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The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance

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ABSTRACT : State revenue from the tax sector has an important role in financing state expenditures. The government is trying to optimize tax revenue, but the tax revenue target has not been achieved due to tax avoidance actions. This study measures tax avoidance with the effective tax rate (ETR) value. This study aims to obtain empirical evidence of the effect of institutional ownership, profitability, leverage and capital intensity ratio on tax avoidance. This research was conducted at mining sector companies listed on the Indonesia Stock Exchange in 2015-2019. The number of samples was determined using purposive sampling technique with a total of 45 samples. Data were analyzed using multiple linear regression analysis. The results of this study indicate that institutional ownership has a negative effect on tax avoidance, profitability and the capital intensity ratio have a positive effect on tax avoidance, while leverage has no effect on tax avoidance. The results of this study can theoretically confirm Agency Theory which explains that there are differences in interests between the government (principal) and companies or taxpayers (agents), as well as confirm the Positive Accounting Theory which explains that the accounting methods used by companies are to minimize their political costs.
Keywords :*tax avoidance, financial performance, GCG*

I. INTRODUCTION

Payment of taxes is a manifestation of state obligations and the participation of taxpayers to directly and jointly carry out tax obligations for state financing and national development. Various efforts have been made to optimize tax revenue, but the government has encountered obstacles in optimizing tax revenue. There are several obstacles that cause tax collection in Indonesia to be ineffective, one of which is taxpayers who seek to manage their tax payable through both tax avoidance and tax evasion.

Tax avoidance is a form of tax management that can be carried out by a company legally. With tax planning activities, structured action for tax burdens is carried out as low as possible by utilizing existing rules to increase profit after tax which has an impact on increasing company value (Ichsani & Susanti, 2019). Legal tax reduction is carried out, among others, by making transactions that are not prohibited by tax regulations, utilizing tax regulations that provide facilities so that taxes can be deducted, choosing business activities with low tax rates and taking advantage of weaknesses in tax regulations. Based on the government's point of view, if the tax paid by taxpayers is smaller than what they should pay, then state revenue from the tax sector will decrease, while the company's point of view, tax is one of the cost components that reduce corporate profits (Sarra, 2017). This difference in interests can cause obstacles in tax revenue, so that there are always efforts to reduce the amount of tax that must be paid by taxpayers.

Based on data from the Ministry of Finance of the Republic of Indonesia, the realization of tax revenue against the tax revenue target from 2015 to 2019 has fluctuated. The target and realization of tax revenue can be seen in Table 1 as follows.

Tabel 1. Effectivenessof Indonesian TaxCollection

Year	Tax Revenue Target (Trillion Rupiah)	Tax Revenue Realization (Trillion Rupiah)	Effectiveness of Tax Collection (%)
2015	1.489,3	1.240,4	83,3
2016	1.539,2	1.285,0	83,5
2017	1.283,6	1.147,5	89,4
2018	1.424,0	1.315,93	92,41
2019	1.577,56	1.332,06	84,44

Source: *www.kemenkeu.go.id (2020)*

Based on Table 1 the achievement of tax revenue in 2019 was 84.44 percent. This achievement is indeed lower than last year's 92.23 percent, but it is still better than the achievements in 2015 and 2016, which amounted to 81.96 percent and 81.61 percent respectively of the target. 2016 saw an increase in the realization of tax revenues from the previous year but had not met the target. This target should have been realized with the existence of the Tax Amnesty policy but it was not achieved, this indicates that there are still tax avoidance measures.

One example of tax avoidance cases committed by mining sector companies is PT. Adaro Energy Tbk, which paid US $ 125 million in lower than expected taxes to the Indonesian government. Based on the Global Witness report, Adaro is said to have carried out transfer pricing or taken its income and profits abroad so that it can reduce the taxes paid to the Indonesian government. Adaro took advantage of this gap by selling coal to Coaltrade Services International at a lower price. Then the coal is sold to other countries at a higher price. Income that is taxed in Indonesia is cheaper. This means that sales and profits reported in Indonesia are lower than they should be (tirto.id). In addition, other cases that occurred were the case of Bakrie Group in 2010 and PT Asian Agri in 2008. PT Bumi Resources and its subsidiaries, namely PT Kaltim Prima Coal and PT Arutmin were involved in tax evasion cases amounting to 2.1 trillion, while PT Asian Agri resulting in state losses of IDR 1.4 trillion (detik.com).

The measurement of corporate tax avoidance can be detected using the effective tax rate (ETR). Effective corporate tax rates are often used as a reference by decision makers and interested parties to make policies within the company and contain conclusions about the corporate tax system (Prasetyo et al., 2018). Thus, ETR represents the percentage of a company's actual tax payments of its commercial profit. The lower the ETR value, the higher the tendency for a company to avoid tax (Arianti, 2020). This study uses the current ETR which is calculated from current tax expense divided by profit before tax. Current ETR only describes current tax expense, not including deferred tax because deferred tax expense is the impact of future taxes from current transactions and not tax expense in the current period (Dyreng et la., 2008 in Rosa et al., 2018). So, the current ETR can overcome the shortcomings of calculating the GAAP ETR by only measuring permanent tax avoidance (Gebhart, 2017).

Dewi and Sari (2015) state that in terms of the company's large opportunities for tax avoidance, good corporate governance is needed which is carried out with the concept of Good Corporate Governance (GCG). GCG is a company regulatory and control mechanism through the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders. The implementation of corporate governance in a company will affect management decisions in making decisions, one of which is decisions related to tax compliance (Indira Yuni&Setiawan, 2019). In this study, corporate governance is only proxied by institutional ownership, as for the reason for using institutional ownership because every company needs external supervision so that company performance can be more optimal (Pattiasina et al., 2019). Institutional investors have a considerable influence on companies because they can influence company procedures including accounting and financial reporting procedures (Eskandar& Ebrahimi, 2020).

Institutional ownership is ownership of company shares owned by an institution that is able to play an important role in supervising, disciplining and influencing managers so that it can force management to avoid behavior that is selfish. The manager (agent) wants to increase the company's profits to match the expectations of shareholders. Companies try to pay the lowest possible tax because taxes are considered to reduce revenue or net profit, while the government (principal) expects the highest possible tax in order to finance development plans. Institutional investors basically have considerable control over the ongoing company operations, so that institutional ownership is recommended to monitor tax planning activities more accurately because it can reduce the opportunistic behavior of managers (Jamei, 2017). Research conducted by Astuti et al., (2020) and Saputra et al., (2017) states that institutional ownership has an effect on tax avoidance.

According to Rodriguez and Arias in Hariani&Waluyo (2019) profitability is a determinant of the tax burden, because companies with greater profits will pay higher taxes, but companies certainly do not want to pay high taxes. Research conducted by Darmayanti&Merkusiwati (2019) and Irianto et al., (2017) stated that profitability has a positive effect on tax avoidance. Corporate financing decisions can affect tax avoidance activities because tax regulations allow different tax treatment of the company's capital structure (Gupta and Newberry, 1997 in Jingga& Lina, 2017). Companies that rely more on debt financing than equity financing to support their business operations or leverage will have a high debt equity ratio (DER). In Indonesia, the government specifically regulates the amount of DER as an anti-tax avoidance measure because many taxpayers use debt to take advantage of interest costs to reduce the amount of income tax debt (Rani et al., 2018). A company's investment decisions may also have an impact on the effective tax rate (ETR) because tax laws typically allow taxpayers to waive depreciation costs over periods that are shorter than their economic life. Companies that are capital intensive (investing more in fixed assets) are estimated to have a lower ETR (Stickney & McGee, 1982 in Jingga& Lina, 2017).

This study took a sample of companies in the mining sector, because the mining sector is included in the five largest sectors in contributing to tax revenue, the five sectors include the Manufacturing Industry, Trade (Large and Retail), Financial Services, Construction, and Mining. Because the mining sector has a large contribution to the national economy, it causes mining industry players to relatively not get adequate supervision, so that immoral practices in the form of tax avoidance often occur (katadata.co.id). This can be seen based on data from the Ministry of Finance of the Republic of Indonesia, the mining sector has experienced a decline in contributing tax revenue to the government, in 2018 the mining sector contributed 6.6% then in 2019 it fell to 5.3%.

II. CONCEPTUAL MODEL AND HYPOTHESIS

According to Jensen and Meckling (1927) in Indira Yuni & Setiawan (2019), agency theory is a relationship based on a contract between the principal as the authorizer and the agent who is the authorized party. Shareholders who are principals provide business decision making to managers who are representatives (agents) of the shareholders. In relation to tax avoidance, agency theory can explain the conflicts that occur between the tax authorities (representatives of the government) and taxpayers (companies). The government (principal) legally has the right to obtain taxes from the income earned by taxpayers (agents), but taxpayers have their own interests to maximize profits. The difference in interests causes state revenue from taxes to be not optimal due to the taxpayer's opportunistic actions. Both perspectives are what make the conflict between the tax authorities as tax collectors and the company as taxpayers.

Agency theory assumes that each individual is solely motivated by his own interests, which creates a conflict of interest between the agent and the principal. The difference in interests between the government (principal) and the company (agent) will lead to non-compliance by taxpayers or company management which affects the company to take tax avoidance. The company assumes that taxes are considered a burden so that the company wants the smallest possible tax payments to the state. So, the manager will make an effort to regulate the amount of tax that must be paid by the company so that the company can maximize the profit it gets. On the other hand, the principal or the government wants maximum tax revenue from each taxpayer. Therefore, institutional ownership is needed in monitoring management activities.

Institutional investors as supervisors who come from externals will supervise the management of the company so that it generates profits based on the applicable rules, because basically institutional investors see how far management adheres to the rules in generating profits (Hanum and Zulaikha, 2013 in Fiandri & Muid, 2017). In general, institutional investors are cooperative with applicable regulations considering that if a problem occurs, the good name of the institutional shareholder can be dragged into the problem (Irawan et al., 2020). So, the higher the institutional ownership owned by the company, the aggressive tax policy action can be suppressed, because institutional owners are very concerned about the long-term impact that will result from aggressive tax actions (Zemzem & Ftouhi, 2013 in Pattiasina et al., 2019). This is supported by research by Charisma & Dwimulyani (2019) which states that institutional ownership has a negative effect on tax avoidance. Based on the theory and previous research, it can be concluded that the greater the institutional ownership, the smaller the tax avoidance efforts made by the management.

H_1 :Institutional ownership has a negative effect on tax avoidance

Agency theory explains that when a company wants to maximize its profit, there will be a conflict of interest between the tax authorities (principal) and the company or taxpayer (agent). The tax authorities want as much tax revenue as possible, while the company must generate significant profits with a low tax burden. The amount of profitability that the company gets will affect the actions that the company will take to maximize the amount of net profit the company receives. The higher the level of company profitability, the greater the profit that can be generated by the company, so that the tax imposed on company profits will be even greater. With this high profit, companies certainly don't want to pay high taxes, so that companies tend to do tax avoidance (Wiratmoko, 2018). So the higher the company's profit, the higher the company's tendency to practice tax avoidance to reduce its tax burden. This is supported by research by Pitaloka&Merkusiwati (2019) and Sonia &Suparmun (2019) which state that profitability has a positive effect on tax avoidance. Based on the theory and previous research, it can be concluded that the greater the profitability of a company, the greater the tax avoidance efforts made by the management.

H_2: Profitability has a positive effect on tax avoidance

The political cost hypothesis in positive accounting theory states that companies dealing with political costs will tend to reduce these political costs. Political costs are costs that arise from conflicts of interest between companies and the government, such as government subsidies, labor demands, tax payments, and so on (Yupita et al., 2017). One thing that companies can do is to take advantage of debt financing.

Financing that comes from debt offers tax advantages for companies, because leverage has a close relationship with interest costs that can reduce the company's tax burden. When a company leverages, the

company must pay interest on its loan. This interest payment will later increase the company's burden so that the profit generated by the company can decrease (Andhari&Sukartha, 2017). The higher the value of the leverage ratio, it means that the higher the amount of funding from debt that the company uses and the higher the interest costs that arise from the debt. Therefore, company management will tend to use the debt optimally to minimize the tax burden that must be paid (Rani et al., 2018). This is supported by research by Dewi&Noviari (2017) and CahyaDewanti&Sujana (2019) which state that leverage has a negative effect on tax avoidance. Based on previous theory and research, it can be concluded that the greater the value of the company's debt, the smaller the tax avoidance efforts undertaken by management.

H_3: Leverage has a negative effect on tax avoidance

The political cost hypothesis in positive accounting theory explains that the greater the political costs of the company, the greater the tendency for company managers to choose accounting methods that can reduce profits. This is because with high profits, the government will immediately take action, for example raising income taxes and others. One of the efforts that managers can make is to invest the company's idle funds in the form of fixed assets, with the aim of using the depreciation cost as a deduction from tax burden (Merkusiwati&Damayanthi, 2019).

The amount of company wealth that is invested in fixed assets is called the capital intensity ratio. The proportion of the company's fixed assets can minimize the tax burden payable from the depreciation of fixed assets it causes. Companies can increase depreciation costs for fixed assets in order to reduce company profits, where the amount of depreciation costs for fixed assets varies depending on the classification of fixed assets. Depreciation costs for fixed assets can be deducted from profit before tax so that the proportion of fixed assets in the company can affect the company's effective tax rate (ETR). Thus the greater the proportion of fixed assets and depreciation costs, the company will have a low ETR value (Susilowati et al., 2018). So companies that have a low ETR value indicate high tax avoidance practices in these companies. This is supported by research by Dharma &Ardiana (2016) which states that the Capital Intensity Ratio has a positive effect on Tax Avoidance. Based on the theory and previous research, it can be concluded that the greater the capital intensity ratio of a company, the greater the tax avoidance efforts made by the management.

H_4: Capital intensity ratio has a positive effect on tax avoidance

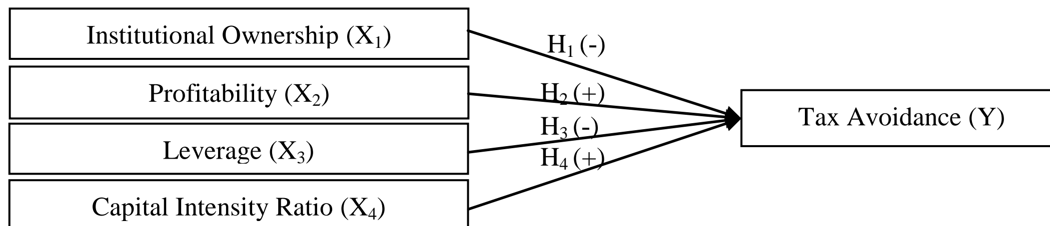

Figure 1. Conceptual Framework

III. RESEARCH METHODS

This study uses an associative quantitative approach because it aims to investigate the relationship between the independent and dependent variables. The location of this research was conducted in mining sector companies listed on the Indonesia Stock Exchange in 2015-2019 which are accessed on the official website of the Indonesia Stock Exchange (www.idx.co.id). This study uses secondary data. Secondary data in this study are financial reports and annual reports of mining companies listed on the IDX 2015-2019 obtained through the IDX website. The samples in this study were all mining companies listed on the Indonesia Stock Exchange for the period 2015-2019 which had been selected using purposive sampling technique. The data collection method is by non-participant observation method. The data analysis technique in this study uses Multiple Linear Regression analysis.

Institutional ownership is measured by the percentage ratio between the number of shares owned by the institution and the number of shares outstanding, using the following formula.

$$\text{Institutional Ownership} = \frac{\text{Proportion of Shares Owned by Institutions}}{\text{Number of Shares Issued}} \quad \text{.............................(1)}$$

This study uses ROA to measure the level of company profitability, because ROA shows the effectiveness of the company in managing assets, both self-capital and from borrowed capital, investors will see how effective the company is in managing assets. So, profitability measures how much the company makes a profit compared to its total assets. The greater the level of profitability, the greater the tax burden (Prabowo, 2020). Profitability is calculated by the following formula.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \text{...(2)}$$

Leverage is a ratio that measures the ability of both long-term and short-term debt to fund company assets (Kurniasih and Sari, 2013 in Puspita&Febrianti, 2018). Research using the proxy Debt to Equity Ratio (DER), Debt to Equity Ratio is a comparison that compares the amount of debt to equity. The higher the DER number, it is assumed to have a higher risk to the company's liquidity. From the use of this debt, it will result in an interest expense that can reduce the tax based on the company. Leverage is calculated by the following formula.

$$DER = \frac{\text{Total Liability}}{\text{Total Equity}} \quad \text{.......(3)}$$

The capital intensity ratio is the ratio of fixed assets to the total assets of a company. The fixed asset intensity ratio describes the proportion of a company's fixed assets to all assets owned by a company (Putri, Citra Lestari and Maya, 2016 in Susilowati et al., 2018). Companies that have high fixed assets have a relatively low tax burden compared to companies that have low fixed assets (Marlinda et al., 2020). Capital Intensity Ratio is calculated by the following formula.

$$\text{Capital Intensity Ratio} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}} \quad \text{.......(4)}$$

Tax avoidance can be measured by various approaches, one of which is Current ETR (Current Effective Tax Rate). Current ETR is the effective tax rate based on the amount of corporate income tax paid by the company in the current year. Current ETR is calculated based on the current tax expense on profit before tax. Current tax expense can reflect a company's tax burden deferral strategy (Salihu et al., 2013). Therefore, the current ETR is able to reflect the permanent difference between the calculation of commercial profit and adjusted taxable profit (Sonia &Suparmun, 2019). This study uses calculations that have been done by Prakosa& Sari, (2019) using the Current ETR proxy, which is as follows.

$$Current\ \text{ETR} = \frac{\text{Current Tax}}{\text{Total Income Before Tax}} \quad \text{.......(5)}$$

Companies are indicated to have committed tax avoidance if they pay taxes at a rate of <20%. The higher the percentage of the ETR rate which is close to 25% of the corporate tax rate, the lower the level of corporate tax avoidance.

IV. RESULTS AND DISCUSSION

The population used in this study were mining companies that were listed on the IDX during 2015 - 2019. The method of determining the sample in this study was determined by using a non-probability sampling method with purposive sampling technique, namely by selecting samples according to certain criteria.

Table 2.SampleDeterminationResults

	Criteria	Number of Companies
1	Mining companies listed on the Indonesia Stock Exchange (IDX) in 2015 - 2019	47
2	Companies that do not publish annual reports and complete annual financial reports for 2015-2019.	(8)
3	Companies that suffered losses during the study period 2015-2019	(27)
4	Outlier Data	(3)
	Number of companies selected	9
	Observation year	5
	Number of observations 2015 - 2019	**45**

Source: *Secondary data processed, 2020*

Based on Table 2, it can be seen that the number of mining companies listed on the Indonesia Stock Exchange from 2015 to 2019 is 47 companies. The selected companies were 9 companies with an observation period of 5 years, so the number of research samples became 45.

Table 3.ResultsofMultiple Linear RegressionAnalysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,346	0,129		2,685	0,011
	KI	0,297	0,122	0,321	2,427	0,020

ROA	-0,742	0,246	-0,426	-3,023	0,004
DER	0,111	0,061	0,264	1,824	0,076
CIR	-0,946	0,251	-0,517	-3,770	0,001

Source: *Secondary data processed, 2020*

Based on the results of multiple regression analysis in Table 3., the regression equation used in this study can be written as follows.

$$Y = \alpha + \beta 1KI + \beta 2ROA + \beta 3DER + \beta 4CIR + \varepsilon$$

$$\mathbf{Y = 0,346 + 0,297\ KI - 0,742\ ROA + 0,111\ DER - 0,946\ CIR + \varepsilon}$$

The Effect of Institutional Ownership on Tax Avoidance

The results of the analysis in Table 3 state that the coefficient value of the positive institutional ownership variable is 0.297 with a significance level of 0.020 which is smaller than the real level of the study, namely 0.05 (5%). This shows that the level of institutional ownership of mining companies listed on the IDX for the 2015-2019 period has a positive effect on current ETR. The higher the institutional ownership, the higher the current ETR value in mining sector companies on the IDX for the 2015 - 2019 period. The current ETR value of the company which is getting higher means that the tax avoidance actions taken by the company are getting lower. So, the greater the institutional ownership, the lower the tax avoidance action taken by the company. Thus, the first hypothesis (H_1) in this study is accepted.

The results of this study are in line with the research of Merslythalia & Lasmana (2017), Romadona & Setiyorini (2018) and Maraya & Yendrawati (2016) which state that institutional ownership has a negative effect on tax avoidance. The results of this study also support agency theory which explains that institutional ownership can solve agency problems. This condition can occur because institutional ownership is needed in monitoring the activities of company management. Institutional investors are investors who come from outside the company and are not affiliated with the company concerned, so that institutional investors tend to obey the rules made by the government. In addition, institutional investors as supervisors who come from external parties will supervise company management in carrying out tax management because basically institutional investors tend to avoid the risk of tax avoidance activities that can damage the company's reputation. So, a high percentage of share ownership by institutional institutions will increase control over company management to comply with tax regulations, so it can be concluded that the existence of institutional ownership can reduce tax avoidance efforts made by company management.

The Effect of Profitability on Tax Avoidance

The results of the analysis in Table 3 state that the coefficient value of the negative profitability variable is 0.721 with a significance level of 0.008 which is smaller than the real level of the study, namely 0.05 (5%). This shows that the level of profitability of mining companies listed on the IDX for the 2015-2019 period has a negative effect on current ETR. The higher the profitability, the lower the current ETR value. The lower current ETR value of the company means that the tax avoidance actions taken by the company are getting higher. So, the higher the profitability of the company, the higher the tax avoidance action taken by the company. Thus, the second hypothesis (H_2) in this study is accepted.

The results of this study are in line with Pitaloka & Merkusiawati (2019), Kimsen et al (2019), and Dewi & Noviari (2017) which state that profitability has a positive effect on tax avoidance. The results of this study also support the agency theory which states that there are differences in the interests of the company (agent) and the government (principal). The government wants to get more income from taxes but the manager or company wants the maximum profit so it will try to minimize the tax burden. The higher the level of company profitability, the greater the profit generated by the company, so that the tax imposed on company profits will be even greater. Under these conditions, companies certainly do not want to pay high taxes, so companies tend to take tax avoidance actions to maximize their profits.

The Effect of Leverage on Tax Avoidance

The results of the analysis in Table 3 state that the regression coefficient value is 0.113 with a significance level of 0.082 which is greater than the real level of the study, namely 0.05 (5%). This shows that the leverage level of mining companies listed on the IDX for the 2015-2019 period has no effect on current ETR, which means that it has no effect on tax avoidance. Thus, the third hypothesis (H_3) in this study is rejected.

The results of this study do not support research conducted by Dewi & Noviari (2017) and Cahya Dewanti & Sujana (2019), but do support the results of research conducted by Kusumastuti (2018), Ngadiman & Puspitasari (2017) and Permata et al., (2018) which states that leverage has no effect on tax avoidance. The results of this study fail to prove the validity of positive accounting theory as the theory underlying this study which says that it is in accordance with the political cost hypothesis in positive accounting theory which states that companies dealing with political costs will tend to reduce these political costs. The higher the value of the

leverage ratio, it means that the higher the amount of funding from debt that the company uses and the higher the interest costs that arise from the debt. The higher interest costs will have the effect of reducing the company's tax burden. Therefore, company management will tend to use the debt optimally to minimize the tax burden that must be paid so that the higher the leverage ratio, the lower the company's tax avoidance.

The results of this study indicate that leverage has no effect on tax avoidance, meaning that high or low leverage has no effect on tax avoidance. This condition can occur because companies that make funding sourced from loans or debt do not aim to take tax avoidance measures but to meet the company's operational and investment needs. This can be seen in Table 3 which shows that the leverage variable has an average value of 0.62947 which indicates that the average company financing using debt is 62.94 percent of the total equity owned by the company. Companies that aim to use large amounts of debt to take tax avoidance actions will cause losses to the company, if the profits earned by the company are less than interest costs. So in this case the creditor will think twice about investing in the company because it is feared that the company will not be able to pay off its obligations in a timely manner. In addition, currently the government also has tax regulations where the ratio of debt and equity in one accounting period must not exceed the predetermined rules, namely (4:1), where if it exceeds this amount, the existing interest costs must be recalculated for purposes the calculation of tax payable is in accordance with the Regulation of the Director General of Taxes Number 25 / PJ / 2017 (Susanti, 2019). So, the company does not want to take the risk of this high debt to make tax avoidance efforts, so it can be concluded that the high or low level of corporate leverage will not affect the level of tax avoidance carried out by company management.

The Effect of Capital Intensity Ratio on Tax Avoidance

The results of the analysis in Table 3 state that the coefficient value of the negative capital intensity ratio variable is 1.006 with a significance level of 0.000, which is smaller than the real level of the study, namely 0.05 (5%). This shows that the capital intensity ratio of mining companies listed on the IDX for the 2015-2019 period has a negative effect on current ETR. The higher the capital intensity ratio, the lower the current ETR value in mining sector companies on the IDX for the 2015-2019 period. The lower current ETR value of the company means that the tax avoidance actions taken by the company are getting higher. Thus, the fourth hypothesis (H_4) in this study is accepted.

The results of this study are in line with Aminah et al (2017) and Anindyka et al (2018) which state that the capital intensity ratio has a positive effect on tax avoidance. The results of this study also support the political cost hypothesis in positive accounting theory which states that the greater the political costs of the company, the greater the tendency for company managers to choose accounting methods that can reduce profits. Companies with high profitability will attract government attention and incur political costs, namely the imposition of higher taxes and various other demands. This condition causes the company to choose to invest in fixed assets by taking advantage of the resulting depreciation expense for fixed assets. Depreciation expense as a tax deduction can be used to minimize the tax burden owed by the company so that it can affect the company's effective tax rate (ETR). Thus, the greater the capital intensity ratio, the lower the company's ETR, which indicates a high level of tax avoidance by the company.

V. CONCLUSION

Institutional ownership has a negative effect on tax avoidance. The higher the institutional ownership in the company, the lower the tax avoidance practice. Institutional ownership is able to play an important role in supervising, disciplining and influencing managers so that it can force management to avoid behavior that is selfish. Profitability has a positive effect on tax avoidance. The higher the profitability of a company, the greater the tax avoidance practice because managers want to maximize company profits by minimizing the tax burden that must be paid to the government. Leverage has no effect on tax avoidance, which means that the higher or lower the level of leverage will not affect the level of tax avoids that the company will do. Capital intensity ratio has a positive effect on tax avoidance. The higher the capital intensity ratio of a company, the greater the tax avoidance practices the company will do. The greater the proportion of fixed assets and depreciation costs, the company will have a low ETR value, which means that the company's tax avoidance measures will be even greater.

The management of the company should still monitor the level of institutional ownership, profitability, and the capital intensity ratio as an effort to minimize tax avoidance actions by the company. We recommend that investors before investing in a company, first pay attention to the condition of the company. Investors should also increase their supervision of decisions or policies taken by the company so as not to cause harm to the company or shareholders. Further research is expected to examine other variables such as institutional ownership variables that can be replaced or added with other variables that proxies good corporate governance such as managerial ownership, independent commissioners, audit committees, and the Corporate Governance Perception Index (CGPI). Researchers can also add independent variables that predict financial performance that

are thought to be able to influence tax avoidance such as Return on Equity (ROE), Net Profit Margin (NPM), Debt to Asset Ratio (DAR), Long Term Debt to Equity Ratio. Further researchers can also develop research with a contingency approach and expand the scope of research.

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