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Analysis of Capital Structure, Leverage, and Sales Growth in Term of Tax Avoidance

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Abstract: The large number of companies involved in tax avoidance practices by manipulating profits should be a concern for the government in strengthening the tax system in Indonesia. The purpose of this study is to analyze and empirically examine the influence of companies in the consumer non-cyclicals sector on tax avoidance, viewed from the aspects of capital structure, leverage, and sales growth. This research involves all consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, totaling 125 companies, with a sample of 30 companies. The study uses a quantitative approach through panel data regression analysis with the help of EViews version 12. The findings of this study show that capital structure does not have a significant effect on tax avoidance, while leverage has an effect on tax avoidance, and sales growth also has an effect on tax avoidance. Although many studies on tax avoidance have been conducted, studies examining leverage using the proxy of Degree of Financial Leverage (DFL) in consumer non-cyclicals sector companies remain limited. The implications of this study reinforce agency theory, which posits that information asymmetry between owners and managers can encourage managers to maximize profits through tax avoidance. These results can also serve as a consideration in designing stricter fiscal policies targeting companies with high potential for tax avoidance, emphasizing the need for a fairer and more efficient tax system, as well as the necessity for strict sanctions to curb tax avoidance practices among large corporations.

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INTRODUCTION

The national economy of every country relies on tax revenue to achieve its objectives. Taxes serve both revenue and non-revenue purposes, which include social welfare, equitable wealth distribution, and national defense. Taxes are also used as tools to protect local industries and are a primary source of state income. Both development and non-development budgets depend on the collection of this revenue (Mushtaq & Anees, 2024). Tax revenue is reported in financial statements prepared at the end of the period to provide a comprehensive overview of a company's financial situation. One of the main types of financial statements is the income statement, which compares total revenues with total expenses over a specific period. If revenues exceed expenses, the company records a profit; conversely, if revenues are less than expenses, the company records a loss. The income statement reflects the company's performance results

and is crucial for decision-making by both management and external parties such as investors and creditors (Kieso et al., 2020).

Tax avoidance has been a persistent issue since the implementation of tax laws and is commonly found in every society that adopts such systems. This problem is even more prevalent among corporate taxpayers, given the substantial amount of corporate income tax. The fact that taxes significantly reduce a company's pre-tax profits and directly decrease the distributable income may be the main reason why corporate tax avoidance continues unabated. Although nearly every country has enacted various anti-avoidance laws, companies worldwide employ expensive accountants to find increasingly complex ways to pay less tax (Annur et al., 2014). Consequently, Hundal (2011) stated that corporate tax avoidance appears to be one of the most challenging issues of our generation, as it causes serious revenue losses for governments in many countries, both developed and developing.

One notable case of tax avoidance in Indonesia in 2021 involved PT Unilever Indonesia Tbk. According to the income statement for the year ended December 31, 2021, PT Unilever Indonesia Tbk experienced a decline in sales and revenue from IDR 42.97 trillion in 2020 to IDR 39.54 trillion in 2021, reflecting a decrease of IDR 3.43 trillion. This decline affected both gross profit and net profit. The reduction is closely related to the company's capital structure, where liabilities reached IDR 14.75 trillion while equity stood at only IDR 4.32 trillion, indicating high leverage. This leverage allowed for the reduction of taxable income through the recognition of interest expenses, as evidenced by financial charges amounting to approximately IDR 184.87 billion. Additionally, the decline in sales by around 8% may have motivated the company to optimize its tax strategies to reduce tax burdens. In 2021, the tax paid decreased to IDR 1.73 trillion compared to IDR 2.04 trillion in the previous year, reflecting the impact of leverage and cost structure efficiency on tax avoidance. As one of the largest multinational companies in Indonesia, PT Unilever Indonesia Tbk faced challenges due to declining profits during the COVID-19 pandemic. To maintain sales, the company implemented innovative strategies, such as downsizing product packaging to make prices more affordable and offering massive discounts through social media. These strategies helped increase product appeal among consumers and supported the sales of PT Unilever Indonesia Tbk during this difficult period.

The impact of tax avoidance on the government is certainly detrimental, as the state derives a significant portion of its revenue from taxes. However, for companies, tax avoidance can be beneficial because it reduces the amount of tax they have to pay. Tax avoidance is a legal effort by companies to reduce the amount of tax paid explicitly, through various tax planning strategies, although these strategies may be complex or ethically questionable from a moral or corporate governance perspective (Benkraiem et al., 2024). Meanwhile, according to Wen et al. (2025), tax avoidance refers to legal or semi-legal efforts to minimize tax payments, distinct from illegal actions such as tax evasion. These strategies may include financial reporting manipulation, exploitation of legal loopholes, or planning of corporate structures. While legally permissible, such strategies are often ethically criticized and can negatively impact a company's reputation. Furthermore, Payne & Raiborn (2018) argue that tax avoidance, especially when aggressive, is ethically unacceptable and poses a threat to corporate reputation. Existing tax literature mostly focuses on the determinants of corporate tax avoidance (Chen et al., 2019; Lanis and Richardson, 2015; Tan et al., 2023). In contrast, only a few studies examine the consequences of corporate tax avoidance. Whether tax avoidance generates additional internal funds for firms or negatively impacts the quality of financial reporting remains a subject of debate. To date, empirical evidence on the effect of tax avoidance on shareholder wealth is still mixed.

Several aspects influence tax avoidance, one of which is capital structure. In the field of finance, the concept of capital structure has long been a subject of intense debate, as it serves as a quantitative representation of the balance between debt, preferred stock, and common stock within a company. This structure plays a crucial role in optimizing the use of available resources and increasing revenue flows for stakeholders (Ahmed et al., 2024). Capital structure is one of the most important decisions in corporate finance discussions, as it relates to how a company finances its assets through liabilities and equity. It is particularly vital for innovation and firm performance. In the short and medium term, the development of new processes or products originating from innovation investments can impact an organization's

competitiveness, business growth, or expansion into existing markets. In many cases, prioritizing investment in innovation becomes a matter of organizational survival (Cuevas-Vargas et al., 2021). According to Ahmed et al. (2024), a company's capital structure refers to the various methods it uses to obtain funds to support daily operations and future growth. It is a numerical representation of the proportion of debt, preferred stock, and common stock on the company's balance sheet. Capital structure can lead companies to engage in tax avoidance, as found in the study by Prabowo (2020), which revealed that capital structure has a significant and direct relationship with tax avoidance. On the other hand, a study by Mushtaq & Anees (2024) found that capital structure has a negative relationship with tax avoidance indicating that the greater the debt financing, the lower the level of tax avoidance. This may be due to the reduction in taxable income resulting from interest payments.

Next, the aspect of leverage refers to the ratio of the book value of short-term and long-term debt to the book value of total assets. In cross-company leverage comparisons, market-based leverage measures can place disproportionate weight on recent changes in equity value. If we regress growth measures against market-based leverage, we risk regressing growth on the market's expectations of growth, which are already embedded in the company's stock price—resulting in an impure negative relationship between leverage and growth. In contrast, book value-based leverage measures do not reflect recent changes in market perception of the firm (Lang et al., 1996). Meanwhile, Dudycz (2024) defines the measure of leverage used as operating leverage, which is the ratio of fixed costs to total costs at a given output level (especially at the break-even point). It reflects the result of a strategic trade-off mechanism between fixed and variable costs, aimed at increasing value-added and profits. Previous research by Khanh & Khuong (2019) found a significant positive relationship between tax avoidance and corporate leverage. When Book Tax Differences (BTD) are high, it can mean that accounting income is made to appear higher than taxable income. This can make a company appear financially healthy, while in reality, it is engaging in tax avoidance, and may intentionally reduce leverage to avoid attracting attention from creditors or regulators. The study also cites research by Sholekah & Oktaviani (2022), which states that leverage has a positive effect on tax avoidance. The higher the leverage, the greater the company's dependence on debt or loans. Firms with high debt levels tend to engage in tax avoidance as a strategy to meet their debt obligations. This is also supported by research from Khairunnisa et al. (2023), which confirms that leverage has an effect on tax avoidance.

Lastly, the aspect of sales growth is one of the growth ratios used to measure a company's sales performance and serves as an indicator that can reflect the development of a company's sales over time (Arasteh & Nourbakhsh, 2014). Sales growth is utilized by companies to continuously maximize profits and enhance revenue growth, which in turn increases the tax burden and may lead to tax avoidance practices. The study by Leischnig et al. (2016) found that the main drivers of sales growth are corporate strategy, firm demographics, and industry characteristics. Their research examined industry growth to explain variations in sales growth, which ultimately influences tax avoidance activities. In rapidly growing industries, companies are more likely to boost their sales due to greater market potential and relatively weaker competitive forces compared to slower growing industries. Based on this research gap, a simple theoretical model is proposed, grounded in agency theory, to describe how corporate tax avoidance affects decisions related to capital structure, leverage, and sales growth. The study then empirically tests the main predictions of this model. Based on the agency theory framework, it is assumed that a company chooses a combination of tax avoidance, capital structure, leverage, and sales growth strategies in order to maximize its after-tax cash flow.

LITERATURE REVIEW AND HYPOTHESES

Agency Theory

Agency theory is used to explain tax avoidance. Jensen & Meckling (1976) define an agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interest of the principal. However, this perspective overlooks the

agency problems that arise from the separation of ownership and control, which allows managers to pursue strategies that may harm shareholder interests. Tax avoidance can generate cash that may be misused by managers, thereby negatively impacting firm performance. Based on this agency related motive, Benkraiem et al. (2024) assume that tax avoidance activities exacerbate information asymmetry and are associated with opportunistic managerial behavior. Managers, being human, are likely to act opportunistically—that is, to prioritize their own interests. One such opportunistic action is manipulating the company's tax burden by reducing taxable income. This behavior triggers tax avoidance practices, as corporate profit is a key indicator of a manager's performance success in running the company (Afrianti et al., 2022). Therefore, this activity is likely to contribute to suboptimal investment decisions.

According to Sdiq (2022), the relationship between agency theory and capital structure and leverage (debt) is one of the most controversial issues in the literature, as it can trigger conflicts between owners and managers and affect firm performance. Based on agency cost theory, firms must choose the right mix of debt and equity to reduce agency costs and thereby maximize financial performance. Therefore, management may opt for an optimal capital structure between debt and equity by taking into account the tax shield benefits of debt. However, high debt usage indicates a potential risk that the company may struggle to repay its obligations. As a result, a low debt ratio can serve as a positive signal to investors.

Capital Structure

The concept of capital structure has long been a subject of intense debate, serving as a quantitative representation of the balance between debt, preferred stock, and common stock within a company. This capital structure plays a crucial role in optimizing the use of the company's resources while also enhancing revenue streams for stakeholders. Capital structure is one of the most critical decisions in corporate finance discussions, as it relates to how a company finances its assets through liabilities and equity (Cuevas-Vargas et al., 2021). Some of the key determinants of capital structure considered in this analysis include the debt-to-equity ratio, short-term leverage ratio, long-term leverage ratio, and total debt ratio (Ahmed et al., 2024).

Leverage

Lang et al. (1996) explain that leverage is the ratio of the book value of short-term and long-term debt to the book value of total assets. In cross-company leverage comparisons, market-based leverage measures tend to overemphasize recent changes in equity value. If growth is regressed on market-based leverage, we may, in fact, be regressing growth on the market's expectations of that growth as reflected in the company's stock price, potentially resulting in a spurious negative relationship between leverage and growth. In contrast, book value-based leverage measures do not reflect recent shifts in the market's assessment of the company.

According to Aboukhadeer et al. (2023), leverage is also described as a company's ability to use assets and fixed-cost funding sources (such as debt and preferred stock) to achieve its goal of maximizing shareholder wealth. Leverage illustrates a company's capacity to use assets or funds with fixed costs to increase the rate of return for shareholders. The higher the level of leverage, the greater the uncertainty regarding future payments; however, it also increases the potential returns to be received. To assess the impact of financial leverage on tax avoidance, a conceptual model has been developed using Book-Tax Differences (BTD), while financial leverage is measured using the Degree of Financial Leverage (DFL).

Sales Growth

Sales growth is one of the growth ratios used to measure a company's sales performance and serves as an indicator that reflects the development of the company's sales over time (Arasteh, 2013). According to Resca & Ramadhan (2023), it is a parameter used to assess sales performance in order to increase company revenue within a specific period. Sales growth can serve as an indicator of a company's profitability. Sales growth also affects tax avoidance. This indicates that if a company experiences high sales growth, tax avoidance activities tend to decrease, as firms with relatively high sales levels are more likely to generate higher profits and have the ability to fulfill their tax obligations (Arianti & Nurkamilah, 2023).

Sales growth is also a key measure of firm performance, reflecting the success of past investments and projecting future prospects. This indicator shows the market demand for the company's products and

its competitive position within the industry. Sales growth is typically calculated as the percentage change in sales between periods, as seen in the study by Kim & Im (2016).

Tax Avoidance

Jacob (2014) explains that there are various ways companies can legally minimize or reduce their tax burdens without violating tax regulations. Tax avoidance is the effort made by companies to minimize the amount of taxes payable by reducing reported profits (Arianti, 2020). Most business entities, as taxpayers, perceive tax payments as a burden because the source of taxation shifts from individual business activities to corporate entities, which results in a reduction of the taxpayer's tax obligations. Due to these perceived benefits, taxpayers often choose to reduce their tax burden through either legal or illegal means (Zufar & Arianti, 2023). Meanwhile, tax avoidance is generally defined as any action taken to explicitly influence a company's tax obligations (Badertscher et al., 2019).

Capital Structure, Leverage, and Sales Growth Affect Tax Avoidance

Capital structure, leverage, and sales growth can influence tax avoidance based on agency theory due to the potential conflict of interest between the principal (owner/investor) and the agent (management). A capital structure composed of equity and debt may adopt tax avoidance strategies by utilizing debt, since interest expenses can reduce the company's tax liabilities. However, excessive use of debt may increase agency problems if agents prioritize tax reduction over the long-term sustainability of the company.

In addition, companies with high leverage have greater incentives to engage in tax avoidance to maintain cash flow for meeting interest obligations, even though this can lead to a misalignment of interests between the principal and shareholders. Meanwhile, strong sales growth increases the need for capital to support business expansion, prompting management to seek efficiency strategies including in taxation by engaging in tax avoidance. This study supports the findings of Samos et al. (2024) and D. Sari et al. (2020), which show that profitability, leverage, and sales growth collectively affect tax avoidance. Furthermore, Prabowo (2020) confirms that capital structure is significantly related to tax avoidance. This study proposes the following hypothesis:

H1: It is hypothesized that capital structure, leverage, and sales growth affect tax avoidance.

Capital Structure Affects Tax Avoidance

Capital structure is the combination of equity and debt financing used to build a company's assets. Corporate debt reduces the tax burden due to interest payments (Mushtaq & Anees, 2024; Ankamah-Yeboah et al., 2021). A company's capital structure allows it to engage in tax avoidance, as found in the study by Prabowo (2020), which states that capital structure is significantly related to tax avoidance.

The relationship between agency theory and capital structure explains that managers, acting as agents, have an obligation to optimize financial policies, including tax avoidance strategies. One commonly used tax avoidance strategy is to increase the proportion of debt in the capital structure, since interest on debt is tax-deductible, thereby reducing the company's tax burden. This is further supported by research from Lee et al. (2022), which shows that tax avoidance strategies influence the proportion of equity versus debt issuance where firms with high levels of tax avoidance tend to issue equity rather than debt, with an intermediary effect through the cost of equity and debt. The higher the level of debt, the greater the tax avoidance. This study proposes the following hypothesis:

H2: It is hypothesized that capital structure affects tax avoidance.

Leverage Affects Tax Avoidance

Based on agency theory, the contractual relationship between the principal and the agent can lead to problems due to the presence of information asymmetry. One consequence of this asymmetry is that company management, as agents, aims to minimize the company's tax burden by maximizing the use of leverage within the firm (Afrianti et al., 2022; Javaid & Javid, 2017). According to research conducted by Khanh & Khuong (2019), leverage affects tax avoidance. This indicates that through general tax avoidance

strategies, tax avoiders consider leverage to be the most significant factor. At the point of refinancing, there is a positive relationship between tax avoidance and debt issuance.

Tax avoidance is explained by agency theory because debt provides tax benefits by increasing interest expenses, which in turn reduce the company's tax obligations. Leverage requires debt repayment, thereby reducing the cash available to management for suboptimal spending. Moreover, when a company uses debt financing, it falls under creditor scrutiny and is often subject to spending restrictions imposed by lenders (Jensen, 1986, as cited in Zamri et al., 2013). This research proposes the following hypothesis:

H3: It is hypothesized that leverage affects tax avoidance.

Sales Growth Affects Tax Avoidance

Based on agency theory, sales growth can influence tax avoidance because, within the context of the agency theory, an increase in sales leads to higher profits. This profit increase results in a higher tax burden, which may motivate management (agents) to engage in tax avoidance in order to achieve personal goals or short-term interests (such as maintaining net income or securing bonuses). This reflects a conflict of interest between the principal (owner) and the agent (manager), where managers may not act entirely in the best interest of the owners if not properly monitored (Cindy & Ginting, 2022). This research supports the findings of Resca & Ramadhan (2023) and Samos et al. (2024), which explain that sales growth has an effect on tax avoidance. When sales increase, companies tend to focus more on core operational activities and complex management processes, making tax avoidance less of a priority. As a result, companies are more likely to comply with prevailing tax regulations. This research proposes the following hypothesis:

H4: It is hypothesized that sales growth affects tax avoidance.

METHODS

This type of research is quantitative research. The object of this study is companies listed in the non-cyclical consumer sector on the Indonesia Stock Exchange, taking samples from data on the official website of the Indonesia Stock Exchange at (www.idx.co.id) and related company websites. The type of data in this study is quantitative data. The data source used is secondary data obtained indirectly from its source in the form of company financial reports. Data collection techniques are conducted secondarily through company documentation by obtaining data from the financial reports of companies listed in the non-cyclical consumer sector on the Indonesia Stock Exchange from 2019-2023, which can be accessed through the official site at www.idx.co.id. The population in this study is companies listed in the non-cyclical consumer sector on the Indonesia Stock Exchange (IDX) from 2019-2023, with a total population of 125 companies and samples were obtained from 30 companies. The sampling technique used was purposive sampling, which is a sampling technique by selecting based on certain criteria. The criteria used are:

Table 1. Research Data Samples

Criteria	Samples criteria
Companies in the non-cyclical consumer sector listed on the Indonesia Stock Exchange (IDX)	125
Companies in the non-cyclical consumer sector that have complete financial reports	
Companies that present financial statements expressed in Indonesian rupiah (Rp)	80
Companies that experienced profits or earnings	40
Companies in the consumer non-cyclicals sector that have complete data and information needed for research.	30

The number of selected companies is used as a sample	30
Total data used during the observation year (5 years)	150

Table 2. Operational of variables

Variables	Definition of variables	Measurement
Tax Avoidance (Y)	a method carried out by taxpayers safely and legally because the method used to avoid taxes is in accordance with the applicable tax regulations owed	BTD is calculated as the difference between pre-tax profit (based on bookkeeping) and taxable profit, then divided by the total assets of the company. (Khanh & Khuong, 2019)
Capital Structure (X1)	Capital structure decisions are defined as the choice between issuing debt and equity, and the Debt-to-Equity Ratio (DER) is used as a measure of capital structure in additional tests.	Comparison between debt and equity (Lee et al., 2022)
Leverage (X2)	Leverage is the level of debt that a company uses to finance its operating activities.	DFL binds the relative change in net profit or earnings after taxes to the relative change in operating profit or earnings before interest and taxes (EBIT). (Berent, 2013)
Sales Growth (X3)	Sales growth reflects the company's achievements in the past, and is used to predict the company's achievements in the future.	comparison of sales for a specific year and the previous year. (Arianti, 2022)

The data analysis used in this research is panel data. The analysis method used is a panel data regression model with the help of Eviews 12 software to determine the significance level of each regression coefficient of the variables against the variable. The regression equation is as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e$$

RESULTS AND DISCUSSION

Hypothesis testing is conducted using panel data regression tests to examine the relationship between the independent variables and the dependent variable. The following are the results of the panel data regression test for each variable as follows:

Table 3. Results of the panel data testing

Uji Chow	Prob. 0,0000 < 0,05	<i>Fixed Effect Model</i>
Uji Hausman	Prob. 0,7185 > 0,05	<i>Random Effect Model</i>
Uji Lagrange Multiplier	Prob. 0,0000 < 0,05	<i>Random Effect Model</i>

From the analysis of the results in table 3, there are several tests that have been carried out to select the appropriate model. The results of the Chow test indicate that the resulting model is the Fixed Effect Model. Additionally, the Hausman test also resulted in the Fixed Effect Model as a suitable model for this research. Since the best results for the panel data testing have been obtained with the Fixed Effect Model, the Lagrange Multiplier test was not performed.

Table 4. Regression panel data (Panel EGLS)

Dependent Variable: Y				
Method: Panel EGLS (Cross-section random effects)				
Date: 05/04/25 Time: 20:59				
Sample: 2019 2023				
Periods included: 5				
Cross-sections included: 30				
Total panel (balanced) observations: 150				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.003679	0.007788	0.472439	0.6373
X1	-0.002865	0.002228	-1.285905	0.2005
X2	0.029067	0.007718	3.765940	0.0002
X3	0.024417	0.006819	3.580988	0.0005
Effects Specification				
			S.D.	Rho
Cross-section random			0.013737	0.5664
Idiosyncratic random			0.012020	0.4336
Weighted Statistics				
R-squared	0.232320	Mean dependent var		0.009678
Adjusted R-squared	0.216546	S.D. dependent var		0.013502
S.E. of regression	0.011951	Sum squared resid		0.020854
F-statistic	14.72783	Durbin-Watson stat		1.486837
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.195491	Mean dependent var		0.026557
Sum squared resid	0.046253	Durbin-Watson stat		0.670361

Based on the table above, it shows that the results of the panel data regression test can be developed using the following equation model:

$$Y = 0,003679 - 0,002865 (X1) + 0,029067 (X2) + 0,024417 (X3) + 0$$

The regression equation above has a constant value of 0.003679, which explains that the value of Y, which represents tax avoidance, will be 0.003679 if the values of the other independent variables are 0.

Based on the panel data regression test above, it can be seen for the T test results that shows that the capital structure variable has no significant partial effect on tax avoidance. This is because the probability value of the capital structure variable is around $0.2005 > 0.05$ and is proven by the calculated t value being smaller than the table t value, which is $-1.285905 < 1.655$. The leverage variable has a significant partial effect on tax avoidance. This is because the probability value of the leverage variable is around $0.0002 < 0.05$ and is proven by the calculated t value being greater than the table t value, which is $3.765940 > 1.655$. The sales growth variable also has a significant partial effect on tax avoidance. This is because the probability value of the sales growth variable is around $0.0005 < 0.05$ and is proven by the calculated t value being greater than the table t value, which is $3.580988 > 1.655$.

Table 5. Results of Test F

Weighted Statistic			
R-squared	0.232320	Mean dependent var	0.009678
Adjusted R-squared	0.216546	S.D. dependent var	0.013502
S.E. of regression	0.011951	Sum squared resid	0.020854

F-statistic	14.72783	Durbin-wats on s tat	1.486837
Prob(F-statistic)	0.000000		

Based on the F test results in the table above, it shows that all independent variables simultaneously have an effect on tax avoidance with a value below 0.05, namely 0.0000. Meanwhile, the coefficient of determination is also found in the F test table, indicating that the Determination Coefficient (R²) results obtained show that the R-squared value is 0.232320 and the Adjusted R-squared value is 0.216546 from the relationship between the independent variables and the dependent variable in this study. This signifies a very strong relationship between all independent variables: Capital Structure (X1), Leverage (X2), and Sales Growth (X3) with the dependent variable Tax Avoidance (Y). This very strong relationship is illustrated by the R-squared calculation results, where the Adjusted R-squared calculation yields 21.65%.

The Influence of Capital Structure, Leverage, and Sales Growth on Tax Avoidance

The first hypothesis of the study (H1) shows that capital structure, leverage, and sales growth simultaneously have a significant effect on tax avoidance. This is supported by the F-test value of 0.000000 < 0.05. These findings are consistent with the research by Winarta et al. (2024), which found that sales growth, debt ratio, and capital intensity significantly influence tax avoidance, as well as with studies by Samos et al. (2024), Afrianti et al. (2022), and Kholifah & Adinda (2023), which show that profitability, leverage, and sales growth significantly affect tax avoidance. The higher the debt-to-equity ratio in terms of capital structure and leverage, the greater the proportion of third-party debt financing used by the company, and the higher the interest expense resulting from such debt. This interest expense reduces the company's tax burden, meaning that a substantial portion of the company's liabilities is borne through debt rather than equity. Meanwhile, sales growth can influence tax avoidance by affecting how companies manage their resources and tax obligations. Several studies in the literature have explored this relationship, often resulting in varying findings.

These research results support agency theory as they indicate that managers, acting as agents, utilize capital structure, leverage, and sales growth to legally avoid taxes in order to reduce the tax burden and increase company profits. This behavior aligns with agency theory, which posits that agents tend to make decisions based on their own interests, even if such decisions may lead to conflicts with principals (owners/investors) when considered to reduce transparency or harm long-term investor interests.

The Influence of Capital Structure on Tax Avoidance

The second hypothesis of the study (H2) indicates that capital structure does not have a significant effect on tax avoidance. This is evident from the probability value of 0.2005 > 0.05. This finding is consistent with several previous studies that also found no significant relationship between capital structure and tax avoidance (Hossain, Islam, et al., 2024; Firza, 2025; Septriani & Arianti, 2025). This is due to the fact that a higher capital structure does not necessarily influence the company's legal tax avoidance activities. This is because the level of debt held by a company affects the amount of interest expense. When interest expense is relatively low, it does not significantly influence tax avoidance activities.

Although agency theory suggests that the use of debt in capital structure can provide tax benefits (tax shields) through deductible interest expenses, these findings indicate that, in the context of infrastructure companies used as the sample, the level of debt does not directly and significantly drive firms to engage in tax avoidance practices. Furthermore, the potential financial risks arising from excessive debt may offset the benefits of available tax incentives, thereby discouraging managers from aggressively using debt as a tool for tax avoidance.

The Influence of Leverage on Tax Avoidance

The third hypothesis of the study (H3) shows that leverage has a significant effect on tax avoidance. This is evident from the probability value of 0.0002 < 0.05, indicating that leverage does influence tax avoidance. This finding is consistent with the study by Khanh & Khuong (2019), which suggests that tax avoidance affects leverage because companies engaging in tax avoidance tend to maintain higher levels of financial leverage. This finding also aligns with agency theory, which posits that firms utilize tax avoidance strategies to obtain tax benefits from interest expenses on debt.

Furthermore, the result is relevant to the findings of Trinh et al. (2025), which show that tax avoidance is strongly associated with financial leverage. Companies with busier boards of directors tend to

engage less in aggressive tax avoidance, which ultimately reduces the availability of internal cash. As a result, firms are driven to rely more on external financing, such as debt.

The Influence of Sales Growth on Tax Avoidance

The fourth hypothesis of the study (H4) indicates that sales growth has an effect on tax avoidance. This is evidenced by the probability value of $0.0005 < 0.05$. This means that the higher the company's sales growth, the greater the tendency for the company to engage in tax avoidance. This can be explained by the fact that an increase in sales is usually accompanied by an increase in profit, which leads to a higher tax burden. Consequently, companies are encouraged to find legal means to reduce their tax obligations. Sales growth can significantly impact a company's tax avoidance practices. As sales increase, companies tend to have more sources of income that need to be managed efficiently in order to optimize their tax liabilities. Some companies may employ tax avoidance strategies to reduce the amount of taxes payable, thereby increasing their achievable net profits.

This study is in line with the findings of Winarta et al. (2025) and Afrianti et al. (2022), which show that sales growth has a significant effect on tax avoidance. However, it contrasts with the findings of Shubita (2024), which found no significant relationship between sales growth and tax avoidance. In other words, an increase in sales revenue does not directly drive or reduce efforts to avoid taxes. This supports the literature suggesting that the effect of sales growth on tax strategies is ambiguous and highly contextual, depending on the industry and tax structure of each company.

CONCLUSION

The results of this study prove that capital structure, leverage, and sales growth simultaneously have an effect on tax avoidance. While capital structure does not have an impact on tax avoidance, leverage does have an effect on tax avoidance, and sales growth also influences tax avoidance. These findings are consistent with agency theory, which states that the higher the level of corporate debt, the greater the likelihood that companies will engage in tax avoidance, and similarly, companies with high sales growth tend to be more active in tax avoidance practices. It is recommended that stakeholders can enhance oversight and regulation of companies with high capital structure, leverage, and sales growth, as this group has a significant potential for tax avoidance. On the other hand, it must be more transparent and compliant with tax regulations in order to build a good corporate image while also contributing to state revenue and considering tax avoidance practices as part of the investment risk analysis because it can have legal and reputational impacts on the company. This research has limitations, including the use of a sample of only 30 companies over 5 years of observation, making its results less comprehensive for all other industrial sectors with the use of four variables, thus not covering other factors that may also influence tax avoidance. This study only used secondary data from annual financial reports, which may leave potential bias because it does not take into account managerial factors or internal company policies.

The implications of this research strengthen the agency theory that information asymmetry between owners and managers can encourage managers to maximize profits through tax avoidance. These results can also be used as a consideration in designing stricter fiscal policies for companies with high potential for tax avoidance and underscore the need for a fairer and more efficient tax system, as well as the need for the implementation of stringent sanctions to curb tax avoidance practices among large corporations.

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