The Influence of Capital Intensity, Sales Growth, Financial Distress, and Accounting Conservatism on Tax Avoidance: Empirical Study of Mining Companies Listed on the Indonesia Stock Exchange in 2018-2020

Siti Inayatun Na'imah[1], Heri Yanto[2], Niswah Baroroh[3], Ain Hajawiyah[4]
{sitiinayatunnaimah@students.unnes.ac.id[1]}

Universitas Negeri Semarang, Indonesia[1, 2, 3, 4]

Abstract. To ensure the company will continue to operate smoothly and stay lucrative, the company continues to strive to minimize the burden of costs that must be paid. Tax avoidance is one of the strategies commonly used by companies to reduce the number of tax payments by exploiting weaknesses of tax regulation. This study examines the effect of capital intensity, sales growth, financial distress, and accounting conservatism on tax avoidance. This study uses a quantitative approach to analyze the effect of independent variables on tax avoidance. The population in this study were 49 mining companies listed on the Indonesia Stock Exchange in the period 2018-2020. The sample was selected using the purposive sampling method resulting in the final sample of 37 companies with 84 units of analysis. The study omitted 14 outliers, so that the final sample was 70 units of analysis. By using a multiple linear regression test with panel data, the study found that financial distress had a positive effect on tax avoidance. Accounting conservatism has a negative effect on tax avoidance. Capital intensity and sales growth do not have a significant effect on tax avoidance. The study also found that the variation of the independent variables could explain 21% of the variation in tax avoidance. This research is expected to be used as a reference for the government to establish policies that can minimize tax avoidance actions in the future.

Keywords: Mining Company, Capital Intensity, Sales Growth, Financial Distress, Accounting Conservatism, Tax Avoidance

1 Introduction

To stay profitable is the primary purpose of establishing the company to ensure the company will provide prosperity for shareholders. The management will always try to maximize the company's profits to satisfy the shareholders. The profit earned by the company becomes the basis for calculating corporate taxes, so it will influence the amount of tax burden that must be paid by the company to the government. The greater the company's profit, the higher the tax burden that must be paid.

Taxes are mandatory contributions to the state that must be paid by individuals or entities that are coercive based on the law, with no direct reciprocity. The state uses them for the

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greatest prosperity of the people (Undang-Undang No. 16 Tahun 2009). According to Statistics Indonesia (BPS) data, country income from the tax sector occupies the first position to provide the most significant contribution. Taxes are used by the government to implement national development programs in various sectors to improving people's welfare [1]. Meilia & Adnan [2] also said that taxes have a significant role in economic development through the development of adequate infrastructure (roads, bridges, hospitals, schools, etc).

The government and taxpayers have different interests regarding tax payments. The government expects they can get a high tax revenue to cover their expenditures. As one of the sources of state revenues, taxes have a significant role in financing government activities and improving public prosperity [3]. Therefore, the Indonesian government continues to strive to maximize the state's revenue in the tax sector by reforming tax policy and administration more comprehensively [4]. On the other hand, taxpayers, especially corporate taxpayers, will try to do their best to minimize the tax burden. This is because when the tax burden is high, it will reduce the profits earned.

One of the ways commonly used by companies to reduce their tax burden is by doing tax planning. Tax planning must be effective and not break the rules. Companies do tax planning by taking tax avoidance to minimize their tax burden [3]. Tax avoidance is an effort made to reduce the tax burden by taking advantage of every loophole in tax regulations. The practice of tax avoidance is a legal action [5]. It means that tax avoidance is allowed as long as it does not break the laws and regulations that have been set. However, tax avoidance is not expected to be carried out [6]. This is because when taxpayers practice tax avoidance, it will cause decreasing the state revenues. So this makes tax avoidance can be considered as a complex and unique problem because, on the one hand, it is permissible but not desirable [5].

Several tax avoidance cases that occurred in several mining companies in Indonesia. The were reporting from www.globalwitness.org PT. Adaro Energy is suspected of doing tax avoidance. This happened from 2009 to 2017. Global Witness released a report entitled "Taxing Times for Adaro", revealing that PT. Adaro Energy was doing tax avoidance with a transfer pricing scheme. They have been moving vast amounts of profit from coal mining in Indonesia to countries that have lower tax rates. PT. Adaro Energy sells coal to their subsidiary company in Singapore, Coal trade Services International at a lower price than usual and then resells it at a higher price. PT. Adaro Energy paid taxes to the Indonesian Government US$ 125 million less than it should have been.

The financial report shows that the total sales commission value received by Coal trade Services International in Singapore has increased. Before 2019, the annual average of sales commission is $4 million. Then, in 2009-2017 they gained an annual average of $55 million. The increased payments also increase their profits in Singapore, where they are taxed at an annual average of 10%. The advantage of the commission from trade at PT. Adaro Energy might have been taxed in Indonesia at the higher average yearly of 50%.

Most of the profits gained in Singapore appear to have been transferred to one of PT. Adaro Energy's subsidiaries are in the tax haven of Mauritius, where the company was not taxed at all before 2017 and probably until now. The report also found that PT. Adaro Energy has recently acquired a subsidiary in the Malaysian tax haven of Labuan, and the company had been used to buy a large number of shares in an Australian coal mining company. What PT. Adaro Energy did is not against the law, but it's not expected to be done because it can decrease the state revenues.

The result of previous research related to the factors that influence tax avoidance is still inconsistent. Lismiyati & Herliansyah [7] state that capital intensity positively affects tax avoidance, while according to the research conducted by Salaudeen [8] capital intensity has a negative effect on tax avoidance. However, Maulana et al. [9], Puspita & Febrianti [10], Marlinda et al. [3], Nadhifah & Arif [11], and Ulfa et al. [12] proves that capital intensity does not affects tax avoidance.

The result of the research conducted by Purwanti & Sugiyarti [13], Fauzan et al. [5] and Riguen et al. [14] proves that sales growth positively affects tax avoidance, while Nadhifah & Arif [11], Sabita & Mildawati [15] and Puspita & Febrianti [10] states that sales growth negatively affects tax avoidance. Meanwhile, research by Turyatini [1], Mahdiana & Amin [16], and Tanjaya & Nazir [17] shows that sales growth does not affects tax avoidance.

Putri & Chariri [18], Meilia & Adnan [2], and Maulana et al. [9] states that financial distress positively affects tax avoidance, while the research held by Nadhifah & Arif [11] states that financial distress negatively affects tax avoidance. However, the research by Fauzan et al. [19] and Khamisan & Christina [20] shows that financial distress has no effect on tax avoidance.

The results of the research held by Windaryani & Jati [21] and Lismiyati & Herliansyah [7] states that accounting conservatism negatively affects tax avoidance. Meanwhile, research by Jumailah [22], Sa'adah [23] and Susanti [24] shows the result that accounting conservatism doesn't affects tax avoidance.

The result of previous research still has inconsistencies, which cause a research gap. Therefore, it becomes the reason for researchers to re-examine about the influence of capital intensity, sales growth, financial distress, and accounting conservatism on tax avoidance. The object of this research is the mining companies listed on the Indonesia Stock Exchange in 2018-2020. Researchers chose this object because the mining sector is a sector that is known to be able to generate high income, so the possibility of tax avoidance is also high.

Jensen and Meckling first put forward agency theory in 1976. This theory explains the agency relationship, which is a meeting point between two parties, namely the agent (company's management) and the principal (shareholders) [7]. Agency theory states that an agency relationship between agent and principal can cause the agency conflict. Agency conflict arises because the manager, an agent who manage the company, knows more deeply about company's internal information and the future prospect than the shareholders [5]. Jensen and Meckling [25] said that conflict and asynchronous information held by the agent and the principal could cause a problem known as asymmetric information. The asymmetric information that occurs has resulted in the emergence of agency problems. Shareholders expect the company to earn large profits, so that the dividend received is also significant. However, the management also needs to pay attention to the tax payment. The higher profit earned by the company; the higher tax burden must be paid by the company. For this reason, management often takes tax avoidance to pay taxes as low as possible.

Positive accounting theory seeks to explain a process of using skills, understanding, knowledge, and the most appropriate accounting policies [11]. Based on positive accounting theory, companies are given the freedom to choose one of several alternative accounting methods available. Nadhifah & Arif [11] state that companies can choose the most appropriate accounting policies using their abilities, understanding, and knowledge. The company will select a policy that can minimize the tax burden that must be paid to maximize the profit earned.

Capital intensity (CI) is a financial decision determined by the company's management to increase company profitability through fixed assets [11]. Based on positive accounting theory, companies can determine policies that benefit them, including the decisions about where the capital will be invested. Fixed assets owned by the company can facilitate the company's operational activities so they can maximize company's profit. In addition, investing in fixed assets can also reduce the amount of tax burden that must be paid to the Government. Utilization of tax reduction can be done by companies that choose to invest in fixed assets by using depreciation [10]. The more fixed assets owned by the company, the higher depreciation expenses are attached to these fixed assets [9]. The higher the depreciation expenses, the lower company's profit, and the tax burden will be smaller. Therefore, it is believed that by investing in fixed assets, companies can reduce the tax burden that must be paid. Lismiyati & Herliansyah [7] state that CI positively affects the tax avoidance.

H_1: Capital intensity positively affects the tax avoidance of mining companies listed on the Indonesia Stock Exchange in 2018-2020.

Sales growth (SG) is a parameter used to quantify sales performance to increase a company's income over a predetermined period of time [11]. The idea of a correlation between SG and tax avoidance is formed by agency theory. SG that continues to increase is something that shareholders expect. With increased SG, will also increase the company's profits. Increased profits will also bring an impact on the amount of tax burden that must be paid by the company. The high tax burden is not something that management expects. The management expects the tax burden to be as low as possible. This makes the management tend to be more aggressive to doing tax avoidance. Based on the research by Purwanti & Sugiyarti [13] and Fauzan et al. [5] known that SG positively affects tax avoidance.

H_2: Sales growth positively affects the tax avoidance of mining companies listed on the Indonesia Stock Exchange in 2018-2020.

Financial distress (FD) is the company's condition before it went bankrupt or when the financial condition declined which was marked by the company's incapacity to pay off its liabilities to creditors [26]. The financial distress condition occurs before the company goes bankrupt and can trigger a bad company's financial condition to get worse. Information about financial distress can be used as an early warning for bankruptcy so that management can take action quickly to prevent bankruptcy. Financial distress occurs when the amount of debt that must be paid by the company is higher than the total assets owned by the company. Another indication of a company experiencing financial distress is a decline in sales and profits. It does not even rule out the possibility that companies that are in financial distress condition can experience losses. Therefore, companies that are in financial distress condition will be more aggressive to doing tax avoidance practices in order to maintain their companies [9]. Putri & Chariri [18] also says that the tax burden is the main thing in a company's cash flow, so companies that are in financial distress are more aggressive in doing tax avoidance and rule out the possibility of deteriorating the company's reputation. The research conducted by Maulana et al. [9] shows the result that FD positively affects tax avoidance.

H_3: Financial distress positively affects the tax avoidance of mining companies listed on the Indonesia Stock Exchange in 2018-2020.

Accounting conservatism (AC) is the principle of prudence in financial reporting where companies immediately recognize losses and liabilities that may occur and not in a hurry to recognize and measure assets and gains [7]. Thoughts about the relationship between accounting conservatism and tax avoidance are formed by agency theory. The use of accounting conservatism can prevent the agent from carrying out activities that are only profitable for themselves by limiting the agent from manipulate financial statements [22]. The more the accounting conservatism principle is applied, the company will be more careful in conducting financial reporting. Companies will admit revenue at the latest, admit expenses as soon as possible, evaluate assets at the lowest value, and evaluate liabilities at the highest value. The application of the principle of accounting conservatism will make reported earnings more conservative so that companies are not motivated to do tax avoidance. Research by Lismiyati & Herliansyah [7] and Windaryani & Jati [21] proves that accounting conservatism negatively affects tax avoidance.

H_4: Accounting conservatism negatively affects the tax avoidance of mining companies listed on Indonesia Stock Exchange in 2018-2020.

The greater capital intensity, the smoother company's operational activities will be. The smooth operation of the company shows that the company is in good condition. Companies that are in good condition are also characterized by increasing the sales growth. This condition makes the company's profits being high, so the company is more aggressive in carrying out tax avoidance. Companies that are experiencing financial distress will minimize company's expenses, include expenses in the context of paying the tax burden. For this reason, companies are more aggressive in avoiding tax. Companies that apply the principle of accounting conservatism are very careful in terms of financial reporting so that the profits generated are more conservative and companies are not motivated to do tax avoidance. Based on the explanation above, the researcher formulates the hypothesis as follows:

H_5: Capital intensity, sales growth, financial distress, and accounting conservatism jointly influence tax avoidance of mining companies listed on Indonesia Stock Exchange in 2018-2020.

Based on the explanation above, the framework developed in this study can be described as figure 1.

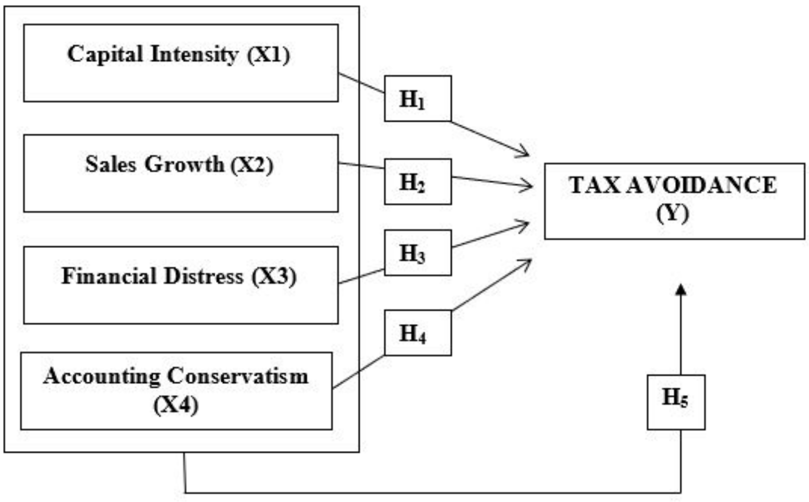

Fig. 1. Theoretical Framework

2 Method

This study used a quantitative approach. The form of data in this study was secondary data taken from financial reports that have been published on the Indonesia Stock Exchange and on the official website of each company. The populations used in this study were 49 mining companies listed on the Indonesia Stock Exchange during the period 2018-2020. The sample was selected using the purposive sampling method. The criteria used were mining companies listed on the Indonesia Stock Exchange in 2018-2020, which publish their financial statements completely, no loss, and provide complete data needed in this study. The result obtained from the selection of this sample was 37 companies with 84 units of analysis. This study omitted 14 outliers so that the final sample was 70 units of analysis.

Data analysis tool used IBM SPSS Statistic 25. The data information from the research result used descriptive statistics. The hypothesis testing technique used in this research was the inferential statistical technique which includes classical assumption tests (normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test) and multiple linear regression analysis.

Table 1. Variable Operationalization

No	Name of Variables	Explanation	Measurement
Dependent Variable			
1.	Tax Avoidance	Tax avoidance is an effort made by taxpayers by taking advantage of applicable legal loopholes with the aim that the tax burden can be minimize [3]	$\text{ETR} = \frac{\text{Income Tax Expense}}{\text{Profit Before Taxes}}$
Independent Variables			
1.	Capital Intensity	Capital intensity is an investment activity on fixed assets [9]	$\text{CI} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$
2.	Sales Growth	Sales growth is a parameter used to measure sales performance to increase company's income over a predetermined period of time [11]	$\text{SG} = \frac{\text{Sales t} - (\text{Sales t} - 1)}{\text{Sales t} - 1} \text{x} 100\%$
3.	Financial Distress	Financial distress is company's condition before it goes bankrupt or when its financial condition declines which is marked by the company's inability to pay off its liabilities to creditors [26]	$\text{FD} = 1{,}650\text{X}_1 + 3{,}404\text{X}_3 + 0{,}016\ \text{ROA} + 0{,}057$
4.	Accounting Conservatism	Accounting conservatism (AC) is the principle of prudence in financial reporting where companies are not in hurry to recognize and measure assets and profits and immediately recognize losses and debts that may occur [7]	$\text{CONACC} = \frac{(\text{NIO}+\text{Dep}-\text{CFO})}{\text{TA}} \text{x}(-1)$

Source: Various Source Processed, 2022

3 Result and Discussions

The variable of tax avoidance (ETR) has a minimum value of 0,0583 at PT. Derma Henwa (DEWA) in 2019 and a maximum value of 0,7082 at PT. Bumi Resources Minerals

(BRMS) in 2020. Overally, tax avoidance has an average value of 0,305401 and a standard deviation of 0,1262283.

The capital intensity variable (CI) has a minimum value of 0,0071 at PT. Capitalinc Investment (MTFN) in 2019 and a maximum value of 0,6390 for PT. Vale Indonesia (INCO) in 2020. Overally, the capital intensity variable has an average value of 0,263310 and a standard deviation of 0,1451074.

The sales growth variable has a minimum value of -0,6346 at PT. Ifishdeco (IFSH) in 2020 and a maximum value of 1,7642 at PT. Cita Mineral Investindo (CITA) in 2018. Overally, the sales growth variable has an average value of 0,188187 and a standard deviation of 0,4850888.

The financial distress variable has a minimum value of -0,0950 at PT. Astrindo Nusantara Infrastruktur (BIPI) in 2020 and a maximum value of 1,7988 at PT. Samindo Resources (MYOH) in 2018. Overally, the financial distress variable has an average value of 0,706960 and a standard deviation of 0,4489928.

The accounting conservatism variable has a minimum value of -0,2014 at PT. TBS Energi Utama (TOBA) in 2020 and a maximum value of 0,1096 at PT. Kapuas Prima Coal (ZINC) in 2020. Overally, the accounting conservatism variable has an average value of -0,009143 and a standard deviation of 00619532.

Table 2. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	70	0,0583	0,7082	0,305401	0,1262283
CI	70	0,0071	0,6390	0,263310	0,1451074
SG	70	-0,6346	1,7642	0,188187	0,4850888
FD	70	-0,0950	1,7988	0,706960	0,4489928
CONACC	70	-0,2014	0,1096	-0,009143	0,0619532
Valid N (listwise)	70				

Source: Secondary data processed, 2022.

In addition to the result of the descriptive statistics above, the result of the normality test shows that the Kolmogorov-Smirnov (K-S) value of 0,200 (0,200 > 0,05), indicating that the data is normally distributed. Then the result of the multicollinearity test shows that all of the independent variables have a tolerance value of more than 0,10 and a VIF value of less than 10, so it can be concluded that there are no symptoms of multicollinearity between independent variables. The autocorrelation test (Durbin-Watson) shows that regression model in this study is free from autocorrelation symptoms. This is because the value of du < d < 4 – du is 1,7351 < 1,933 < 2,2649. Last but not least, the result of the heteroscedasticity test by using the Park test shows that the significance value of all independent variables is more than 0,05, which means that the regression model in this study is free from heteroscedasticity symptoms.

The test result of multiple regression analysis shows a model of multiple regression analysis between variable X to variable Y can be transformed in the equation model as follows:

$$Y = 0{,}459 + (-0{,}037)\,X_1 + (-0{,}010)\,X_2 + (-0{,}110)\,X_3 + 0{,}706\,X_4 + \varepsilon$$

The result of the F statistical test obtained a significance value of 0,001 (0,001 < 0,005) which means that simultaneously the variables of capital intensity, sales growth, financial distress, and accounting conservatism have a significant effect on tax avoidance. The score of adjusted R Square (R^2) shows the number 0,214 which means that the influence of capital intensity, sales growth, financial distress, and accounting conservatism simultaneously on tax avoidance is 21,4% and the amount of other variables that affects the tax avoidance variable is 78,6%. The hypothesis test result is shown in the table 3 as follows:

Table 3. Summary of Hypothesis Testing Result

No	Hypothesis	Sig	Result
1	H_1: Capital intensity positively affects tax avoidance	0,680	Rejected
2	H_2: Sales growth positively affects tax avoidance	0,741	Rejected
3	H_3: Financial distress positively affects tax avoidance	0,000	**Accepted**
4	H_4: Accounting conservatism negatively affects tax avoidance	0,002	**Accepted**
5	H_5: Capital intensity, sales growth, financial distress, and accounting conservatism simultaneously influence tax avoidance	0,001	**Accepted**

Source: Secondary data processed, 2022

3.1 The Effect of Capital Intensity on Tax Avoidance

The result of this study shows that capital intensity does not have a significant effect on tax avoidance of the mining companies listed on the IDX in 2018-2020. Thus hypothesis 1 (H_1) is rejected. Positive accounting theory states that every company can choose the most profitable policy alternative, including the alternative where its capital will be invested. Capital intensity shows how much the company invests their capital on fixed assets. The average ownership of fixed assets of mining companies is quite low, at 26%. The low ownership of fixed assets makes the depreciation of the fixed assets owned not have a major effect on the reduction in taxes that must be paid by the company to the Government [10]. Marlinda et al. [3] also said that companies tend to invest their capital in fixed assets not to minimize the tax burden but to support and expedite their operational activities. The result of this study is in line with research conducted by Puspita & Febrianti [10], Maulana et al. [9], Marlinda et al. [3], Nadhifah & Arif [11] and Ulfa et al. [12] and at the same time rejects the result of research conducted by Lismiyati & Herliansyah [7].

3.2 The Effect of Sales Growth on Tax Avoidance

The result of this study shows that sales growth does not have a significant effect on tax avoidance of the mining companies listed on the IDX in 2018-2020. Thus hypothesis 2 (H_2) is rejected. High or low sales growth does not affects tax avoidance [1]. Companies that experience increased sales growth, do not rule out the possibility that the costs that must be incurred will also increase. This will make profits tend to be stable so that the high and low sales growth has no effect on tax avoidance. This is in line with Tanjaya & Nazir [17] who said that increased sales growth does not necessarily make profits also increase due to high expenses or costs. The result of this study is support the research conducted by Turyatini [1], Mahdiana & Amin [16], and Tanjaya & Nazir [17] and at the same time rejects the result of research conducted by Puspita & Febrianti [10], Fauzan et al. [5], Riguen et al. [14], Sabita & Mildawati [15] and Purwanti & Sugiyarti [13].

3.3 The Effect of Financial Distress on Tax Avoidance

The result of this study shows that financial distress affects

ETR in a negative direction. In accordance with the ETR theory which is inversely proportional to tax avoidance, then it can be conclude that financial distress positively affects tax avoidance of the mining companies listed on the IDX in 2018-2020. Thus hypothesis 3 (H_3) is accepted. The result of this study is in line with the political cost hypothesis in positive accounting theory, which states that companies with high profits tend to get a lot of attention from the government. Companies that are experiencing financial distress tend to have low profits, so the government does not pay too much attention, and this can be used as an opportunity for companies to do tax avoidance. In addition, companies that are experiencing financial distress will experience a financial crisis, so the company will reduce their expenses so as not to worsen the situation. The tax burden is one of the company's main expenses, so the management will make the tax burden as low as possible by doing tax avoidance [18]. The result of this study is in line with research conducted by Maulana et al. [9], Meilia & Adnan [2], and Putri & Chariri [18] and at the same time rejects the result of research conducted by Nadhifah & Arif [11], Fauzan et al. [19], and Khamisan & Christina [20].

3.4 The Effect Accounting Conservatism on Tax Avoidance

The result of this study shows that accounting conservatism affects ETR in a positive direction. In accordance with the ETR theory which is inversely proportional to tax avoidance, then it can be conclude that accounting conservatism negatively affects tax avoidance of the mining companies listed on the IDX in 2018-2020. Thus hypothesis 4 (H_4) is accepted. The result of this study is in line with agency theory where the application of accounting conservatism has a role in limiting agency conflict. Accounting conservatism can prevent agents from taking actions that only increase their welfare [22]. Accounting conservatism is a principle where companies will be very careful in recording assets and debts as well as in recognizing expenses and income. Windaryani & Jati [21] state that the application of accounting conservatism in a company is carried out so that management can manage profits by means of strict profit application so that the profit generated is low and tax burden as low as well. The result of this study support research conducted by Windaryani & Jati [21] and Lismiyati & Herliansyah [7] and at the same time rejects the result of research conducted by Jumailah [22], Sa'adah [23] and Susanti [24].

3.5 The Effect of Capital Intensity, Sales Growth, Financial Distress, and Accounting Conservatism on Tax Avoidance

The result of the study shows that simultaneously there were influences of capital intensity, sales growth, financial distress, and accounting conservatism on tax avoidance of the mining companies listed on the Indonesia Stock Exchange in 2018-2020. Thus, hypothesis 6 (H_6) is accepted. The greater capital intensity, the smoother the company's operational activities will be. The smooth operation of the company is believed to increase the company's sales growth. This condition makes the company's profit higher, so the company is more aggressive in tax avoidance. Companies experiencing financial distress will minimize company expenses, including expenses in order to pay the tax burden. For this reason, companies are also more aggressive in avoiding taxes. Then, companies that apply the principle of accounting conservatism are very careful in terms of financial reporting so that the profits generated are more conservative and companies are not motivated to do tax avoidance.

4 Conclusion and Suggestions

Financial distress and accounting conservatism have a significant influence on tax avoidance, whereas financial distress positively affects tax avoidance while accounting conservatism negatively affects tax avoidance. At the same time, the variables of capital intensity and sales growth have no significant effect on tax avoidance of the mining companies listed on IDX in 2018-2020. Simultaneously, capital intensity, sales growth, financial distress, and accounting conservatism affects the tax avoidance of the mining companies listed on the Indonesia Stock Exchange in 2018-2020.

The result of this study can be used as a reference for the government to establish policies that can minimize tax avoidance actions in the future. For further research, the researcher recommends to adding or considering other variables that can affects tax avoidance as well as to examine companies in other sectors besides mining companies.

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