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Dynamics of Tax Avoidance for the Construction Companies in Indonesia: A Study Financial Factor

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ABSTRACT: This study examines tax avoidance in Indonesia's construction sector, focusing on the influence of profitability, capital intensity, and sales growth. Using data from 15 publicly traded construction firms on the Indonesia Stock Exchange (2020–2022), multiple linear regression analysis was applied to assess the relationship between these financial factors and tax avoidance, measured by the Effective Tax Rate (ETR). The research utilizes quantitative techniques to examine information from 15 construction firms that are publicly traded on the Indonesia Stock Exchange during the period of 2020-2022. Multiple linear regression analysis was used to analyze the data and examine the correlation between profitability, capital intensity, sales growth, and tax avoidance represented by the effective tax rate(ETR). These findings highlight the need for stricter monitoring of asset-intensive firms, as they tend to exploit tax-saving opportunities. Policymakers should evaluate depreciation-related tax benefits to ensure fair tax contributions and introduce enhanced disclosure requirements for high-growth firms. Strengthening regulatory oversight can prevent aggressive tax planning and promote equitable tax compliance. Future research could explore the role of corporate governance and industry-specific tax incentives in shaping tax behavior. Expanding the analysis to other sectors and regions would provide a broader understanding of corporate tax strategies. Ultimately, this study underscores the importance of balancing tax efficiency with regulatory compliance to ensure fiscal sustainability and a fair tax system.

Keywords: Capital Intensity, Construction Sector, Tax Avoidance, Profitability, Sales Growth

INTRODUCTION

Tax avoidance is prevalent throughout multiple sectors, including the construction industry. While not legally forbidden, this behaviour poses a significant problem as it may diminish the potential state revenue intended for public welfare (Aydoğmuş & Gülay, 2022; Mokhtar et al., 2024; Shams et al., 2022). In this context, the government and other stakeholders must comprehend the determinants influencing corporations' tax avoidance actions. This study analyzes many financial

parameters significantly impacting tax avoidance techniques, particularly within the construction sector.

This study analyses the effects of profitability, capital intensity, and sales growth on tax avoidance within Indonesia's construction sector. Tax avoidance, although legal, presents a barrier to government income, especially in a nation where tax collection is essential for financing national development (Moore & Prichard, 2020; Paramita & Ali, 2023). This study seeks to elucidate the impact of financial metrics, including profitability, capital intensity, and sales performance, on corporate strategies to reduce tax liabilities (Santini & Indrayani, 2020; Sumantri et al., 2022). This research elucidates the fundamental determinants of tax avoidance and provides actionable insights for enhancing tax policy in emerging nations.

This study is motivated by the construction industry's substantial impact on Indonesia's economy, catalyzing infrastructure development and a primary source of tax revenue (Riani & Rusydiana, 2022). Nonetheless, the sector is characterized by capital-intensive operations, variable profitability, and intricate financial transactions, rendering it vulnerable to tax avoidance tactics. Governments worldwide, especially in Indonesia, aim to mitigate tax avoidance to secure sufficient funds for public initiatives (Faisal et al., 2023). This study is fundamentally justified by the necessity to comprehend how organizations in this field navigate their tax obligations via financial strategies such as asset allocation and revenue management. Moreover, the current research presents inconclusive findings regarding the associations between profitability, capital intensity, and sales growth in tax avoidance. It underscores the need for more context-specific analyses, especially in emerging countries like Indonesia.

This article examines the correlations between essential financial metrics and tax avoidance in publicly traded construction firms from 2020 to 2022. Prior studies have yielded inconclusive findings on the significant impact of profitability, capital intensity, or sales growth on tax avoidance (Salim, 2023). This study concentrates on Indonesia's construction sector to address a literature gap, providing theoretical and practical contributions.

This study employs quantitative methods, analyzing data from 15 publicly traded companies on the Indonesia stock exchange. The study utilizes multiple linear regression to examine the correlation between the independent variables—profitability, capital intensity, and sales growth—and the dependent variable, tax avoidance, as indicated by the effective tax rate (ETR). This method facilitates the detection of statistically significant patterns that elucidate company behaviour about tax avoidance (Bosua & Evans, 2024; Huang & Huang, 2020; Matute et al., 2021). The results indicate that capital intensity and sales growth substantially affect tax avoidance, with firms possessing more significant asset investments and accelerated growth and more inclined to adopt strategies that minimize their tax liabilities. Notably, profitability does not exhibit a substantial impact, indicating that companies in this sector may prioritize asset-oriented strategies over profit-driven tax minimization (Girasa, 2022). These findings provide significant insights into how financial frameworks within the construction sector facilitate tax avoidance and may guide future tax policy modifications in Indonesia.

Tax avoidance constitutes a significant challenge for governments globally, compromising their capacity to generate sufficient revenue for public services and national development (Hossain et al., 2024). This study aims to analyze the impact of profitability, capital intensity, and sales growth on tax avoidance among publicly listed construction firms in Indonesia from 2020 to 2022. By employing multiple linear regression analysis on financial data from 15 firms, this research seeks to provide empirical evidence on how these financial factors influence tax minimization strategies. Unlike previous studies, this research focuses on an industry-specific context in an emerging market, offering insights into the financial mechanisms that drive tax avoidance in asset-intensive sectors.

The complexity of this problem lies in the interplay between corporate financial decisions and legal tax strategies. Companies aim to optimize their profits while adhering to tax regulations, yet many exploit legal loopholes to reduce their taxable income (Saeed, 2023). Profitability, capital investments, and growth dynamics create layers of complexity, as firms must balance the cost of tax compliance with the benefits of minimizing taxes (Ali et al., 2022). The construction sector, in particular, presents a challenging case due to its reliance on fixed assets, which provide opportunities for depreciation-based tax reductions, and the cyclical nature of its revenue, which can fluctuate with market conditions (Hofmann et al., 2022).

The findings contribute both theoretically and practically. Theoretically, this study enhances the understanding of corporate financial behavior in tax planning, particularly in developing economies. Practically, the results offer valuable implications for policymakers to design more effective tax regulations tailored to industries with high capital investment and revenue volatility. By addressing these gaps, this research provides a fresh perspective on corporate tax strategies in Indonesia's construction sector. While many studies have examined tax avoidance in developed economies, limited research has been conducted in developing countries, particularly within the construction sector (Sebele-Mpofu et al., 2021). By addressing this gap, the research contributes to the empirical, theoretical, and methodological understanding of how financial characteristics influence corporate tax behavior.

The paper synthesizes theories from corporate finance and tax planning to analyze the relationships between profitability, capital intensity, and sales growth. The findings will be linked to the literature review, which explores previous research on tax avoidance and discusses how this study provides a fresh perspective on the issue. Methodologically, the use of multiple linear regression offers a robust framework for testing the hypotheses, ensuring that the results are statistically sound and applicable to the broader context of tax policy in developing markets.

METHOD

This study examines the correlation between profitability (X1), capital intensity (X2), and sales growth (X3) as independent variables and tax avoidance (Y) as the dependent variable. The research analyzes construction and building firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The financial reports of these companies serve as secondary data. A quantitative research strategy was employed to analyze the associations between variables

systematically through statistical methods. Sugiyono (2017) articulated that quantitative research entails collecting and analyzing numerical data to evaluate hypotheses. This study used multiple linear regression analysis to examine the relationships between the independent and dependent variables. This study's population comprises construction and building enterprises listed on the IDX from 2020 to 2022. Twenty-two companies were discovered in this sector. Purposive sampling was utilized, selecting companies according to these criteria: listed on IDX from 2020 to 2022, published audited financial reports for three consecutive periods, supplied comprehensive required financial data for calculating the study variables, and reported positive net income throughout the study period. Fifteen companies were identified as the sample based on these criteria.

Secondary data from the official IDX website (www.idx.co.id) comprised audited financial records for 2020 to 2022. The data documentation approach correctly recorded essential variables, including net income, total assets, and tax expenses. Tax avoidance (Y) was quantified by the Effective Tax Rate (ETR), determined by dividing income tax expense by pre-tax income (Elvira, 2021). Profitability (X1) was assessed by Return on Assets (ROA), capital intensity (X2) was determined by the ratio of fixed assets to total assets, and sales growth (X3) was quantified as the percentage increase in sales relative to the prior period.

Table 1. Presents the Operational Definitions and Measurement Scales for Each Variable

Variable	Indicator	Measurement Formula	Scale
Profitability (X1)	ROA	Net Income / Total Assets	Ratio
Capital Intensity (X2)	Fixed Assets / Total Assets	Fixed Assets / Total Assets	Ratio
Sales Growth (X3)	(Current Sales - Previous Sales) / Previous Sales	Percentage	Ratio
Tax Avoidance (Y)	Effective Tax Rate (ETR)	Tax Expense / Pre-Tax Income	Ratio

The research utilizes multiple linear regression to examine the impact of independent factors (X1, X2, X3) on the dependent variable (Y). The regression equation is articulated as follows: $Y = a + b1X1 + b2X2 + b3X3 + e$, where Y denotes tax avoidance, a signifies the intercept, b1, b2, and b3 are coefficients corresponding to profitability, capital intensity, and sales growth, respectively, X1, X2, and X3 are the independent variables, and e represents the error term.

Assumption tests were performed to verify the robustness of the regression model. The Kolmogorov-Smirnov test confirmed data normality (significance > 0.05 denotes a normal distribution). Variance Inflation Factor (VIF) and tolerance values were assessed to identify multicollinearity (VIF < 10; tolerance > 0.1 signifies the absence of multicollinearity) (Chiadmi, 2021; Firdaus, 2020; Gujarati & Dawn, 2013). The Durbin-Watson (DW) test revealed autocorrelation problems, whereas the Glejser test was utilized to identify heteroscedasticity in the residuals (Firdaus, 2020; Gujarati & Dawn, 2013). Hypothesis testing was conducted using the T-

test to evaluate the individual significance of each independent variable, the F-test to analyze the collective impact of independent variables on the dependent variable, and the Coefficient of Determination (R2) to quantify the proportion of variance in the dependent variable accounted for by the independent variables. This methodological technique guarantees a complete, advanced analysis that effectively addresses the study objectives (Firdaus, 2020; Firdaus et al., 2013).

This transformation helps ensure that the regression estimates remain unbiased and efficient. Additionally, the impact of autocorrelation on the regression model was considered when interpreting the results, as it could lead to underestimated standard errors and inflated test statistics if not properly handled.

Heteroscedasticity was assessed using the Glejser test, where a significance value greater than 0.05 indicated the absence of heteroscedasticity. To ensure the reliability of hypothesis testing, multiple statistical tests were conducted: First the T-Test was used to determine the individual significance of each independent variable, second step the F-Test evaluated the joint significance of all independent variables on tax avoidance so the Coefficient of Determination (R^2) measured the proportion of variance in tax avoidance explained by profitability, capital intensity, and sales growth (M.Firdaus, 2020; M.Firdaus et al., 2013; Sugiyono, 2017).

By addressing these statistical assumptions and applying necessary corrections, the regression model provides more reliable and interpretable findings regarding the relationship between financial indicators and tax avoidance in the Indonesian construction sector.

RESULT AND DISCUSSION

Comprehensive statistical analyses accompany the study's results to substantiate the conclusions reached. The analysis encompasses 15 construction and building firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The relationships among profitability, capital intensity, sales growth, and tax avoidance are evaluated through descriptive statistics, assumption tests, and hypothesis testing.

Descriptive statistics offer a summary of the data, encompassing the minimum, maximum, mean, and standard deviation for the variables: profitability (X1), capital intensity (X2), sales growth (X3), and tax avoidance (Y). For instance, profitability exhibited a mean of -0.45955 and a standard deviation of 1.716531, signifying variability in firms' capacity to leverage their assets for profit generation. Capital intensity averaged 3.65619, indicating the firms' investment in fixed assets with total assets. The average sales growth was 2.94917, indicating differing levels of revenue fluctuation, whereas tax avoidance, assessed through the Effective Tax Rate (ETR), averaged 0.45639, reflecting a range of practices among companies.

Assumption tests were performed to validate the regression model. Conformity The Kolmogorov-Smirnov test confirmed that the residuals are normally distributed (Asymp. Sig. = 0.200 > 0.05). The multicollinearity test indicated that tolerance values for all independent variables surpassed 0.10, and VIF values remained below 10, thereby confirming the absence of multicollinearity. The

Glejser test for heteroskedasticity revealed significance values exceeding 0.05 for all variables, signifying the lack of heteroskedasticity. The Durbin-Watson statistic (0.822) indicated the existence of autocorrelation, necessitating a cautious interpretation of the results.

The subsequent results were derived from multiple linear regression analysis. Profitability (X1), with a coefficient of 0.014 (t = 0.134, Sig. = 0.894 > 0.05), demonstrates no significant effect on tax avoidance. It suggests firms with higher profitability do not necessarily engage in more tax avoidance. Capital Intensity (X2), a negative coefficient of -2.065 (t = -9.392, Sig. = 0.000 < 0.05) signifies a significant inverse relationship. Firms with higher fixed asset investments exhibit reduced effective tax rates, likely due to depreciation benefits. Sales Growth (X3), the coefficient of 0.299 (t = 3.530, Sig. = 0.001 < 0.05) demonstrates a significant positive impact. Firms with higher revenue growth tend to use tax avoidance practices to maximize retained earnings.

The F-test confirmed that profitability, capital intensity, and sales growth influence tax avoidance significantly (F = 214.506, Sig. = 0.000 < 0.05). The adjusted R-squared value of 0.827 indicates that the independent variables explain 82.7% of the variance in tax avoidance, with the remaining 17.3% attributed to other factors.

The minimal impact indicates that less profitable enterprises in the sample may prioritize compliance over tax-minimizing measures. This discovery is consistent with the research conducted by (Rabbi & Almutairi, 2021) and (Gavious et al., 2022), but it contradicts the results of (Blaufus et al., 2023), which identified a substantial influence. A probable explanation is that enterprises with diminished profitability may lack the financial resources or motivation to pursue proactive tax planning (Traini et al., 2024). Furthermore, firms with elevated profitability frequently encounter increased regulatory oversight, deterring them from participating in tax avoidance strategies.

The substantial inverse correlation supports the idea that fixed asset investments facilitate tax reduction via depreciation. Depreciation allowances diminish taxable income, hence decreasing the effective tax rate. Companies with significant capital assets, such as machinery or infrastructure, can utilize these deductions to reduce tax obligations. This discovery aligns with the research conducted by (Rabbi & Almutairi, 2021). Moreover, the findings indicate that capital-intensive enterprises may prioritize investments in long-term assets rather than short-term tax advantages, strengthening their strategic standing in competitive marketplaces.

The favourable correlation corresponds with the anticipation that increased sales growth motivates companies to optimize tax obligations to safeguard cash flows. As companies experience revenue growth, they face heightened tax liabilities, leading them to implement tactics for tax efficiency. It is especially pertinent for construction companies functioning in unstable markets, where preserving liquidity is essential. The results corroborate the conclusions of (Gavious et al., 2022) and enhance the comprehension of the influence of sales growth on financial decision-making.

This study underscores the dynamic interplay between financial performance metrics and tax avoidance behavior. The findings suggest several theoretical and practical implications:

1. For Policymakers: Tax authorities should consider revising tax incentives to promote equitable tax contributions across firms with varying profitability levels. High-profit firms should be monitored closely to ensure compliance without discouraging legitimate tax planning.
2. For Capital-Intensive Industries: Policies encouraging transparent reporting of depreciation and asset utilization could enhance tax compliance. Increased tax incentives for asset-heavy industries may further encourage reinvestment in infrastructure and equipment.
3. For Regulators: Authorities should monitor rapidly growing firms more closely to prevent aggressive tax avoidance strategies that could undermine tax revenue collection. Implementing stricter reporting requirements for high-growth firms may help maintain tax fairness.

The research highlights the interactive relationship between financial performance indicators and tax evasion practices. Policymakers might contemplate amending tax incentives to foster equal tax contributions among enterprises with differing profitability levels. Regulations promoting transparent disclosure of depreciation and asset usage in capital-intensive sectors may improve tax compliance. Furthermore, tax authorities may require increased scrutiny of quickly expanding enterprises to deter aggressive tax avoidance tactics.

CONCLUSION

This study examined the correlation between profitability, capital intensity, and sales growth concerning tax avoidance among IDX-listed construction companies from 2020 to 2022. The results offer empirical insights into business tax tactics and enhance the theoretical comprehension of the impact of financial performance indicators on tax evasion behaviour. The results indicated that profitability did not significantly influence tax avoidance, suggesting enterprises with elevated profitability levels do not inherently pursue more aggressive tax planning strategies. It corresponds with prior research indicating that regulatory oversight on highly profitable companies may restrict their tax reduction capacity. Nonetheless, it prompts inquiries regarding the efficacy of current tax regulations in identifying enterprises according to profitability indicators.

Capital intensity exhibited a notable adverse correlation with tax evasion. This discovery underscores asset depreciation's function as a tax reduction mechanism. Capital-intensive enterprises gain substantial depreciation deductions, reducing their taxable income and effective tax rates. This finding is especially pertinent for policymakers to prevent the disproportionate use of depreciation regulations. Sales growth significantly influenced tax avoidance, indicating that rapidly expanding enterprises may pursue tax-saving techniques to improve cash flow. This discovery highlights the necessity of scrutinizing high-growth enterprises, as their assertive tax strategies may impact fair tax contributions.

Sales growth, on the other hand, has a significant positive impact on tax avoidance. Rapidly expanding firms may adopt aggressive tax strategies to optimize cash flow, which can lead to inequitable tax contributions. This finding underscores the importance of strengthening monitoring mechanisms for high-growth companies to ensure compliance with tax regulations.

Policymakers could introduce more stringent disclosure requirements for firms experiencing rapid revenue expansion to enhance tax transparency and prevent aggressive tax planning.

From a theoretical perspective, this research enriches the understanding of how financial performance metrics shape corporate tax behavior. It demonstrates that profitability, capital intensity, and sales growth play distinct roles in tax avoidance, adding complexity to existing frameworks. The study also emphasizes the interplay between operational decisions and fiscal policies, suggesting that a more dynamic and adaptive tax system could improve compliance and equity.

Policy Implications

1. Refining Profitability Based Tax Regulations , given the lack of a significant relationship between profitability and tax avoidance, tax authorities should reconsider how corporate tax rates are structured to ensure fair contributions from firms across profitability levels. Introducing alternative tax assessment measures, such as industry-specific benchmarks, could improve compliance.
2. Reevaluating Depreciation Tax Benefits, while depreciation deductions support long-term investment, excessive tax reductions may create imbalances. The government should assess whether existing depreciation policies disproportionately benefit certain industries and consider policy adjustments to prevent unintended tax loopholes.
3. Strengthening Oversight for High Growth Firms, firms experiencing rapid sales growth tend to engage in tax avoidance strategies. Enhancing transparency requirements, such as mandatory tax disclosure for high-growth companies, could deter aggressive tax planning and promote fair tax contributions.

This research contributes to the literature on business tax avoidance by elucidating the intricate roles of profitability, capital intensity, and sales growth. It offers empirical evidence that financial performance measurements affect tax strategies in distinct ways. It theoretically enhances the comprehension of the intersection between operational decisions and fiscal policies. The results indicate that amending tax incentives and depreciation regulations may result in more equitable tax regimes. Enhanced oversight may guarantee adherence to regulations and fair tax contributions for fast-expanding enterprises, stabilizing government income streams. This study reveals the divergent influences of profitability and capital intensity on tax avoidance, thereby complicating established hypotheses. Nevertheless, the analysis possesses shortcomings, including its dependence on secondary data from financial statements, which may inadequately reflect the complexities of tax tactics. The emphasis on construction enterprises restricts the applicability of the findings to other sectors.

Subsequent research could examine the influence of governance frameworks or managerial incentives on tax evasion. Broadening the sample to encompass firms from other industries or geographic regions may yield a more comprehensive insight. Future studies may also investigate the impact of technical improvements on facilitating or hindering tax avoidance strategies. The research design facilitated rigorous statistical analysis; nonetheless, the conclusions may be affected

by the accuracy of financial statements and external economic conditions throughout the study period. These aspects require careful interpretation and highlight the necessity for extensive, longitudinal research. This study provides significant insights into the relationship between financial performance and tax tactics, establishing a basis for future research and policy development to improve tax compliance and equity.

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