceptions, judgments, and intentions of corporate decision-makers. Managers may evaluate tax avoidance opportunities based on their perceptions of financial benefits, legal risks, ethical considerations, and stakeholder expectations. Behavioral beliefs encourage managers to consider tax efficiency as a means of improving corporate performance, while normative beliefs reflect pressures from shareholders, regulators, auditors, and society regarding responsible tax practices. Meanwhile, perceived behavioral control relates to the extent to which managers believe they have the ability and resources to implement tax strategies, including access to professional tax expertise and knowledge of regulatory provisions. Through the TPB perspective, corporate tax avoidance can therefore be understood not only as a consequence of financial conditions but also as a behavioral outcome shaped by managerial intentions and external influences. Companies with strong profitability and significant capital investment opportunities may have greater incentives and capabilities to engage in tax planning strategies. However, these decisions remain influenced by ethical considerations, regulatory pressures, and the expectations of stakeholders. Thus, TPB complements financial theories by explaining the behavioral mechanisms underlying corporate tax avoidance decisions.

2.3 Tax Avoidance

Tax avoidance refers to legal efforts undertaken by taxpayers to minimize tax liabilities by exploiting loopholes or grey areas in tax regulations without violating the law (Pohan, 2022; Putra, & Jati, 2018). Although legally permissible, tax avoidance can pose reputational and regulatory risks for firms (Ayuningtyas & Sujana, 2022). From an economic perspective, tax avoidance is part of tax planning strategies aimed at maximizing after-tax returns for investors and improving corporate cash flows (Afifah & Prastiwi, 2021). However, excessive tax avoidance reduces government revenue and may conflict with public interests (Supriyati & Hapsari, 2021). Tax avoidance is commonly measured using proxies such as the Cash Effective Tax Rate (CETR), Book-Tax Differences (BTD), and Effective Tax Rate (ETR). This study adopts CETR because it reflects actual cash tax payments and is less affected by accounting estimates, making it a reliable indicator of short-term tax avoidance behavior. Furthermore, tax avoidance practices are closely related to corporate decision-making processes because firms must balance financial efficiency with compliance responsibilities. Companies with strong financial resources may have greater opportunities to implement tax planning strategies due to their ability to utilize professional expertise and complex business structures. Nevertheless, aggressive tax avoidance may attract attention from tax authorities and stakeholders, potentially affecting corporate reputation and legitimacy. Therefore, understanding the determinants of tax avoidance is important for evaluating how firms manage tax obligations while maintaining accountability and sustainable business practices.

2.4 Profitability

Profitability represents a firm's ability to generate profits from its operations, assets, or equity (Santoso & Priantinah, 2022). It reflects managerial effectiveness in utilizing company resources to achieve financial performance objectives. Profitability is commonly measured using financial ratios, particularly Return on Assets (ROA), which assesses how efficiently a firm uses its total assets to generate net income (Mahdiana & Amin, 2020). ROA is widely used because it captures overall operational efficiency and management performance. Highly profitable firms tend to face higher tax burdens due to greater taxable income, which may increase incentives to engage in tax avoidance strategies (Mahdiana & Amin, 2020). Therefore, profitability is often hypothesized to have a positive relationship with tax avoidance. In addition, profitability influences corporate tax behavior because firms with higher earnings have stronger financial capacity to conduct tax planning activities. Managers of profitable companies may seek strategies to optimize tax expenses and maintain competitive financial performance. However, the relationship between profitability and tax avoidance may also depend on corporate governance mechanisms, regulatory pressures, and ethical considerations. Companies with strong accountability practices may prioritize compliance despite higher tax obligations. Therefore, analyzing profitability as a determinant of tax avoidance provides insight into how financial performance conditions shape corporate tax management decisions.

2.5 Capital Intensity

Capital intensity refers to the proportion of a firm's investment in fixed assets relative to total assets (Dharma & Noviari, 2021). High capital intensity results in higher depreciation expenses, which can reduce taxable income and potentially lower tax payments. Firms with substantial fixed assets have greater opportunities to engage in tax planning by utilizing depreciation methods and asset-related tax incentives (Aulia & Mahpudin, 2020). As a result, capital-intensive firms may exhibit higher levels of tax avoidance. However, empirical findings on the relationship between capital intensity and tax avoidance remain mixed. While some studies find a positive effect, others argue that fixed assets are primarily used for operational efficiency rather than tax avoidance purposes (Dewi & Oktaviani, 2021).

Capital intensity is therefore considered an important factor in corporate tax decision-making because asset structures can influence the availability of tax deductions and financial strategies. Companies with greater investments in fixed assets may have more flexibility in managing taxable income through depreciation policies. Nevertheless, the extent to which capital intensity affects tax avoidance depends on managerial intentions, tax regulations, and the company's strategic objectives. Firms may utilize asset-related tax benefits as part of legitimate tax planning, but excessive use of such strategies may raise concerns regarding corporate responsibility and stakeholder expectations. Thus, capital intensity provides valuable insight into the relationship between investment decisions and tax avoidance behavior.

2.6 Theoretical Framework

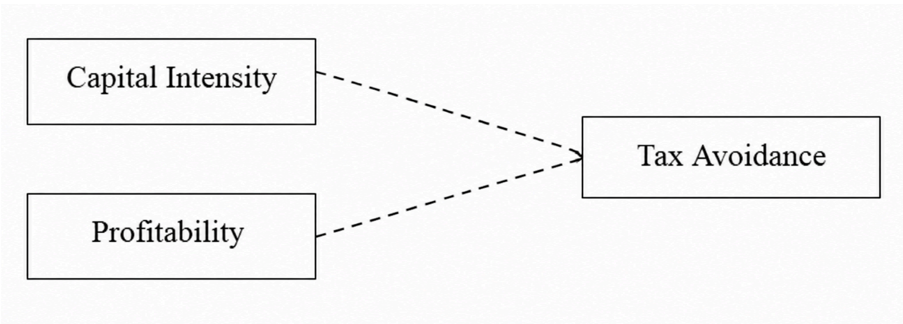

Figure 1. Research framework

Figure 1 shows the research framework examining the effect of capital intensity and profitability on tax avoidance. The framework proposes that capital intensity and profitability act as independent variables that may influence a company's tax avoidance behavior as the dependent variable. Capital intensity reflects the proportion of fixed asset investment, while profitability represents the firm's ability to generate profits. Both factors are expected to affect managerial decisions in implementing tax strategies. Based on the theoretical framework and prior empirical studies, the hypotheses proposed in this study are as follows:

H_1: Capital intensity has a positive and significant effect on tax avoidance

H_2: Profitability has a positive and significant effect on tax avoidance

3. Methodology

This study is grounded in the theoretical framework that emphasizes taxation as a major source of state revenue and recognizes tax avoidance as a legally permissible yet economically undesirable practice that may reduce government revenue. Drawing on stakeholder theory and the theory of planned behavior, corporate tax-related decisions are influenced not only by profit considerations but also by managerial intentions, regulatory pressures, and stakeholder interests. Based on this framework, the analytical model developed in this study illustrates the relationship between capital intensity and profitability as independent variables and tax avoidance as the dependent variable. Capital intensity reflects a company's investment in fixed assets, which may generate depreciation expenses that reduce taxable income, while profitability represents the firm's ability to generate income from its assets and may increase incentives to engage in tax planning strategies. To empirically examine these relationships, this study adopts a quantitative approach using secondary data from 36 transportation companies listed on the Indonesia Stock Exchange, observed over a five-year period from 2020 to 2024, resulting in 180 firm-year observations. Tax avoidance is measured using the Cash Effective Tax Rate (CETR), profitability is proxied by Return on Assets (ROA), and capital intensity is measured as the ratio of fixed assets to total assets. The data are analyzed using descriptive statistics and multiple linear regression analysis, supported by classical assumption tests, to assess both the partial and simultaneous effects of capital intensity and profitability on tax avoidance (Sugiyono, 2023; Ghozali (2021)) .

4. Results and Discussion

4.1 Research Sample

This study examines transportation sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sample was selected using a purposive sampling method, resulting in 36 companies that met the research criteria. With an observation period of five years, the total number of observations analyzed in this study is 180 firm-year data. Descriptive statistics are used to provide an overview of the characteristics of the research variables, including the minimum, maximum, mean, and standard deviation values. The results indicate that capital intensity has an average value of 0.6827, suggesting that transportation companies generally have a high proportion of fixed assets. Profitability, measured by Return on Assets (ROA), has a mean value of 0.0184, reflecting relatively low profitability during the observation period. Meanwhile, tax avoidance, proxied by the Cash Effective Tax Rate (CETR), has an average value of 0.2739, indicating variation in tax avoidance practices among the sampled companies. The classical assumption tests show that after applying a natural logarithm transformation, the data are normally distributed. The results also confirm the absence of multicollinearity, autocorrelation, and heteroscedasticity, indicating that the regression model is appropriate for further analysis. The Pearson correlation test reveals that capital intensity and profitability do not have a significant relationship with tax avoidance. The correlation coefficients indicate a very weak relationship between the independent variables and the dependent variable.

4.2 Multiple Linear Regression Analysis

Table 1. Summary of hypothesis testing results

Hypothesis	Independent Variable	Coefficient	Sig. Value	Decision
H_1	Capital Intensity → Tax Avoidance	-0.653	0.170	Rejected
H_2	Profitability → Tax Avoidance	-0.008	0.993	Rejected

$$CETR = 0.720 - 0.653CI - 0.008ROA + e \quad (1)$$

Table 3 and Formla (1) shows the results of hypothesis testing regarding the effects of capital intensity and profitability on tax avoidance. The findings indicate that capital intensity has a negative coefficient of -0.653 with a significance value of 0.170, indicating that its effect on Tax Avoidance is not statistically significant. Therefore, H_1 is rejected. Similarly, profitability shows a negative coefficient of -0.008 with a significance value of 0.993, demonstrating that profitability does not significantly influence Tax Avoidance. Thus, H_2 is also rejected. These results suggest that variations in capital intensity and profitability do not determine corporate tax avoidance behavior in the observed sample. The coefficient of determination shows an R^2 value of 0.109, indicating that capital intensity and profitability explain 10.9% of the variation in tax avoidance. The remaining 89.1% is explained by other variables not included in this study.

4.3 Discussion

4.3.1 The Effect of Capital Intensity on Tax Avoidance

The findings indicate that capital intensity does not have a significant effect on tax avoidance. This suggests that fixed assets owned by transportation companies are primarily used to support operational activities and long-term investments rather than as a tool to reduce tax burdens through depreciation expenses. Consequently, a high level of capital intensity does not necessarily increase tax avoidance practices. This result is consistent with prior studies by Jusman, Jumriaty, and Firda (2020) and Dewi and Oktaviani (2021), but contradicts the findings of Humairoh and Triyanto (2023), who reported a positive relationship between capital intensity and tax avoidance.

4.3.2 The Effect of Profitability on Tax Avoidance

The results also demonstrate that profitability has no significant effect on tax avoidance. This indicates that higher profits do not automatically encourage firms to engage in tax avoidance activities. Companies with higher profitability tend to receive greater scrutiny from tax authorities, which may lead to higher tax compliance. This finding supports previous studies by Aulia and Mahpudin (2020) and Kalbuana, Widagdo, and Yanti (2020). However, it contrasts with the study by Mahdiana and Amin (2020), which found that profitability significantly affects tax avoidance.

5. Conclusions

5.1 Conclusion

This study examines the effect of capital intensity and profitability on tax avoidance among transportation sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2022 period. Using a purposive sampling technique, 36 companies were selected from a population of 56 firms, resulting in 180 firm-year observations. The data were analyzed using descriptive statistical analysis and multiple linear regression with SPSS 25.0.

The empirical results indicate that capital intensity does not have a significant effect on tax avoidance. This finding suggests that the fixed assets owned by transportation companies are primarily utilized to support operational activities and long-term investments aimed at generating revenue, rather than to exploit depreciation expenses as a tax avoidance strategy. Although depreciation is fiscally recognized as a deductible expense, the high proportion of fixed assets does not necessarily create opportunities for companies to engage in tax avoidance. This result implies that management prioritizes operational efficiency and investment objectives over aggressive tax planning, and it is consistent with previous studies that report no relationship between capital intensity and tax avoidance.

Furthermore, the study finds that profitability does not significantly influence tax avoidance. This outcome may be attributed to the possibility that firms engage in earnings or tax management practices, such as transfer pricing with related parties, which obscure the actual level of profitability reflected in financial statements. In addition, highly profitable firms tend to face greater scrutiny from tax authorities, which may encourage higher levels of tax compliance and reduce incentives to avoid taxes. These results indicate that profitability alone is not a determining factor in tax avoidance behavior within the sampled companies. Despite its contributions, this study has several limitations that provide opportunities for future research. Subsequent studies are encouraged to expand the scope of analysis by examining other industry sectors listed on the IDX to improve the generalizability of the findings. Future research may also consider excluding loss-making firms when using profitability as an independent variable to avoid bias caused by negative ROA values. Additionally, incorporating other explanatory variables such as managerial ability, leverage, firm size, earnings management, leadership style, and public perception may provide a more comprehensive understanding of the determinants of tax avoidance.

5.2 Research Limitations

This study has several limitations that should be acknowledged. First, the research scope is limited to transportation sector companies listed on the Indonesia Stock Exchange, which may restrict the generalizability of the findings to other industries with different operational characteristics and tax strategies. Second, this study only examines two financial determinants, namely capital intensity and profitability, while tax avoidance behavior may also be influenced by other internal and external factors, such as corporate governance, leverage, firm size, earnings management, tax incentives, and regulatory conditions. Third, tax avoidance is measured using the Cash Effective Tax Rate (CETR), which reflects actual cash tax payments but may not fully capture the complexity of corporate tax planning strategies. Furthermore, the use of secondary data from annual reports limits the ability to explore managerial intentions, ethical considerations, and behavioral aspects underlying corporate tax decisions.

5.3 Suggestions and Directions for Future Research

Future research is encouraged to expand the sample by including companies from various industrial sectors listed on the Indonesia Stock Exchange to improve the generalizability of the findings. Further studies may also incorporate additional variables, such as corporate governance mechanisms, leverage, firm size, earnings management, political connections, tax incentives, and managerial characteristics, to provide a more comprehensive understanding of the determinants of tax avoidance behavior. In addition, future researchers may consider using alternative measurements of tax avoidance, such as Effective Tax Rate (ETR) or Book-Tax Differences (BTD), and applying comparative approaches to evaluate differences among sectors. Qualitative or mixed-method approaches are also recommended to explore managerial perspectives, decision-making processes, and ethical considerations related to corporate tax strategies. These approaches may provide deeper insights into how companies balance tax efficiency, regulatory compliance, and stakeholder expectations.

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