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The Determinants of Tax Avoidance: Evidence from Indonesia's Property and Real Estate Sector

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ABSTRACT

This study aims to analyze the determinants influencing tax avoidance practices among property and real estate sector companies in Indonesia. The variables examined include profitability, leverage, capital intensity, and financial distress as factors presumed to affect corporate tax decision-making. The focus of this study is grounded in the importance of understanding how financial and operational characteristics of companies, particularly within a sector characterized by high asset intensity and long business cycles, may influence the tendency toward aggressive tax planning. This study employs a quantitative approach based on secondary data drawn from the annual reports of companies listed on the Indonesia Stock Exchange (IDX) over the observation period of 2022 to 2024. The sample consists of 34 companies selected through purposive sampling. Empirical analysis was conducted using multiple linear regression to examine the relationships among variables, with the aid of SPSS software version 27. The results indicate that profitability has a positive effect on tax avoidance, while capital intensity has a negative effect. Meanwhile, leverage and financial distress do not exhibit a significant influence on tax avoidance. These findings suggest that not all financial indicators serve as relevant predictors of tax avoidance in the property and real estate sector in Indonesia.

Keywords: *Tax Avoidance, Profitability, Leverage, Capital Intensity, Financial Distress*

INTRODUCTION

The sustainability of a nation depends on the government's ability to finance public needs, with tax revenue serving as the primary source of state income. In Indonesia, tax revenues have contributed more than 70% to the State Budget (APBN) (Direktorat Jenderal Pajak, 2025). However, the effectiveness of tax collection remains a critical issue. Indonesia records a relatively low tax-to-GDP ratio compared to other middle-income countries, such as Vietnam (19%) and Thailand (16.7%), while Indonesia's ratio stands at only 12.1% (Organisations for Economic Co-Operation and Development, 2024). his condition indicates a gap between potential and realized tax revenues, which is partly attributed to tax avoidance practices. The World Bank (2024) estimates that more than 25% of formal companies engage in tax avoidance or evasion.

From the perspective of agency theory, a conflict of interest emerges between management and shareholders in determining corporate tax strategies. While shareholders generally favor tax efficiency to enhance company value, management may adopt tax avoidance practices to achieve short-term performance targets or personal incentives. However, such strategies may expose the company to regulatory risks and reputational costs, which are not always aligned with shareholders' long-term interests. The flexibility in tax regulations further provides room for managerial discretion, thereby intensifying agency problems in tax-related decision-making.

Building on the research carried out by Torslov et al. (2022), it shows that globally, 40% of multinational corporations' earnings are diverted to nations with more favorable tax rate levels in order to bring down tax liabilities. Indonesia, as a developing country, also experiences losses due to the practice of shifting multinational corporations' profits to countries with a lower tax burden

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such as Singapore, Hong Kong, and Switzerland. This is reinforced by the Tax Justice Network report published by the Direktorat Jenderal Pajak (2025) which states that Indonesia experiences state losses of IDR 44 trillion per year arising from corporate tax avoidance practices. The IMF 2024 estimates that Indonesia loses around 3.7% of its Gross Domestic Product (GDP) due to tax avoidance, with potential lost state revenues reaching IDR 782.68 trillion per year.

According to a report by Antara News (2025), the property and real estate sector ranked fourth with the highest investment realization, accounting for 7.2% of total national investment realization in 2024. However, based on the State Budget report by Kementerian Keuangan Republik Indonesia (2024), the contribution of tax revenue to this sector contrasts with the reality of 4.8%. This 2.4% difference indicates an imbalance between actual economic activity and realized tax revenue. This finding is further reinforced by the empirical research by Awaliah et al. (2022), which analyzed tax avoidance behavior across five economic sectors in Indonesia from 2016 to 2020, which comprises property and real estate, raw material, consumer goods (primary and non-primary), and industrial sector. The findings reveal that the property and real estate sector was found at the uppermost level of tax avoidance compared to the other four sectors.

The property and real estate sector represents one of the most relevant sectors for examination. Although this sector contributes substantially to national investment realization, its contribution to tax revenue remains comparatively low. This condition indicates a discrepancy between the economic activity generated by the sector and its actual tax revenue realization, pointing to the potential prevalence of tax avoidance practices within the sector. Despite the considerable volume of research conducted on tax avoidance, the findings remain inconsistent. Various empirical studies have reported divergent results, reflecting positive, negative, and non-significant effects on tax avoidance. This suggests that the relationships among variables in determining tax avoidance are contextual in nature and cannot yet be explained with consistent conclusions. Such inconsistencies highlight the existence of a research gap, necessitating further investigation within specific sectoral contexts. In this regard, the property and real estate sector in Indonesia is particularly relevant for examination, given the observed discrepancy between the sector's economic contribution and its tax revenue realization.

On this basis, this study aims to analyze the determinants of tax avoidance among property and real estate companies listed on the Indonesia Stock Exchange during the period 2022–2024. This study is expected to contribute to the enrichment of the existing literature on the determinants of tax avoidance, particularly within the property and real estate sector, while also providing practical implications for company management and regulators in formulating more effective tax policies.

LITERATURE REVIEW

Previous Research

Several previous research have examined the influence of profitability, leverage, financial distress, and capital intensity on tax avoidance practices, but have yielded inconsistent results. Furthermore, the literature remains limited, particularly regarding the limited study of financial distress and the paucity of research specifically examining the effect of capital intensity on tax avoidance in the property and real estate sector. Meanwhile, this sector has unique characteristics, particularly its relatively large fixed asset structure. This situation indicates a research gap that requires further exploration. Therefore, a summary of previous research and the identified research gaps are presented in the following table.

Table 1. Previous Research

Author	Variable	Research Findings	Research Gap
Fadhila et al. (2022)	Profitability, Leverage, Financial Distress, Tax Avoidance	Financial distress and leverage have a positive effect on tax avoidance, while profitability demonstrates a negative effect on tax avoidance	The study does not examine capital intensity as a determining variable, but employs a different specification of the Altman Z-Score

			model.
Sinaga et al. (2023)	Profitability, Leverage, Capital Intensity, Tax Avoidance	Profitability, leverage, and capital intensity each demonstrate a negative effect on tax avoidance	This study does not incorporate financial distress as an examined variable.
Hendayana et al. (2024)	Profitability, Leverage, Capital Intensity, Tax Avoidance	Profitability and leverage have a positive effect on tax avoidance, while capital intensity shows no significant effect on tax avoidance	This study is limited by differences in the sample companies and observation period covered.
Chang et al. (2023)	Profitability, Leverage, Capital Intensity, Effective Tax Rate	Profitability, leverage, and capital intensity shows no significant effect on effective tax rate	This study does not test financial distress and uses the effective tax rate as the dependent variable.
Prasetya et al. (2022)	Profitability, Leverage, Tax Avoidance	profitability and leverage have a positive effect on tax avoidance	This study does not test capital intensity and financial distress
(Fauzan et al. (2021)	Financial Distress, Tax Avoidance	Financial distress has no significant effect on tax avoidance	This study does not test profitability, leverage, and capital intensity
Brugman et al. (2025)	Capital Intensity, Tax Avoidance	Capital intensity have a positive effect on tax avoidance	This study does not test profitability, leverage, and financial distress

Source: Researcher, 2026

From the perspective of agency theory as proposed by Jensen & Meckling (2009), an agency relationship exists between shareholders as the principal and corporate management as the agent. Within this relationship, management is obligated to oversee the company in a manner that maximizes company value, including through efforts to improve tax burden efficiency. As a corporate obligation, taxation has the potential to reduce net income, thereby giving rise to a conflict of interest between the company and tax authorities. This divergence of interests subsequently motivates companies to pursue more optimal tax management strategies, one of which is manifested through the practice of tax avoidance.

Tax avoidance refers to deliberate behavior aimed at maximizing tax liabilities by exploiting loopholes in tax laws and regulations (Frank et al., 2008). Based on a literature review by Bird & Davis-Nozemack (2018), tax avoidance differs from tax evasion, which is considered illegal practice and tax mitigation. Tax avoidance is an effort undertaken by companies to conduct certain transactions for the purpose of reducing its tax obligations. Although technically not a violation of laws and regulations, it fundamentally contradicts the intent and objectives of tax policymakers, thus potentially giving rise to agency problems.

This condition can be understood through the perspective of positive accounting theory, which views tax avoidance as a logical consequence of opportunistic managerial behavior in response to various economic incentives (Watts & Zimmerman, 1978). Within this framework, tax-related decisions do not operate in isolation. On the contrary, they form part of a broader strategy aimed at optimizing both managerial and corporate interests. The drive to enhance after-tax earnings, maintain compliance with debt covenants, and reduce exposure to regulatory and public pressure collectively motivate management to actively manage its tax burden. This behavior is explained in positive accounting theory through three key hypotheses. The first hypothesis is based on the bonus plan hypothesis, which encourages tax avoidance to increase after-tax profits. The second hypothesis refers to the debt covenant hypothesis, which explains corporate compliance with debt. And the last hypothesis is the political cost hypothesis, which suppresses the tax burden and reduces

government pressure.

Profitability

Based on the literature by Brigham & Houston (2022:115), profitability is classified within a financial ratio that indicates the level of managerial effectiveness based on generated profits from sales and other company revenues to assess how well the company can manage its assets and operational activities. This condition indicates flexibility in financial reporting that allows companies to manage company profits and taxable profits separately. Furthermore, it can be explained from the agency theory, that companies as agents, strive to maximize company profits through various strategies, including tax avoidance practices. Meanwhile, shareholders desire sustainable company management and risk control, including reputation and tax compliance. Stricter oversight of management is imposed by highly profitable companies that tend to prevent aggressive tax avoidance practices. This is supported by empirical studies by Hendayana et al. (2024) and Prasetya et al. (2022), which found that the higher a company's profitability, the higher its tax avoidance rate. Highly profitable companies generally have the capacity to discharge their tax obligations pursuant to applicable regulations. In addition, tax avoidance is approached with greater caution by highly profitable companies, as they are more exposed to the risk of reputation loss, the threat of penalties, fines, and other costs associated with such practices. **H1 – Profitability has a positive effect on tax avoidance**

Leverage

Leverage is a financial indicator that reflects the proportion of debt employed to finance a company's assets and operations Brigham & Houston (2022:111). Companies operating with high leverage levels are argued to experience significant implications for their tax obligations. Positive accounting theory explains this relationship by positing that companies strategically utilize interest expenses arising from debt obligations to reduce taxable income within the boundaries of applicable tax regulations. This is corroborated by studies conducted by Fadhila et al. (2022), Hendayana et al. (2024) and Prasetya et al. (2022), all of which identified a positive association between leverage and tax avoidance. Interest expenses generated by elevated debt levels are deliberately employed to reduce earnings before tax, which in turn automatically lowers the recognized tax liability for the current period. This mechanism creates opportunities for companies to pursue tax avoidance by exploiting legal provisions through aggressive debt financing strategies. **H2 – Leverage has a positive effect on tax avoidance**

Capital Intensity

Capital intensity is an indicator that reflects the proportion of a company's investment in depreciable fixed assets Ross et al. (2024:404). Investment in these assets provides benefits in the form of recognizing depreciation expenses, which can reduce taxable income. The higher the level of capital intensity, the greater the company's potential to utilize the depreciation tax shield, resulting in a lower tax burden. This can be explained through tax planning practices, where companies strategically allocate their investments in fixed assets to obtain tax benefits through depreciation mechanisms. This aligns with the findings of Brugman et al. (2025), which states that a higher degree of capital intensity within companies tends to create broader opportunities for tax planning through depreciation and utilizing incentives for fixed asset investments. Fixed assets function as a tax shield through which the overall tax burden can be reduced through the recognition of depreciation expenses. **H3 – Capital intensity has a positive effect on tax avoidance**

Financial Distress

Financial distress refers to a deteriorating financial condition in which a corporate entity experiences operational dysfunction, characterized by its inability to sustain business continuity due to the persistent accumulation of operational losses, unmanageable leverage, and inadequate liquidity to meet financial obligations (Altman et al., 2019). A conceptual distinction must be drawn between financial distress and outright business failure or bankruptcy. As noted by Altman et al. (2019), financial distress describes a condition in which a company is unable to settle its obligations

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upon maturity, whereas bankruptcy occurs when the fair value of a company's assets is insufficient to cover its total liabilities. This phenomenon can be interpreted through the lens of positive accounting theory, which posits that companies facing financial difficulties with high debt burdens tend to adopt accounting policies designed to minimize the risk of bankruptcy. Under severe financial pressure, companies encounter considerable difficulty in fulfilling their obligations, which incentivizes management to prioritize the allocation of financial resources toward more pressing debt obligations rather than tax liabilities, thereby increasing the propensity for tax avoidance behavior. This is supported by Fadhila et al. (2022), whose findings suggest that companies experiencing financial distress are predisposed toward more pronounced tax avoidance practices as a means of sustaining operational continuity. **H4 – Financial distress has a positive effect on tax avoidance**

CONCEPTUAL FRAMEWORK

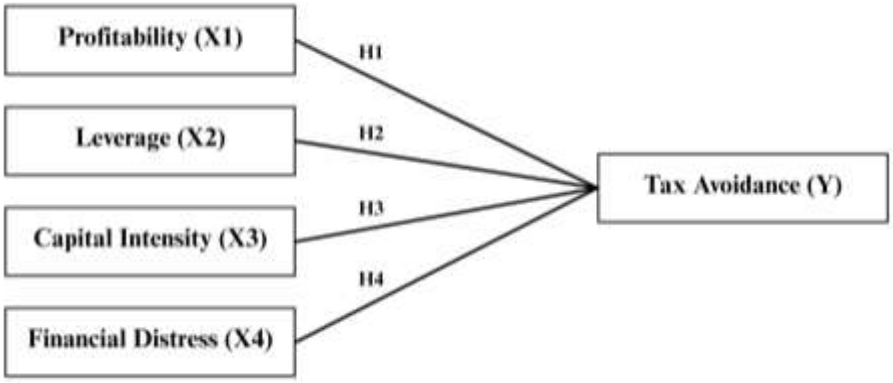

Figure 1. Conceptual framework
Source: Researcher, 2026

METHOD

This study is conducted using quantitative research as its methodology. The research population encompasses the property and real estate sector publicly registered on the Indonesia Stock Exchange (IDX), spanning the observation of 2022 to 2024 period. From the collected data, 85 companies were identified as being enlisted within the property and real estate sector. The selection of the sample in this study was conducted using purposive sampling, through which 34 companies were determined to have satisfied all predetermined criteria. Therefore, the final sample used in this study amounted to 102 observations.

Table 2. Sampling Selection

Description	Total
Property & real estate sector companies listed on the IDX during the 2022-2024 period	85
Companies that have been delisted	(4)
Companies that do not provide fully disclosed financial reports	(16)
Companies that recorded negative earning	(31)
The count of companies satisfying the specified criteria	34
Sample total (2022-2024)	102

Source: Processed Secondary Data, 2026

Tax avoidance is defined as the legal reduction of tax liability achieved through the exploitation of loopholes within existing tax regulations (Bird et al., 2018). In this study, tax avoidance is proxied by the Effective Tax Rate (ETR). A lower ETR value indicates a higher degree of tax avoidance engaged in by the company. The formula is presented as follows:

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$$ETR = \frac{\text{Tax expenses}}{\text{Pre-tax income}}$$

Profitability is a measure that indicates a company's ability to generate earnings from its owned assets. In this study, profitability is measured using Return on Assets (ROA), which reflects the ratio of net income to total assets of the company (Brigham & Houston, 2022:117). The formula is presented as follows:

$$ROA = \frac{\text{Net income}}{\text{Total assets}}$$

Leverage is a ratio that describes the extent to which a company's assets are financed by debt, thereby reflecting the degree of the company's dependence on external funding (Brigham & Houston, 2022:113). In this study, leverage is proxied by the Debt to Assets Ratio (DAR), as it is capable of clearly indicating the proportion of total assets financed through debt obligations. Within the property and real estate sector, leverage tends to be relatively high, commensurate with the substantial value of assets held by companies operating in this industry. The formula is presented as follows:

$$DAR = \frac{\text{Total debt}}{\text{Total assets}}$$

Capital intensity is a measure that reflects the proportion of fixed assets held by a company relative to its total assets, thereby indicating the extent of the company's investment in long-term tangible assets (Ross et al., 2024). The formula is presented as follows:

$$CAPIN = \frac{\text{Net plant assets}}{\text{Total assets}}$$

Financial distress is a condition of declining corporate financial performance that has the potential to culminate in bankruptcy if not managed appropriately, quantified using the modified Z-Score model, updated by (Altman et al., 2019). This model specifically applied on the grounds that it is deemed more appropriate for non-manufacturing companies and companies operating in emerging economies, thereby rendering it particularly relevant for application within the property and real estate sector, which is characterized by a relatively substantial asset base and a financing structure that differs considerably from that of the manufacturing sector. The formula is presented as follows:

$$Z'' = 3{,}25 + 6{,}56X_1 + 3{,}26X_2 + 6{,}72X_3 + 1{,}05X_4$$

Description:
X_1 = working capital / total assets
X_2 = retained earnings / total assets
X_3 = earnings before interest and taxes / total assets
X_4 = book value of equity / total liabilities
Classification:
$Z'' > 2{,}6$ is safe zone
$1{,}1 < Z'' < 2{,}6$ is grey zone
$Z'' < 1{,}1$ is distress zone

This study is based on secondary data through data collection from annual reports published by the official IDX website. This study uses the SPSS program version 27. The analytical method applied in this study is multiple linear regression, selected in consideration of the relatively short observation period spanning from 2022 to 2024, as well as its capacity to produce a more parsimonious and interpretable model in examining the relationships among the study variables. The analytical procedures encompass descriptive statistical analysis, classical assumption tests

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comprising normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, as well as hypothesis testing to substantiate the study's findings. The multiple linear regression model formulated in this study is specified as follows:

$$Y = \alpha + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + \beta 4X_4 + e$$

β1-β4 : regression coefficient
X_1 : profitability
X_2 : leverage
X_3 : capital intensity
X_4 : financial distress
Y : tax avoidance
α : constant
e : error coefficient

RESULTS

Descriptive Statistics

Table 3 provides a descriptive statistical overview based on the observed data measures summary for each variable examined in this research.

Table 3. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviasi
Tax Avoidance	92	0,01	0,44	0,1828	0,11601
Profitability	92	0,03	0,43	0,1978	0,09059
Leverage	92	0,27	0,79	0,5595	0,13821
Capital Intensity	92	0,01	0,78	0,2331	0,15802
Financial Distress	92	1,95	4,42	3,0341	0,54026
Valid N (listwise)	92				

Sumber: Processed SPSS Data 27, 2026

Based on the descriptive statistics presented in Table 3, out of 102 total observations, outliers were identified using the casewise diagnostics method based on standardized residual values. The purpose of this process was to detect extreme observations that could potentially distort the regression model's estimation results. Data points with standardized residual values outside the ±3 range were classified as outliers. Based on this criteria, 10 observations were removed, resulting in a final dataset of 92 observations used in the analysis. Furthermore, the profitability variable obtained a minimum value of 0,03 and a maximum value of 0,43, with a mean value of 0,1978. The leverage variable obtained a minimum value of 0,27 and a maximum value of 0,79, with a mean value of 0,5595. The capital intensity variable obtained a minimum value of 0,01 and a maximum value of -0,78, with a mean value of 0,2331. The financial distress variable obtained a minimum value of 1.95 and a maximum value of 4,42, with a mean value of 3,0341. The tax avoidance variable also obtained a minimum value of 0,01 and a maximum value of 0,44, with a mean value of 0,1828. As indicated by these results, the mean value of each variable is observed to stand above the standard deviation value. Thus indicating that the data variation across all variables is relatively homogeneous.

Statistical Test Results

Next, the results of statistical testing were conducted to analyze the influence of the independent variables including profitability, leverage, and capital intensity, as well as financial distress on the dependent variable of tax avoidance. are presented in table 4.

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Table 4. Results of Classical Assumption Test and Multiple Linear Regression

Model	ETR = 0,487 - 0,686 ROA - 0,065 DAR + 0,219 CAPIN - 0,060 Z"-Score					
Variabel	Collinierity Statistics		Glejser	Statistic t Test		
	Tolerance	VIF	Sig.	B	t	Sig.
Constant				0,487	2,358	0,021
Profitability	0,740	1,351	0,719	-0,686	-5,679	< 0,001
Leverage	0,185	5,397	0,145	-0,065	-0,414	0,680
Capital Intensity	0,914	1,095	0,110	0,219	3,512	0,001
Financial Distress	0,170	5,887	0,238	-0.060	-1,425	0,158
K-S						0,200
Durbin-Watson						1,758
Sig. F Test						< 0,001
Adjusted R^2						0,401

Sumber: Processed SPSS Data 27, 2026

Based on the results of the classical assumption assessment and multiple linear regression in Table 4, it shows that the model applied complies with all classical assumption criteria. The normality test was conducted using the Kolmogorov-Smirnov test, which yielded a significance value of 0.200 ($p > 0.05$), indicating that the residuals are normally distributed. Multicollinearity was subsequently evaluated through tolerance values and the Variance Inflation Factor (VIF), where all independent variables demonstrated tolerance values above 0.10 and VIF values below 10, suggesting no serious multicollinearity in the model. However, the VIF values for the leverage variable (5.397) and financial distress variable (5.887) indicate moderate multicollinearity approaching the cautionary threshold. This condition reflects a relatively high correlation between the independent variables, yet remains within an acceptable range that does not compromise the validity of the regression model. Heteroskedasticity was then examined using the Glejser test by regressing the absolute residual values against the independent variables, with all variables yielding significance values above 0.05, thereby indicating no evidence of heteroskedasticity. Finally, autocorrelation was assessed using the Durbin-Watson statistic, with the obtained value falling within the range of $1.752 < 1.758 < 2.248$, leading to the conclusion that no autocorrelation is present, despite the Durbin-Watson value being relatively close to the lower boundary. This can be stated that each variable contains no bias and complies with the BLUE (Best Linier Unbiased Estimator) criteria. Therefore, the regression model is considered feasible and is suitable for subsequent hypothesis testing. The regression coefficient value for tax avoidance is shown to be 0,487 by the results of the multiple linear regression, with the assumption that each independent variable holds a constant value. The regression coefficient for each independent variable indicates that each unit increase in that variable carries implications for the tax avoidance intensity by the same value as the coefficient generated assuming all other independent variables remain constant or = 0.

The model fit test results in Table 4 indicate that the significance value derived is <0.05. On this basis, it may be reached that avoidance is jointly affected by the variables of profitability, leverage, capital intensity, and financial distress. Furthermore, from the partial t-test results, it may be stated that the following:

Table 5. Result of Statistics t-test

Independent Variable	B	Sig.	Hypothesis
Profitability	-0,686	< 0,001	**H1** accepted
Leverage	-0,065	0,680	**H2** rejected
Capital Intensity	0,219	0,001	**H3** rejected

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Financial Distress	-0.060	0,158	**H4** rejected

Sumber: Processed SPSS Data 27, 2026

Based on the t-test results presented in Table 5, profitability has a positive and significant effect on tax avoidance, thus the first hypothesis is accepted. Capital intensity demonstrates a negative and significant effect on tax avoidance, meaning that the third hypothesis, which predicted a positive effect, is not supported. Meanwhile, leverage and financial distress show no significant effect on tax avoidance, resulting in the rejection of the second and fourth hypotheses.

Based on the R^2 test results in Table 4, the Adjusted R Squared value is 0.337. Therefore, it may be concluded that 40,1% of tax avoidance by the IDX-listed property and real estate sector across the 2022 to 2024 period can be explained by profitability, leverage, capital intensity, and financial distress as included in the model. The remaining 59,9% is explained by other variables outside the scope of this study.

DISCUSSION

Profitability has a positive effect on tax avoidance

Based on the hypothesis testing results of this study, profitability was found to have a positive effect on tax avoidance. This is reflected in the Effective Tax Rate value, which indicates a negative direction, substantively suggesting that the higher a company's profitability, the greater its tendency to engage in tax avoidance practices. This finding indicates that profitability serves as a primary source of incentive in tax planning decisions. Companies with high profit levels face correspondingly larger nominal tax burdens, making the potential tax savings derived from tax planning activities increasingly significant. Under these conditions, the economic benefits of tax avoidance increase proportionally with profit, thereby encouraging companies to more actively exploit gaps in tax regulations. From the perspective of agency theory, this condition reflects a motivation for management to maximize shareholder welfare by increasing after-tax earnings. As pre-tax profit rises, the pressure to sustain net performance also intensifies, making tax avoidance a rational instrument for optimizing after-tax returns. Furthermore, positive accounting theory, through the political cost hypothesis, provides an additional explanation that highly profitable companies tend to face greater political exposure, including the possibility of more rigorous fiscal scrutiny. In response, companies have an incentive to reduce taxable income through accounting and tax strategies, thereby minimizing tax burdens without materially diminishing overall economic performance.

These findings are consistent with the research conducted by Hendayana et al. (2024) and Prasetya et al. (2022), who established that profitability has a positive effect on tax avoidance. Increased profits motivate managers, as agents, to manage tax burdens through tax planning strategies, such as maximizing the recognition of amortization expenses and research and development (R&D) costs, in order to reduce taxable income without compromising the company's overall economic performance. This tendency becomes increasingly relevant when considered in the context of the sector examined in this study, namely the property and real estate sector. This sector is characterized by high fixed asset intensity, substantial initial investment requirements, and long-term project cycles with relatively volatile cash flows. In practice, profit recognition frequently precedes actual cash receipts, meaning that companies may still face liquidity pressures despite reporting high levels of accounting profitability. Under such circumstances, tax avoidance may be viewed as a strategic measure to reduce the company's tax obligations, thereby curtailing cash outflows.

Leverage has not effect on tax avoidance

The results of the second hypothesis test indicate that leverage has no significant effect on corporate tax avoidance decisions. This finding suggests that the prediction derived from Positive Accounting Theory, particularly through the debt covenant hypothesis, is not fully applicable in the context of this study. According to the debt covenant hypothesis, companies with high leverage levels are theoretically expected to have an incentive to increase accounting income in order to

avoid violating debt covenants. This condition may, in turn, motivate management to engage in earnings management practices, including tax avoidance. However, the results of this study demonstrate that such a mechanism does not operate as the dominant factor. Companies with high leverage tend to rely more heavily on tax savings derived from interest expense, commonly known as the interest tax shield, as a legal and relatively stable tax planning strategy, rather than resorting to aggressive tax avoidance practices. Conversely, companies with low leverage do not face substantial pressure from creditors regarding covenant compliance, thereby reducing the motivation to engage in tax avoidance behavior. The discrepancy between these findings and the predictions of Positive Accounting Theory can be attributed to two primary factors. First, the interest tax shield serves as a more effective and legally recognized tax-saving mechanism. Second, increasingly stringent tax oversight has significantly constrained the space available for aggressive tax avoidance practices. Accordingly, leverage cannot be considered a robust indicator in explaining variations in corporate tax avoidance behavior.

Compared to previous research, these findings indicate an inconsistency regarding the effect of leverage on tax avoidance. Several previous re, including those conducted by Sinaga et al. (2023), (Fadhila et al. (2022), Hendayana et al. (2024), and Prasetya et al. (2022), found that leverage has a significant effect on tax avoidance. This discrepancy can be partially attributed to differences in the leverage measurement proxies employed across studies. Previous research generally utilized the Debt to Equity Ratio (DER), whereas the present study employs the Debt to Asset Ratio (DAR). These two ratios represent a company financial structure from distinct perspectives, which may result in differing levels of sensitivity when examining their relationship with tax avoidance behavior, thereby contributing to variations in empirical outcomes.Furthermore, this study focuses on the property and real estate sector, an industry that has received relatively limited attention in prior tax avoidance research. This sectoral distinction may also account for the divergent findings. The property and real estate sector is characterized by high sensitivity to economic cycles and regulatory changes, which tends to make companies in this industry more cautious in making tax-related decisions that carry significant risk. As a result, the available space for engaging in aggressive tax avoidance practices is considerably more constrained compared to companies operating in other sectors.

These findings suggest that capital structure decisions involving the use of debt function primarily as a financing strategy rather than as an instrument to facilitate tax avoidance. For companies, this result affirms that an increase in leverage is not directly associated with tax avoidance practices. Meanwhile, for regulators, this finding implies that tax avoidance oversight cannot rely solely on leverage levels, as corporate tax compliance behavior is shaped by a range of factors beyond debt structure, including compliance considerations, risk tolerance, and conservative tax strategies. This result is supported by Chang et al. (2023), who found that leverage does not have a proven effect on tax avoidance.

Capital intensity has a negative effect on tax avoidance

Based on the hypothesis testing results of this study, capital intensity was found to have a negative effect on tax avoidance. This relationship is reflected in the Effective Tax Rate (ETR) value, which moves in a positive direction, indicating that the higher a company's capital intensity, the lower its tendency to engage in tax avoidance practices. This finding contradicts the hypothesis proposed in this study, which previously predicted a positive relationship between capital intensity and tax avoidance. This discrepancy can be explained through the depreciation tax shield mechanism. A high proportion of fixed assets automatically generates substantial depreciation expenses, which function directly as deductions against taxable income. Under these conditions, companies have already obtained legal tax efficiency benefits without needing to engage in additional aggressive tax avoidance practices. In other words, capital intensity effectively substitutes for the company's need to employ tax avoidance strategies.

This result is consistent with the findings of previous research by Sinaga et al. (2023), who established that the higher the fixed asset intensity, the lower the level of tax avoidance, as companies have already relied on depreciation expenses as a tax-saving instrument. These findings are further supported by the characteristics of the property and real estate sector, which serves as

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the subject of this study. The property and real estate sector is a capital-intensive sector dominated by high-value fixed assets with long useful lives. This condition causes companies to consistently generate relatively large and stable depreciation expenses in each reporting period. As a result, a sufficient built-in tax shield is created, reducing the necessity for companies to engage in aggressive tax avoidance practices. Through this mechanism, companies operating in the property and real estate sector have essentially achieved tax efficiency without having to rely on aggressive tax avoidance strategies.

Financial distress has not effect on tax avoidance

The fourth hypothesis test reveals that financial distress has no significant effect on tax avoidance. These findings suggest that the level of financial distress is not associated with changes in management decisions regarding tax avoidance practices. Although Positive Accounting Theory, particularly through the bonus plan and debt covenant hypotheses, predicts that financial distress may encourage companies to engage in tax avoidance as a strategy to alleviate financial pressure, the empirical results of this study do not support that prediction. This discrepancy can be explained through the characteristics of the property and real estate sector, which is marked by large fixed asset structures and long-term project cycles. Fluctuating earnings in this sector do not necessarily reflect liquidity pressure that would drive aggressive tax planning behavior. Furthermore, when companies are in financial distress, the tax burden they face tends to be relatively small due to low earnings or reported losses, which naturally limits the scope for tax avoidance as the potential economic benefit becomes insignificant. At the same time, companies experiencing financial distress are subject to heightened scrutiny from creditors, auditors, and regulators. In the property and real estate sector, this is particularly critical given the company's heavy reliance on external financing and the importance of maintaining credibility among investors and capital markets. Reputational pressure and the risk of regulatory oversight encourage management to avoid aggressive tax strategies, as such practices may send negative signals to the market. Consequently, management tends to adopt a more conservative approach to tax policy.

These findings are also inconsistent with those of Fadhila et al. (2022), who found that financial distress has a positive effect on tax avoidance in the manufacturing sector. This difference suggests that the relationship between financial distress and tax avoidance is contextual and may vary depending on industry characteristics. In the property and real estate sector, companies in a stable financial condition are also not necessarily inclined toward aggressive tax avoidance, as they tend to prioritize tax compliance and long-term reputational sustainability. As a result, the level of tax avoidance does not differ significantly between companies experiencing financial distress and those in a healthy financial condition. This finding is consistent with Fauzan et al. (2021), who similarly found that financial distress does not have a significant effect on tax avoidance.

CONCLUSION

Based on the research findings executed on 34 property and real estate companies listed on the IDX from 2022 to 2024 analyzed using multiple linear regression, this study concludes that profitability has a positive effect on tax avoidance, while capital intensity has a negative effect on tax avoidance. Meanwhile, leverage and financial distress do not demonstrate a statistically significant effect on tax avoidance. The findings of this study indicate that high profitability tends to increase a company's incentive to engage in tax planning, given the substantial tax burden it faces. Conversely, capital intensity suppresses tax avoidance through the utilization of the depreciation tax shield, thereby functioning as a substitute for tax avoidance strategies. The non-significant effects of leverage and financial distress suggest that financing pressures and financial difficulty conditions do not directly drive tax avoidance behavior. This can be attributed to the characteristics of the property and real estate sector, which is sensitive to economic cycles and regulatory changes, leading companies to adopt a more conservative approach in their tax policies.

This study is subject to certain limitations, particularly the relatively short observation period, which may not fully capture the long-term dynamics of tax avoidance behavior. Future research is therefore encouraged to extend the observation timeframe in order to enhance the generalizability of the findings. In addition, expanding the research model by incorporating other variables, such as

firm size, good corporate governance, and external factors including changes in tax regulations and macroeconomic conditions, is expected to provide a more comprehensive understanding of the determinants of tax avoidance.

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