CHAPTER V
CONCLUSION, IMPLICATIONS, LIMITATIONS, AND SUGGESTIONS

This chapter presents the conclusions drawn from the findings of the study, followed by the research implications, limitations, and suggestions for future research. The conclusions are formulated based on the results of the panel data regression analysis and the discussion presented in the previous chapter. Furthermore, this chapter highlights the theoretical and practical implications of the findings, acknowledges the limitations encountered during the research process, and provides recommendations for future studies and relevant stakeholders.

5.1 Conclusion

This study aims to examine the influence of profitability, leverage, and capital intensity on corporate tax avoidance among Energy and Basic Materials companies listed on the Indonesia Stock Exchange during the 2021-2025 period. Tax avoidance is measured using two alternative proxies, namely the Effective Tax Rate (ETR) and the Book-Tax Difference (BTD), while firm size, revenue growth, and State-Owned Enterprise (SOE) status are incorporated as control variables. By employing two different tax avoidance proxies, this study provides a more comprehensive assessment of corporate tax avoidance behavior and evaluates whether the relationships between the explanatory variables and tax avoidance remain consistent under different measurement approaches.

The findings indicate that profitability, measured by Return on Assets (ROA), does not significantly affect tax avoidance when measured using ETR. However, profitability has a positive and significant effect on tax avoidance when measured using BTD. These findings suggest that the influence of profitability on corporate tax avoidance depends on the proxy used to measure tax avoidance. While higher profitability does not necessarily reduce the effective tax burden reflected by ETR, it is associated with greater differences between accounting income and taxable income, indicating that profitable firms may employ more sophisticated tax planning strategies that are more effectively captured by BTD.

The results further show that leverage, measured by the Debt-to-Equity Ratio (DER), does not have a significant effect on tax avoidance under either the ETR or the BTD model. This finding indicates that differences in corporate financing decisions are not sufficient to explain variations in tax avoidance among the sampled companies. Although debt financing may provide tax benefits through deductible interest expenses, the results suggest that financing decisions are influenced by broader corporate financial considerations rather than being primarily motivated by tax avoidance objectives.

With respect to capital intensity, the findings reveal that the variable does not significantly influence tax avoidance when measured using ETR. However, capital intensity has a positive and significant effect on tax avoidance when measured using BTD. These results indicate that companies with greater investments in fixed assets tend to exhibit larger differences between accounting income and taxable income. This finding suggests that depreciation-related differences arising from accounting standards and tax regulations are more effectively reflected through the BTD proxy than through the ETR.

Among the control variables, revenue growth exhibits a statistically significant association with corporate tax avoidance under both the ETR and BTD models, indicating that corporate growth represents an important firm characteristic to consider when examining tax avoidance behavior. However, because the ETR and BTD proxies capture different dimensions of corporate tax avoidance, the interpretation of this relationship should be made in accordance with the specific proxy employed. In contrast, firm size does not significantly influence corporate tax avoidance under either measurement approach, while SOE status does not significantly affect tax avoidance under the ETR model and is omitted from the BTD model because it is a time-invariant variable under the Fixed Effects estimation. Overall, these findings suggest that revenue growth provides more explanatory value than firm size or ownership status among the control variables included in this study.

Overall, this study demonstrates that the determinants of corporate tax avoidance vary depending on the proxy used to measure tax avoidance. Profitability and capital intensity significantly influence tax avoidance only when measured using BTD, whereas leverage does not significantly affect tax avoidance under either proxy. Revenue growth is significant under both proxies but in opposing directions, corresponding to a higher level of tax avoidance when measured by ETR and a lower level of tax avoidance when measured by BTD, while firm size and SOE status do not provide consistent explanatory power under either proxy. Taken together, these findings demonstrate that employing both ETR and BTD provides a more comprehensive understanding of corporate tax avoidance than would be obtained from either proxy alone, since different determinants, and in the case of revenue growth, the same determinant through different channels, influence different dimensions of tax avoidance behavior. Accordingly, this study contributes to the existing literature by providing recent empirical evidence from Indonesian Energy and Basic Materials companies and by demonstrating the value of a dual-proxy research design in capturing the multidimensional nature of corporate tax avoidance.

5.2 Implications of the Study

5.2.1 Theoretical Implications

The findings of this study provide several theoretical implications for the development of tax avoidance research. First, the results indicate that the relationships between corporate financial characteristics and tax avoidance are not always consistent across different tax avoidance proxies. Profitability and capital intensity significantly influence tax avoidance only when measured using BTD, while leverage does not significantly affect tax avoidance under either ETR or

BTD. These findings suggest that the interpretation of tax avoidance may vary depending on the measurement approach employed.

Second, the findings contribute to the application of Agency Theory by demonstrating that managerial decisions related to tax planning are influenced by multiple corporate characteristics rather than by financial performance alone. The insignificant effect of leverage and the differing results obtained for profitability and capital intensity indicate that managers do not necessarily implement tax planning strategies solely to reduce corporate tax burdens. Instead, tax avoidance appears to be influenced by broader managerial considerations, including operational decisions, investment activities, and corporate growth.

Third, this study also contributes to the application of Positive Accounting Theory, particularly the Political Cost Hypothesis. More importantly, the findings suggest that the explanatory power of both Agency Theory and Positive Accounting Theory depends considerably on the tax avoidance proxy employed. Theoretical mechanisms that predict a widening of book-tax reporting divergence among profitable and capital-intensive firms are strongly supported when tax avoidance is measured using BTD, yet the same mechanisms are not supported when tax avoidance is measured using ETR. This indicates that accounting choices and tax reporting practices are shaped not only by tax-saving incentives but also by regulatory requirements, financial reporting standards, and corporate governance considerations, and that the theoretical lens best suited to explain corporate tax behavior may itself depend on how tax avoidance is operationalized.

Finally, this study demonstrates the importance of employing more than one proxy to measure corporate tax avoidance. By simultaneously using ETR and BTD, this study provides a more comprehensive understanding of corporate tax avoidance behavior and shows that different proxies may capture different dimensions of tax planning activities. Consequently, future tax avoidance research may obtain more robust empirical evidence by considering multiple measurement approaches rather than relying on a single tax avoidance proxy.

5.2.2 Practical Implications

For corporate management, the results indicate that corporate financial characteristics influence tax avoidance in different ways depending on how tax avoidance is measured. Management should therefore ensure that tax planning activities remain consistent with applicable tax regulations while maintaining transparency and accountability in financial reporting, rather than focusing exclusively on reducing the ETR or minimizing BTD in isolation.

For investors, the findings suggest that tax avoidance should not be evaluated solely on the basis of a single financial indicator. Since the relationships between corporate characteristics and tax avoidance vary depending on the measurement approach, investors are encouraged to consider multiple indicators, such as both the effective tax rate and book-tax differences, when assessing corporate tax planning behavior and financial reporting quality.

For tax authorities and regulators, the findings highlight the importance of using comprehensive approaches to evaluate corporate tax avoidance. The different results obtained from ETR and BTD indicate that reliance on a single tax avoidance indicator may not fully capture corporate tax planning activities, particularly among profitable and capital-intensive companies in the Energy and Basic Materials sectors. Accordingly, the use of multiple indicators may improve the effectiveness of tax monitoring and policy evaluation.

5.3 Research Limitations

Despite providing empirical evidence regarding the determinants of corporate tax avoidance, this study has several limitations that should be considered when interpreting the findings.

First, this study relies on secondary data obtained from companies' published financial statements and annual reports. Although the data collection process was conducted carefully, secondary data of this nature may be subject to inconsistencies in disclosure practices, occasional gaps in reporting, or classification differences across companies and years. In particular, taxable income, which is required to calculate BTD, was not consistently available in standardized financial databases and had to be manually collected and verified from the Notes to the Financial Statements. Although extensive verification was performed throughout the data collection process, differences in financial statement disclosure formats across companies may still limit the consistency and precision of the resulting BTD calculations.

Second, although BTD is intended to capture corporate tax avoidance through the divergence between accounting income and taxable income, this proxy may also reflect legitimate differences arising from financial accounting standards and tax regulations that are unrelated to deliberate tax planning, such as ordinary depreciation timing differences, provisions, and other temporary or permanent adjustments required under prevailing accounting and tax rules. Consequently, BTD may not fully distinguish between intentional tax avoidance strategies and routine accounting-tax differences that arise as a natural consequence of differing recognition and measurement principles, which represents an inherent limitation of the proxy itself rather than of the overall research design.

Third, this study examines the influence of profitability, leverage, and capital intensity on corporate tax avoidance while controlling for firm size, revenue growth, and SOE status. Although these variables represent important corporate characteristics identified in prior literature, corporate tax avoidance is a complex phenomenon that may also be influenced by other factors that this study was unable to incorporate, such as corporate governance mechanisms, executive characteristics, ownership structure, audit quality, political connections, and environmental, social, and governance (ESG) performance. The omission of these variables means that the explanatory power of the estimated models, particularly the ETR model, may be constrained by unobserved firm-specific characteristics that fall outside the scope of the current research design.

Finally, this study focuses exclusively on companies operating in the Energy and Basic Materials sectors listed on the Indonesia Stock Exchange during the 2021-2025 period. While this research setting was intentionally selected because of its capital-intensive characteristics, commodity price exposure, and strategic importance to the Indonesian economy, it also constrains the generalizability of the findings. The determinants of corporate tax avoidance identified in this study may not extend to companies operating in other industries with different operational characteristics, financial structures, or regulatory environments, nor necessarily to Energy and Basic Materials companies operating in other countries with different institutional and tax settings.

5.4 Suggestions

Based on the findings and limitations of this study, several suggestions are proposed for future research.

First, in response to the reliance on secondary data, future researchers are encouraged to strengthen the reliability of data collection, particularly for variables such as taxable income that are not consistently disclosed in standardized financial databases. Where feasible, future studies could cross-validate manually collected figures against additional sources, such as direct engagement with company investor relations departments or tax authorities, or focus on samples with more complete and standardized disclosure practices, in order to further improve data accuracy.

Second, in response to the limitation of the BTD proxy, future studies are encouraged to employ alternative or more refined tax avoidance proxies that may better distinguish deliberate tax planning from ordinary accounting-tax differences, such as the Cash Effective Tax Rate (CETR), the Long-run Effective Tax Rate (Long-run ETR), or discretionary or abnormal Book-Tax Differences that isolate the portion of BTD not explained by normal accruals. Employing such proxies alongside or in place of the standard BTD measure may help future research more precisely isolate intentional tax avoidance behavior from ordinary accounting-tax divergence.

Third, in response to the omission of other potentially relevant explanatory variables, future studies are encouraged to incorporate additional corporate characteristics that were beyond the scope of this study, including corporate governance mechanisms, executive characteristics, ownership structure, audit quality, political connections, and environmental, social, and governance (ESG) performance, in order to obtain a more complete understanding of the determinants of corporate tax avoidance.

Finally, in response to the limited generalizability of the findings, future researchers are encouraged to expand the scope of the study by examining companies from other industrial sectors, conducting cross-sector or cross-country comparisons, or extending the observation period beyond 2021-2025. Such extensions would help establish whether the relationships identified in this study, particularly the divergence in results obtained between the ETR and BTD models, hold across different industries, institutional settings, and time periods, thereby improving the generalizability of the findings.