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Determinants of Tax Avoidance Practices: Fundamental Analysis Approach and Company Size in LQ 45 Companies for the Period 2020-2024

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Abstract
This study aims to examine and analyze the influence of Return on Assets, Debt to Equity Ratio, Price to Book Value, and Company Size on Tax Avoidance. The data used in this study are secondary, sourced from company fact sheets from the Indonesia Stock Exchange (IDX) and company financial reports. The population in this study uses companies included in the LQ45 index during the 2020-2024 period. The research sample used was obtained through purposive sampling. The data analysis technique used was panel data regression in EViews 12. The study's results indicate that Return on Assets, Debt to Equity Ratio, Price to Book Value, and Company Size do not significantly affect Tax Avoidance.

Keywords: *return on assets, debt to equity ratio, price to book value, company size, tax avoidance.*

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INTRODUCTION

Profit is the primary indicator of management performance, reflecting the efficiency of asset management. High profitability not only increases the attractiveness of the company to investors and its value, but also has implications for higher tax liabilities. (Cahya Perdana, 2023). In the Indonesian context, companies listed in the LQ45 index play a crucial role because they have solid fundamentals, high liquidity, and are the main contributors to corporate income tax revenues. (Lusiana & Avriyanti, 2023). Taxes are the main pillar of the state's financial independence, but management often views the tax burden as a deduction of the net profit available to shareholders. This conflict of interest triggers companies to be efficient through tax avoidance practices (Fajrin & Putra, 2025). This phenomenon does not only occur in small companies; the case of PT Adaro Energy Tbk (2019) transfer pricing and the alleged manipulation of the import code of PT Aneka Tambang Tbk (2021) are clear evidence that large companies with high profitability and complex business structures also tend to minimize taxes to maintain competitive profit margins.

Previous research on the factors affecting tax avoidance has yielded inconsistent results (*research gap*). Research (Aini & Kartika, 2022) found that Return on Assets (ROA) affects tax avoidance, but this was denied by Hidajat et al. (Similarly, in the *Debt to Equity Ratio* (DER) variable, finding significant influences that contradict the findings (Hidajat et al., 2025). This

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inconsistency indicates the presence of other variables or different contexts that influence the company's tax decisions.

This study aims to fill this gap by re-examining the influence of ROA, DER, and company size on tax avoidance, while adding Price-to-Book Value (PBV) as a variable that reflects investor expectations. The novelty of this study lies in integrating PBV variables and using LQ45 company samples to represent the main indicators of capital market activity, reflecting Indonesia's macroeconomic situation.

Agency Theory

Agency theory describes the contractual relationship between the principal and the agent. Conflicts of interest arise when management, who have broader access to information (information asymmetry), tend to act in their personal interests rather than maximizing the well-being of the owner (Jensen & Meckling, 1976). In the context of taxation, taxes are seen as a deduction of the net profit available to shareholders. Therefore, managers often use their authority to evade taxes to reduce operating expenses and optimize net profit (Pattiasina et al., 2019). This theory explains how agents utilize operational performance (ROA) and capital structure (DER) as instruments to minimize tax burdens through debt interest incentive gaps and cost efficiency (Nugroho et al., 2023).

Signaling Theory

Signaling theory emphasizes the importance of sending information from the company's internal to external parties to reduce information asymmetry (Spence, 1973). Financial performance announcements serve as signals regarding the company's prospects; Strong profitability provides positive signals that can increase the stock price and the company's value (PBV). However, tax avoidance practices create a signal dilemma (Nur et al., 2024). On the one hand, a reduction in the tax burden increases investor returns (a positive signal). However, overly aggressive practices can pose a risk of non-compliance (a negative signal). Therefore, fundamental stability signals and information transparency are crucial indicators for investors in assessing management tax decisions.

Research Hypothesis

The Effect of Return on Assets on Tax Avoidance

Profitability reflects a company's efficiency in managing assets to generate profits. Based on the agency's theory, companies with high ROA rates have greater motivation to evade taxes to minimize the tax burden arising from the increase in profits (Simanungkalit et al., 2023). This is done by management to maximize the net profit available to shareholders. In line with signal theory, this practice aims to maintain net profit performance in order to still give positive signals to the market regarding the effectiveness of the company's performance (Danardhito et al., 2023). Empirical research by (Aini & Kartika, 2022) confirms that profitability proxied by ROA is positively correlated with tax avoidance, where each increase in profit encourages management to undertake more strategic tax planning (Pratama & Mukhhtaruddin, 2025).

H_1: *Return on Assets (ROA) has a positive effect on tax avoidance*

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The Effect of Debt to Equity Ratio on Tax Avoidance

The Debt-to-Equity Ratio (DER) reflects a company's reliance on external funding to finance its operating assets. The use of debt has consequences in the form of interest expenses that must be paid consistently (Aini & Kartika, 2022). From the perspective of agency theory, management uses this interest expense as a tax *shield instrument* to maintain the availability of cash flow for the fulfillment of obligations to creditors while optimizing profits for shareholders (Pangaribuan et al., 2021). The higher the DER ratio, the greater the potential for tax protection obtained through the reduction of taxable income, thereby encouraging the intensity of tax avoidance practices (Sudibyo, 2022). These findings are supported by research (Apriliyani & Kartika, 2021) which suggests that the level of leverage, as proxied by DER, positively influences the company's tax avoidance activities.

H2: *Debt-to-Equity Ratio has a positive effect on tax avoidance*

The Effect of Price to Book Value on Tax Avoidance

Price-to-Book Value (PBV) reflects the market's assessment of a company's total net assets and future growth prospects. Based on signal theory, a high PBV value reflects large investor expectations, which in turn creates pressure for management to maintain consistent net profit performance (Reswita et al., 2023). To validate those positive signals and prevent a decline in stock prices, management is encouraged to minimize the fiscal burden that could erode profit margins. This effort to maintain the company's reputation in the capital market encourages management to avoid taxes so that earnings per share remain competitive and in line with market valuations (Nur et al., 2024). This is supported by research (Ali et al., 2023) who found that the company's value had a positive effect on the intensity of tax avoidance.

H3: *Price to Book Value has a positive effect on tax avoidance*

The Effect of Company Size on Tax Avoidance

The size of a company reflects the economic capacity and operational scale of the proxied entity, as measured by total assets. Large companies with complex organizational structures create a higher information asymmetry between agents and principals, which, according to agency theory, can be leveraged by management to conduct systematic tax planning (Fajrin & Putra, 2025). The large economies of scale provide greater access for professional tax experts to exploit regulatory loopholes without breaking the law (Pangaribuan et al., 2021). In addition, in line with signal theory, large companies are under strict public scrutiny, so management seeks to reduce fiscal burdens to maintain performance efficiency and keep the company's market value attractive to investors. Empirical research by (Fajrin & Putra, 2025) confirms that the size of the company has a positive effect on tax avoidance actions.

H4: *Company size has a positive influence on tax avoidance*

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Research Model

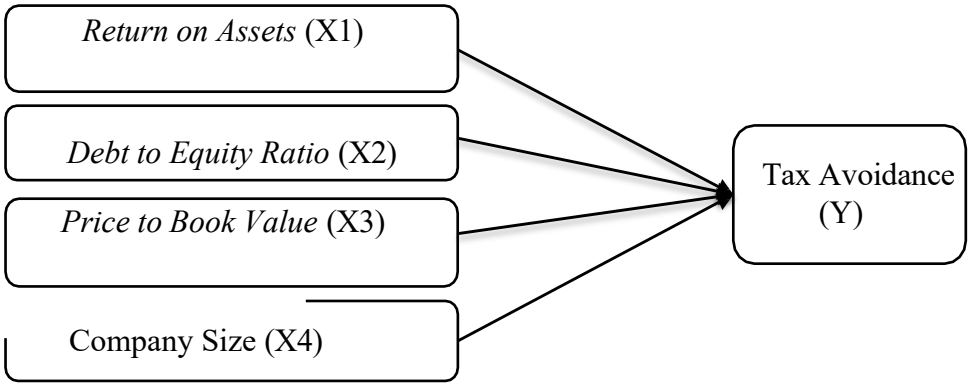

Figure 1. Research Model

RESEARCH METHODOLOGY

The data used in this study are quantitative, and an associative approach is used to determine the relationship or influence between two or more variables. The data source for this study is secondary data. The secondary data used are company fact sheets, annual reports, and financial statements for the period 2020-2024, obtained from the official website of the Indonesia Stock Exchange.

The population in this study comprises 45 companies listed on the Indonesia Stock Exchange (IDX) in the LQ45 index for the period 2020-2024. The samples used in this study were obtained through purposive sampling, a data collection technique with specific criteria. The criteria for selecting the sample for this study are shown in Table 1.

Panel data analysis was conducted using EViews. The analysis stage begins with descriptive statistics and the selection of the best estimation model, based on the results of the Chow Test, Hausman Test, and Lagrange Multiplier Test, as the most appropriate for estimating regression parameters.

Table 1. Company Criteria

No.	Company Criteria	Quantity
1.	Companies that have been listed on the Stock Exchange Indonesia (IDX) is a member of the LQ45 index for 2020-2024	45
2.	Companies that are consistently in the LQ45 index during 2020-2024 and moving beyond Banking/Finance Sector	(26)
3.	Companies in LQ45 that use rupiah in their financial statements and experienced profit during the observation year	(4)
Total Observations		15
Number of samples during 2020-2024		75

Source: *Data processed by Researcher, 2026*

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Table 2. Variable Measurement

Variable	Indicator	Scale
ROA (X1)	ROA = $\frac{\text{Net Income}}{Total\ Assets}$	Ratio
DER (X2)	DER = $\frac{Total\ Liabilities}{Total\ Equity}$	Ratio
PBV (X3)	PBV = $\frac{\text{Market Price per Share}}{\text{Book Value per Share}}$	Ratio
Size Company (X4)	Size = Ln (Total Assets)	Ratio
Tax Avoidance (Y)	ETR = $\frac{\text{Income Tax Expense}}{\text{Income Before Tax}}$	Ratio

Source: *Data processed by Researcher, 2026*

Return on Assets (ROA) (X1) measures a company's profitability, namely its ability to generate net income from its total assets. ROA is calculated by dividing net income by total assets. This ratio indicates how efficiently the company utilizes its assets to generate profit. Debt to Equity Ratio (DER) (X2) reflects the company's capital structure and shows the proportion of total liabilities relative to total equity. DER is calculated by dividing total liabilities by total equity. This ratio describes the extent to which the company is financed by debt compared to shareholders' equity. Price to Book Value (PBV) (X3) represents the company's market valuation relative to its book value. PBV is calculated by dividing the market price per share by the book value per share. This ratio indicates how the market values the company compared to its accounting value. Company Size (X4) is measured using the natural logarithm of total assets. Using the natural logarithm helps reduce data variability and presents the company's relative size in a more stable form.

Tax Avoidance (Y) is proxied by the Effective Tax Rate (ETR). ETR is calculated by dividing income tax expense by income before tax. This ratio indicates the proportion of profit paid in taxes; a lower ETR generally reflects greater tax avoidance.

RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

Table 3. Descriptive Statistical Analysis Results

	Tax Avoidance (Y)	ROA (X1)	DER (X2)	PBV (X3)	Size (X4)
Mean	23.37200	12.80147	105.0231	4.518800	3169.920
Median	22.59000	9.180000	72.63000	1.570000	3182.000
Maximum	39.99000	72.02000	646.5900	56.79000	3333.000
Minimum	14.58000	1.000000	12.88000	0.360000	2905.000
Std. Dev.	4.960134	12.97243	115.2141	10.43281	102.9841
Skewness	1.397795	2.727963	2.534152	3.675135	-0.657936
Kurtosis	5.652079	11.38090	9.650819	15.48557	3.142333
Jarque-Bera	46.40266	312.5207	218.5035	655.9873	5.474304
Probability	0.000000	0.000000	0.000000	0.000000	0.064755
Sum	1752.900	960.1100	7876.730	338.9100	237744.0
Sum Sq. Dev.	1820.617	12453.01	982297.7	8054.425	784823.5
Observations	75	75	75	75	75

Source: *Output Eviews version 12, 2026*

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A descriptive analysis of 75 research samples revealed diverse characteristics in the data. The ROA variable has a mean of 12.80 and a standard deviation of 12.97, indicating substantial variation in profitability across LQ45 companies. The DER variable showed a high rate of data dissemination, with a maximum value of 646.59, reflecting differences in funding strategies across samples. Meanwhile, PBV has a mean of 4.51, with a much smaller median of 1.57, suggesting that most of the sample has a market valuation below the mean. On the other hand, the Company Size variable shows stability with a relatively narrow distribution of data. Finally, the Tax Avoidance variable had an average of 23.37 with a low standard deviation of 4.96, indicating that tax avoidance practices among LQ45 index companies tend to be homogeneous or follow a similar pattern.

Test Panel Data Regression Model

Table 4. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.660544	(14,56)	0.0048
Cross-section Chi-square	38.243009	14	0.0005

Source: *Output Eviews version 12, 2026*

The Chow test is used to determine which model is best between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The results of Chow's test in this study are as follows. Based on the above results, the p-value for the cross-section chi-square test is 0.0005, which is less than 0.05. Thus, the selected model is the Fixed Effect Model (FEM). Because the results of the Chow Test chose the Fixed Effect Model (FEM), the Hausman Test was continued to determine whether the model continued to use the Fixed Effect Model (FEM) or switched to the Random Effect Model (REM).

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.661249	4	0.6160

Source: *Output Eviews version 12, 2026*

The Hausman test is used to determine the best model, the Random Effects Model (REM) or the Fixed Effects Model (FEM). The results of Hausman's test in this study are as follows. The test results showed a probability value of 0.6160. Because the p-value is greater than 0.05, the model selected in this test is the Random Effects Model (REM). Then it is necessary to conduct the Lagrange multiplier test to select the final model.

Table 6. Lagrange Multiplier Test Results

Cross-section	Test Hypothesis Time	Both
Breusch-Pagan 6.624085	0.847901	7.471987
(0.0101)	(0.3571)	(0.0063)

Source: *Output Eviews version 12, 2026*

The Lagrange Multiplier test is used to determine which model is best: the Common Effect Model (CEM) or the Random Effect Model (REM). The results of the Lagrange Multiplier test in this study are as follows. Based on the results of the Lagrange Multiplier test in Table

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4.5 above, the Breusch-Pagan Cross-section value is 0.0101, which is less than 0.05, so the final model chosen is the REM (Random Effects Model).

The results of *the Chow* Test, *Hausman* Test, and *Lagrange Multiplier* Test consistently show that *the Random Effect Model* (REM) is the most appropriate compared to the *Common Effect* and *Fixed Effect*. The use of REM assumes that differences in firm characteristics are random and uncorrelated with the independent variables. This condition indicates that the influence of research variables on tax avoidance accounts for stable individual variation over the study period.

Normality Test

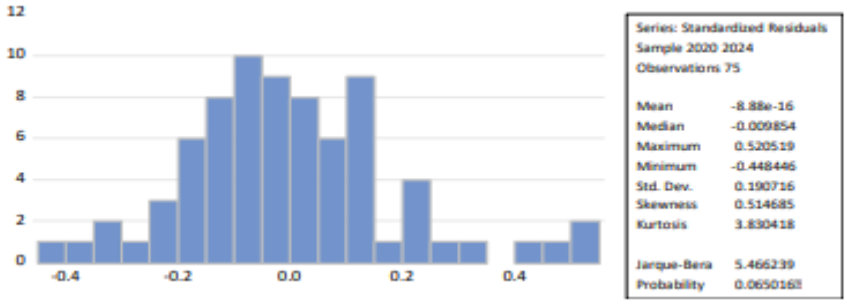

Figure 2. Normality Test Results

Source: *Output Eviews version 12, 2026*

Based on Table 7, the p-value is 0.065016, which exceeds 0.05. It can be stated that the variables ROA, DER, PBV, and company size are normally distributed.

Multicollinearity Test

Table 7. Multicollinearity Test Results

	LNX1	LNX2	LNX3	LNX4
LNX1	1.000000	-0.166679	0.424303	-0.419232
LNX2	-0.166679	1.000000	0.435224	0.330512
LNX3	0.424303	0.435224	1.000000	-0.400401
LNX4	-0.419232	0.330512	-0.400401	1.000000

Source: *Output Eviews version 12, 2026*

The results of the multicollinearity test showed that all correlation coefficients among the independent variables in the matrix were well below 0.80. Thus, it can be concluded that there is no multicollinearity in independent variables.

Heteroscedasticity Test

Table 8. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.044155	2.867306	1.410437	0.1628
LNX1	0.003997	0.020842	0.191779	0.8485
LNX2	0.001453	0.009563	0.151987	0.8796
LNX3	-0.003240	0.013349	-0.242738	0.8089
LNX4	-0.115927	0.356690	-0.325009	0.7461

Source: *Output Eviews version 12, 2026*

Based on the results of the heteroscedasticity test shown in Table 9 above, the probability values for X1, X2, X3, and X4 are 0.8485, 0.8796, 0.8089, and 0.7461, respectively. The *p-values*

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for the four independent variables were> 0.05, so there was no heteroscedasticity in the regression model.

Autocorrelation Test

Table 9. Hasil Autokorelasi

___ R-squared	0.059380	Mean dependent var	3.131653
Adjusted R-squared	0.005631	S.D. dependent var	0.196644
S.E. of regression	0.196090	Akaike info criterion	-0.356148
Sum squared resid	2.691584	Schwarz criterion	-0.201649
Log likelihood	18.35555	Hannan-Quinn criterion.	-0.294458
F-statistic	1.104758	Durbin-Watson stat	1.245569
Prob(F-statistic)	0.361246		

Source: *Output Eviews version 12, 2026*

Based on the results of the autocorrelation test shown in Table 4.8 above, the *Durbin-Watson* value is 1.245569. The *Durbin-Watson* value is between -2 and 2, indicating no autocorrelation.

Multiple Regression Analysis

Based on the results of the multiple linear regression analysis, the regression model is as follows.

$$Y = -3.1788 - 0.05019*X1 - 0.0629*X2 + 0.02857*X3 + 0.8277*X4$$

The interpretation of the research regression model is as follows:

- The Constant value is -3.1788, which means that if the variables ROA (X1), DER (X2), PBV (X3), and Company Size (X4) are zero, then the Tax Avoidance variable (Y) is predicted to be valued at -3.1788.
- The value of the ROA coefficient (X1) is -0.05019 with a negative direction. This means that if the ROA increases by one unit, then Tax Avoidance (Y) will decrease by 0.05019.
- The value of the DER coefficient (X2) is -0.0629 with a negative direction. This means that if the DER increases by 1 unit, Tax Avoidance (Y) decreases by 0.0629.
- The value of the PBV coefficient (X3) is 0.02857 with a positive direction. This shows that if the PBV increases by one unit, then Tax Avoidance (Y) is predicted to increase by 0.02857.
- The value of the Company Size coefficient (X4) is 0.8277 with a positive direction. This means that if the Company Size increases by one unit, then Tax Avoidance (Y) will increase by 0.8277.

Partial Test (t-test)

Table 10. Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.178859	7.644202	-0.415852	0.6788
LNX1	-0.050194	0.034803	-1.442237	0.1537
LNX2	-0.062929	0.039737	-1.583635	0.1178
LNX3	0.028571	0.034939	0.817744	0.4163
LNX4	0.827730	0.957856	0.864149	0.3905

Source: *Output Eviews version 12, 2026*

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Based on the t-test in the study, the results showed that:

- The ROA variable has a coefficient value of -0.050194 with a significance value (Prob.) of 0.1537. Because the value is 0.1537 > 0.05, it can be concluded that partially ROA does not have a significant effect on Tax Avoidance.
- The DER variable has a coefficient value of -0.062929 with a significance value (Prob.) of 0.1178. Because the value is 0.1178 > 0.05, it can be concluded that DER does not have a significant effect on Tax Avoidance.
- The PBV variable has a coefficient value of 0.028571 with a significance value (Prob.) of 0.4163. Because the value is 0.4163 > 0.05, it can be concluded that PBV does not have a significant effect on Tax Avoidance.
- The Company Size variable has a coefficient value of 0.827730 with a significance value (Prob.) of 0.3905. Because the value is 0.3905 > 0.05, it can be concluded that, to some extent, Company Size does not have a significant effect on Tax Avoidance.

Coefficient of Determination Test (R2)

Table 11. Determination Coefficient Test Results (R2)

R-squared	0.059380	Mean dependent var	3.131653
Adjusted R-squared	0.005631	S.D. dependent var	0.196644
S.E. of regression	0.196090	Akaike info criterion	-0.356148
Sum squared resid	2.691584	Schwarz criterion	-0.201649
Log likelihood	18.35555	Hannan-Quinn criterion.	-0.294458
F-statistic	1.104758	Durbin-Watson stat	1.245569
Prob(F-statistic)	0.361246		

Source: *Output Eviews version 12, 2026*

Based on the determination coefficient (R2) test shown in Table 12 above, the Adjusted R-squared value is 0.005631, which means that the independent variables explain only 5.63% of the variance in the dependent variable. In comparison, 94.37% is explained by variables outside the study.

Discussion

The Effect of Return on Assets on Tax Avoidance

The partial test results showed that ROA had no significant effect on tax avoidance, so H1 was rejected. This indicates that fluctuations in profitability are not a determinant of the company's policy on fiscal load efficiency. From the perspective of agency theory, high profits do not always encourage management to act aggressively on taxes, as they face pressure to maintain reputation and compliance to avoid sanctions from the tax authorities (Hidajat et al., 2025). High profitability actually increases oversight from capital owners and the government, so management tends to choose transparency to mitigate regulatory risks. This phenomenon is reflected in PT Adaro Energy Indonesia (ADRO) Tbk and PT Bukit Asam Tbk (PTBA) in 2022, where the surge in net profit was still accompanied by high tax payment compliance. These results reinforce Virhan & Apriliyanti's (2022) finding that large financial capacity does not automatically lead to tax avoidance among companies with strong fundamentals.

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The Effect of Debt-to-Equity Ratio on Tax Avoidance

The partial testing results showed that the DER had no significant effect on tax avoidance, so H2 was rejected. These findings indicate that capital structure policies, both with high and low debt ratios, are not the primary consideration for management when designing aggressive tax strategies. From the perspective of agency theory, although debt can create conflicts of interest due to financial risk, managers in this study sample did not make interest expense the primary instrument for excessively minimizing tax liability (Pangaribuan et al., 2021). Facts on the ground indicate that in companies with high asset intensity, such as PT Telekomunikasi Indonesia (Persero) Tbk (TLKM) and PT Sarana Menara Nusantara Tbk (TOWR), large-scale debt is primarily used to finance long-term infrastructure expansion. The interest expense incurred is treated as a reasonable operating expense under the regulations, rather than as a tax-shielding scheme to avoid taxes. The results of this study are consistent with the findings of Damayanti & Pinem (2023) and Aini & Kartika (2022), which state that the DER has no impact on the company's tax avoidance activities.

The Effect of Price to Book Value on Tax Avoidance

The partial test results showed that PBV had no significant effect on tax avoidance, so H3 was rejected. These findings indicate that market appreciation of the company's value is not a driving factor for management to pursue an aggressive tax strategy. From a signal-theory perspective, a high PBV is already a positive signal of healthy company performance, so management does not feel the need to use tax avoidance to manipulate net profit (Putri & Nurdin, 2023). On the contrary, management tends to maintain reporting integrity and tax compliance as a signal of professionalism. It is feared that risky tax avoidance practices will damage the reputation in the capital market and trigger a negative response from investors. This phenomenon is observed in PT Unilever Indonesia Tbk (UNVR) and PT Indofood CBP Sukses Makmur Tbk (ICBP), which maintain high levels of tax compliance despite PBV values that far exceed the industry average. The results of this study align with those of Putri & Nurdin (2023), which confirm that the company's value is not the main determinant of tax avoidance.

The Effect of Company Size on Tax Avoidance

The partial testing results showed that company size had no significant effect on tax avoidance, so H4 was rejected. These findings indicate that the size of assets under management is not the main determinant of management's tax aggressiveness. Based on agency theory, managers of large corporations tend to avoid tax avoidance practices because they are aware of the stricter scrutiny of shareholders, tax authorities, and the general public (Rafif & Hariyanti, 2025). From a risk perspective, large companies have greater moral and political responsibility. This phenomenon is evident at PT Astra International Tbk (ASII), where a large share of resources is allocated to strengthening financial governance and reporting systems rather than to seeking loopholes in tax law. This is done to avoid public scrutiny and lawsuits that could damage the investment's long-term value. The results of this study reinforce Aini & Kartika's (2022) finding that company size does not automatically increase the intensity of tax avoidance practices in entities with mature governance.

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CONCLUSION

Based on the results of the study examining the effect of Return on Assets (ROA), Debt to Equity Ratio (DER), Price to Book Value (PBV), and company size on tax avoidance among companies listed in the LQ45 index during the 2020–2024 period, it can be concluded that all of these variables have no significant effect on tax avoidance. These findings indicate that fundamental financial indicators and company size are not the primary determinants of tax avoidance among LQ45 companies. This condition suggests that firms in the LQ45 index tend to prioritize maintaining a positive public image and corporate reputation by complying with tax regulations and legal requirements, rather than pursuing short-term profit maximization through aggressive tax planning. Moreover, the high level of scrutiny from investors and tax authorities limits management's ability to engage in tax avoidance strategies.

However, this study has several limitations: it relies solely on financial ratios as proxies for tax avoidance, which may not fully capture the complexity of corporate tax planning behavior. Therefore, future research is recommended to incorporate non-financial variables such as Good Corporate Governance and Corporate Social Responsibility (CSR), extend the observation period, and expand the research sample to obtain more stable and accurate long-term trends in tax behavior. Theoretically, these findings contribute to the tax literature by highlighting that tax avoidance is not solely influenced by financial performance or company size, but may be more strongly driven by governance quality, internal policies, and compliance culture. Practically, the results imply that tax authorities should not rely exclusively on financial indicators when monitoring tax avoidance, but should also focus on governance structures, transaction patterns, and corporate tax risk management.

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