

THE EFFECT OF PROFITABILITY AND LEVERAGE ON TAX AVOIDANCE IN THE HEALTHCARE SECTOR FOR THE PERIOD OF 2020-2024

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ABSTRACT

The purpose of this study is to examine how profitability and leverage affect tax evasion in healthcare firms that are listed on the Indonesia Stock Exchange between 2020 and 2024. Due to its potential to result in large losses in state income, tax avoidance has emerged as a critical concern, and businesses must effectively manage their capital structures and earnings. This study exerts a purposive sampling methodology in conjunction with a descriptive quantitative method, yielding 55 observational samples from 11 firms. Tax avoidance is measured by the Effective Tax Rate (ETR), profitability by Return on Assets (ROA), and leverage by the Debt to Equity Ratio (DER). SPSS version 23 was utilized to analyze the data using multiple linear regression. Profitability has a negative and substantial impact on tax evasion, according to the partial test findings (t-test) with a significance value of 0.003. This suggests that businesses with greater profit levels are more likely to comply with their tax duties to avoid fines. Leverage, on the other hand, has no discernible impact on tax evasion (sig. 0.556), suggesting that the healthcare industry uses debt more for operational funding than for tax-cutting measures. Both factors significantly influence tax evasion at the same time with an F-value of 5.599 (sig. 0.006) and a coefficient of determination of 17.7%. Regulators and investors can better understand business tax behavior in the healthcare industry thanks to this study.

Keywords: Healthcare Sector, Leverage, Profitability, Tax Avoidance.

INTRODUCTION

Law Number 7 of 2021 about the Harmonization of Tax Regulations UU HPP (2021) governs the state's tax requirements for both individuals and corporate organizations. A number of significant tax kinds, including Income Tax (PPh), Luxury Goods Sales Tax (PPnBM), and Stamp Duty, which are all subject to relevant legal conditions, provide tax revenues. (Thalia & Anggraeni, 2022).

Tax reduction activities carried out by corporations, whether legally or illegally, trigger a tendency for entities to continuously find ways to minimize their tax burdens. To quantify the level of tax avoidance, management can utilize the Cash Effective Tax Rate (Cash ETR) indicator, which is calculated by dividing total tax expenses by the company's profit before tax. (Khairunnisa et al., 2023).

Despite the significant contribution of tax revenues to the state budget (APBN), the optimal collection of these funds faces consistent threats from tax non-compliance. Tax avoidance and tax evasion remain global and domestic institutional challenges that inflict massive financial losses on the state. According to the Tax Justice Network Report 2024, Indonesia is estimated to lose approximately USD 4.59 billion (equivalent to more than IDR 70 trillion) annually due to global tax abuse. Crucially, the largest portion of this loss is driven by multinational and domestic corporate tax avoidance strategies, while the

remainder stems from private tax evasion. In line with this, the Directorate General of Taxes (DJP) identifies that corporate entities systematically utilize accounting practices to minimize their corporate income tax (PPH Badan) liabilities. These figures highlight an urgent phenomenon: while the government relies heavily on corporate fiscal contributions, many commercial industries, including vital sectors such as healthcare, consistently leverage accounting loopholes to drive down their effective tax payments. (Pajakku, 2024).

Profitability and leverage are used as independent factors in this tax avoidance research. A company's capacity to turn a profit is reflected in its profitability. Profitability and tax evasion are positively correlated, according to Barus et al. (2024) , This implies that businesses must manage earnings more effectively when they try to evade taxes in order to prevent an unduly large tax burden.

Third-party debt is one way that businesses can finance their daily operations. As the company's debt level rises, so does the interest that must be paid. The profitability of the business and, in turn, its tax obligation may be impacted by these interest expenses. Leverage, according to research by Galingging (2024)), is the amount that a company uses debt to finance its assets. By subtracting interest expenses from their taxable revenue, companies with high debt burdens can reduce their tax liabilities.

Although numerous studies have investigated corporate tax behavior, empirical evidence regarding the effects of profitability and leverage on tax avoidance remains highly contradictory, revealing a distinct research gap. Some researchers argue that high profitability and leverage increase tax avoidance due to earnings-shielding motives and tax-deductible interest expenses, whereas others demonstrate opposite or non-significant results as firms prioritize reputation and operational financing over tax-aggressive schemes. These substantial empirical inconsistencies underline the critical importance of re-examining these dynamics. Therefore, this study aims to resolve these contradictions by focusing specifically on the healthcare sector listed on the Indonesia Stock Exchange for the period of 2020-2024, providing fresh insights into tax strategies in a vital post-pandemic market environment.

LITERATURE REVIEW

Agency Theory

Agency theory states that when one or more individuals, referred to as principals, employ another individual, referred to as an agent, to perform services and grant the agent decision-making authority, an agency relationship arises. (Jensen & Meckling, 1976) . working connection with the owner who has been given control. Agency theory is based on three basic assumptions: (1) information assumptions; (2) organizational assumptions; and (3) human assumptions. (Sumantri et al., 2022) . High monitoring costs can minimize tax fraud by limiting managerial opportunism, but they may also restrict tax planning flexibility. However, extreme tax evasion can result in agency costs, including legal fees, tax audits, compliance costs, and reputational harm to the business. (Fahmi & Naibaho, 2025). Tax avoidance tactics are influenced by variations in corporate governance as efficient governance frameworks may lower agency expenses and curb aggressive tax evasion. (Desai & Dharmapala, 2004).

Signaling Theory

Spence (1973) , according to Signaling Theory, in order to lessen the uncertainty brought on by information asymmetry, parties with more knowledge like corporate management will send signals to other parties like investors. According to Ross (1977) businesses try to send forth positive signals to boost investor confidence. Companies must provide pertinent and accurate information in their financial statements since this notion plays a significant role in lowering investor confusion over business performance. (Galingging, 2024).

The way businesses communicate with users of financial statements is explained by signaling theory. Financial statements are used by management to convey information by showcasing the use of conservative accounting practices that result in higher-quality earnings. (Sare & Meiden, 2022).

Tax Avoidance

Tax avoidance is a lawful strategy employed by taxpayers to evade taxes by taking taking advantage of loopholes in tax regulations to reduce the amount of taxes owed. (Devi et al., 2022). The term “tax avoidance” describes attempts to use available regulations to lower or save taxes. Because it more properly captures the presence of tax evasion inside a corporation, the CETR, which is calculated by dividing cash tax payments by earnings before tax (Erickson, 2017) , is often used to measure it. Businesses attempts to increase profits are closely related to tax evasion since taxes are seen as an expense that reduces firm profitability. Even while businesses see taxes as an expense, the state nonetheless relies heavily on them for funding. (Hendayana et al., 2024) . “A number of variables, including profitability, capital intensity, leverage, sales growth, and company size, might drive businesses to engage in tax evasion”. The capacity of a business to make money is demonstrated by its profitability. (Rahayu et al., 2023).

Profitability

Profitability refers to the amount of money a business earns makes when its performance is measured. A company's success as shown by profit may be used to assess its operational control. A company's success and, hence, its prospects for the future are positively correlated with its profitability ratio as shown in its financial accounts. (Windiarti et al., 2024). Profits may be compared to assets or capital in a variety of ways to determine a company's profitability. According to Kasmir (2019), “profitability ratios are used to evaluate a company's ability to make a profit over a given period of time”. This ratio also reveals how well management is doing, as seen by the profits from sales activities or investment returns. According to Fadlillah & Susilowati (2019) profitability is the capacity of the business to make money relative to sales, total assets, or equity. Retained earnings are often preferred by businesses as the primary source of funding for investments; if internal resources are insufficient, they may resort to debt or, as an alternative, issue additional shares. (Adiguna & Ritonga, 2024)

H 1 : There is a positive effect of profitability on tax avoidance.

Leverage

Leverage quantifies how much a business depends on debt to fund its operations. Kasmir (2019), The leverage ratio illustrates the connection between a company's debt and assets. This ratio is crucial for evaluating a business's capacity to pay its debts, particularly over the long haul. An increased likelihood of financial difficulty is indicated by a high debt-to-asset ratio. Leverage is therefore crucial when assessing the financial health of a business. (Galingging, 2024). DAR, DER, LTDtER, TIER, and Coverage Ratio are just a few of the leverage ratios that businesses use to evaluate their financial structure. (Hendayana et al., 2024).

H 2 : There is a positive effect of leverage on tax avoidance

RESEARCH METHODS

The descriptive quantitative approach was applied in this investigation. The descriptive quantitative technique is intended to gather information that precisely and methodically characterizes the traits of individuals, occasions, or circumstances. (Sekaran & Bougie, 2017). SPSS version 23 is the analytical tool used in this study to handle and examine the research data. The study's secondary data came from the annual reports of healthcare firms that were listed on the Indonesia Stock Exchange between 2020 and 2024. These annual reports were utilized because they provide comprehensive financial information relevant to the subjects this study examined.

Purposive sampling is the sampling technique applied in this study., which entails choosing samples according to predetermined standards set by the investigator. The sample was selected based on two criteria.: (1) businesses that regularly released full annual reports between 2020 and 2024; and (2) businesses that made money throughout the observation period. Eleven firms in the healthcare sector were chosen as study samples based on these criteria. The study collected 55 observational samples over the course of a five-year observation period, which were subsequently examined using quantitative descriptive techniques.

Table 1. Research sample

No	Code	Company Name
1	DVLA	Darya-Varia Laboratoria Tbk.
2	KLBF	Kalbe Farma Tbk.
3	MERK	Merck Tbk.
4	MIKA	Mitra Keluarga Karyasehat Tbk.
5	SCPI	Organon Pharma Indonesia Tbk.
6	SIDO	Industri Jamu dan Farmasi Sido Muncul Tbk.
7	SILO	Siloam International Hospitals
8	TSPC	Tempo Scan Pacific Tbk.
9	HEAL	Medikaloka Hermina Tbk.
10	IRRA	Itama Ranoraya Tbk.
11	SOHO	Soho Global Health Tbk.

Source: processed data, 2026

To test the hypotheses and analyze the effects of profitability and leverage on tax avoidance, a multiple linear regression analysis was performed. The formal mathematical equation for the regression model in this study is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where:

Y = Tax Avoidance, measured by the Effective Tax Rate (ETR)

α = Constant coefficient

β_1, β_2 = Regression coefficients for each independent variable

X_1 = Profitability, measured by Return on Assets (ROA)

X_2 = Leverage, measured by the Debt to Equity Ratio (DER)

ε = Error term (galat), representing other factors or residual variables not included in the model.

The operational variables of this study are as follows.

Table 2. Operational Variables

Variable	Indicator	Measurement	Scale
Tax Avoidance (Y)	Effective Tax Rate (ETR)	$ETR = \frac{Income Tax Expense}{Profit Before Tax}$	Ratio
Profitability (X1)	Return on Assets (ROA)	$ROA = \frac{Net Income After Tax}{Total Assets}$	Ratio
Leverage (X2)	Debt to Equity Ratio (DER)	$DER = \frac{Total Liability}{Total Equity}$	Ratio

Source: processed data, 2026

ETR is a proxy for the tax avoidance variable, ROA is a proxy for the profitability variable, and DER is a proxy for the leverage variable.

RESULTS AND DISCUSSION

The results of the descriptive statistical analysis using SPSS are as follows:

Table 3. Descriptive Statistics Results

Indicator	N	Min	Max	Mean	Std. Deviation
Profitability	55	0	0,31	0,1209	0,06457
Leverage	55	0.04	2,24	0,5018	0,38093
Tax Avoidance	55	0,12	0,6	0,2434	0,06191

Source : SPSS, 2026

Based on the results of the descriptive statistical analysis, the profitability variable has a range of 0 to 0.31 and a mean value of 0.1209. With a standard deviation of 0.06457, this shows that the corporation may generate profits of 12.09%, demonstrating a comparatively low degree of fluctuation among the data. With a mean value of 0.2434 and a modest standard deviation of 0.06191, the Tax

Avoidance variable likewise demonstrates comparable consistency, indicating very consistent tax avoidance activities throughout the research items. With a standard deviation of 0.38093 and a broad range of values between 0.04 and 2.24, the Leverage variable, on the other hand, exhibits the highest degree of volatility. The sample enterprises' capital structures differed significantly, with an average of 50.18% of their assets being financed by debt. The result of the normalcy test findings:

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
Asymp. Sig. (2-tailed)	0,001

Source : SPSS, 2026

The Asymp. Sig. (2-tailed) value obtained from the normalcy test using the Kolmogorov-Smirnov technique in SPSS was 0.001, which is less than 0.05. As a result, it may be said that the study's residual data are not regularly distributed. However, by accounting for the total sample size of 55 observations, the analysis may still proceed in line with Laplace (1820), which stipulates that the sampling distribution tends to approach a normal distribution when the sample size is sufficiently big. Therefore, as long as there are no additional serious assumption breaches, this research can move on to the further phases of analysis, such as regression analysis and the traditional assumption tests. The multicollinearity test yielded the following findings:

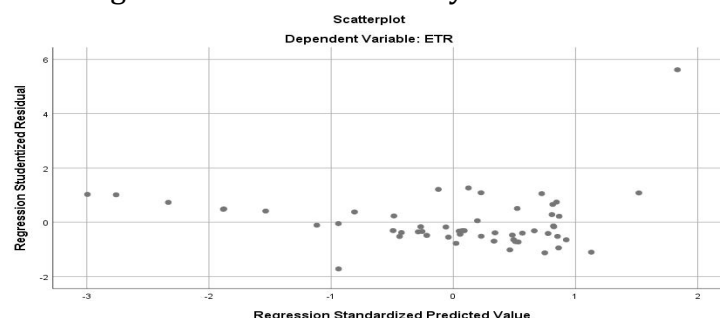
Table 5. Multicollinearity Test Results

	Tolerance	VIF
ROA	0,761	1,313
DER	0,761	1,313

Source : SPSS, 2026

The tolerance levels for the ROA and DER variables are 0.761 (> 0.10) with VIF values of 1.313 (< 10), according to the multicollinearity test findings. It may be inferred that there is no strong association between the independent variables since these values satisfy the predetermined threshold conditions. As a result, the study model has no multicollinearity issues and is suitable for additional regression analysis. The heteroscedasticity test yielded the following findings:

Figure 1. Heteroscedasticity Test Results



Source : SPSS, 2026

The residual points are randomly distributed above and below 0 on the Y-axis according to the heteroscedasticity test using the scatterplot technique; they do not form any particular or systematic pattern. This suggests that the residual variance is either constant or satisfies the homoscedasticity requirement. As a result, the regression model is thought to be free of heteroscedasticity issues and suitable for more examination. The multiple linear regression test yielded the following findings:

Table 6. Multiple Linear Regression Results

Variable	Koefisien (B)	Std. Error	t-Value	Sig.	Remarks
Constant	0,303	0,026	11,722	0	-
Profitability (X1)	-0,437	0,138	-3,163	0,003	Sig
Leverage (X2)	-0,014	0,023	-0,593	0,556	Not Sig

Source : SPSS, 2026

The multiple linear regression analysis give rise to the following regression equation:

$$Y = 0,303 - 0,437X1 - 0,014X2$$

The results of the multiple linear regression test show that the profitability variable (X1) significantly reduces tax evasion with a regression coefficient value of -0.437 and a significance value of 0.003 (< 0.05). This implies that as firm profitability rises, there will be less tax avoidance. Conversely, the Leverage variable (X2) has a significance value of 0.556 (> 0.05) and a coefficient value of -0.014, suggesting that leverage has no appreciable effect on tax evasion in healthcare-related enterprises. The partial test's or t-test's findings are as follows:

Table 7. T-Test Results

Indicator	Sig
Profitability (X1)	0,003
Leverage (X2)	0,556

Source : SPSS, 2026

The findings of the t-test (partial test), which indicate that the profitability variable (X1) has a significance value of 0.003 (< 0.05), support the first hypothesis (H1). This indicates that profitability has a considerable influence on tax avoidance, with a negative coefficient direction, meaning an increase in profitability usually leads to a drop in tax avoidance. The second hypothesis (H2) is rejected since the Leverage variable (X2) has a significance value of 0.556 (> 0.05) and does not significantly affect tax evasion while having a negative coefficient direction.

Therefore, it can be said that in this study model, only the profitability variable significantly influences tax evasion; leverage has not been shown to have a statistically significant effect. The simultaneous test yielded the following results:

Table 8. F-Test Results

F	Sig
5,599	0,006

Source : SPSS, 2026

The results of the simultaneous test (F-test) using SPSS yielded a computed F value of 5.599 with a significance level of 0.006. It may be concluded that the independent variables, ROA and DER, concurrently substantially affect the dependent variable, tax avoidance, which is represented by the Effective Tax Rate (ETR), as this significance value is less than 0.05. The findings of the coefficient of determination test were as follows:

Table 9. Coefficient of Determination Test Results

R Square	Adjusted R Square
0,177	0,146

Source : SPSS, 2026

The coefficient of determination test revealed a R Square value of 0.177, indicating that leverage (DER) and profitability (ROA) account for 17.7% of the variance in tax evasion, with other factors outside the model influencing the remaining 82.3%. According to Ghazali (2018), even though the Adjusted R Square value of 0.146 is rather low, this is typical in social research because the dependent variable is influenced by several external factors.

Discussion

Effect of Profitability (X1) on Tax Avoidance (Y)

After the t-test, the regression coefficient value for Return on Assets (ROA), a proxy for the profitability variable (X1), is -0.437 with a significance value of 0.003, which is less than 0.05. This implies that profitability has a negative and substantial influence on tax evasion (ETR). This implies that the degree of tax evasion tends to decrease as a company profitability liven up. Therefore, it is accepted that profitability has an impact on tax avoidance. These results imply that companies with high profit margins are less likely to evade taxes as they are more inclined to abide with tax regulations and avoid legal issues.

This result is in line with studies by Radiany et al. (2022) and Shubita (2024) "which discovered that tax evasion is significantly impacted negatively by profitability". Tax avoidance is substantial impacted negative by ROA, implying that greater profitability lowers tax avoidance. The low R-squared result shows that only a small percentage of the factors impacting tax evasion are explained by either model; the remaining elements are impacted by variables not included in the research.

This study, however, contradicts that of Rosalin & Chrismastuti (2023) who discovered that tax evasion in manufacturing firms listed on the IDX between 2017

and 2021 is significantly positively impacted by profitability. The Sofiamanan et al. (2023) study also demonstrates that a company's propensity to participate in tax evasion operations rises in tandem with its profitability. The company's tax burden increases when the profitability ratio is large. Because of this heavy tax load, businesses move or reduce their tax responsibilities in order to avoid paying taxes.

Effect of Leverage (X2) on Tax Avoidance. (Y)

The Debt to Equity Ratio (DER), which serves as a proxy for the leverage variable, has a regression coefficient value of -0.014 with a significance value of 0.556, which is larger than 0.05, after the t-test. This suggests that ETR is negatively, although not significantly, impacted by leverage. Put differently, corporate tax evasion strategies are not considerably impacted by an increase in leverage. As a result, the idea that leverage influences tax evasion is disproved. These findings show that enterprises' use of debt is not always employed as a tactic to lower tax obligations, but rather is more concentrated on business finance and operational requirements, therefore it has little impact on the degree of tax evasion.

This result is in line with Wulandari & Sudarma (2022) study, which concluded that leverage had no beneficial impact on tax evasion. Leverage as measured by DAR has little bearing on tax evasion, according to a research by Suryono & Sutandi (2022). Because the debt is needed to fund operational activities, a high DAR proportion prevents businesses from engaging in tax evasion.

This study, however, contradicts Galingging (2024) findings that leverage has a favorable impact on tax evasion. Leverage helps lower taxes since construction businesses frequently utilize debt to finance big projects. Additionally, the Rahayu et al. (2023) study demonstrates how leverage influences tax evasion. Businesses that use more third-party debt funding will pay more in interest. High interest costs lower net profit, which lowers tax obligations and enables businesses to maximize profits.

CONCLUSION

Based on the empirical analysis of healthcare firms listed on the Indonesia Stock Exchange from 2020 to 2024, this study concludes that profitability (ROA) has a negative and significant impact on tax avoidance. This confirms that highly profitable healthcare companies possess strong earnings power that drives them to fulfill their tax obligations more compliantly to mitigate legal risks and avoid penalties from fiscal authorities. Conversely, leverage (DER) does not have a significant effect on tax avoidance, indicating that healthcare entities strategically utilize debt financing to support core operational and commercial expansion rather than as a mechanism for aggressive tax-shielding strategies. Simultaneously, profitability and leverage collectively influence tax avoidance with a determination coefficient of 17.7%, while the remaining 82.3% is driven by unobserved factors outside this research model.

The findings of this study offer crucial practical implications for tax authorities and financial regulators, particularly the Directorate General of Taxes (DJP). Given that lower corporate profitability correlates with an increased propensity for tax avoidance, tax authorities should optimize their risk-based auditing frameworks by intensifying oversight and monitoring activities on

healthcare firms exhibiting declining financial performance or marginal profit rates. Furthermore, the substantial unexplained variance (82.3%) underscores the urgent need for regulators to look beyond basic corporate capital structures and instead scrutinize non-financial reporting mechanisms, corporate governance quality, and capital intensity to design more robust anti-tax avoidance regulations in the public health commercial sector.

For future researchers, it is highly recommended to expand the research scope by incorporating alternative variables such as corporate governance, capital intensity, company size, and specific political connections to comprehensively capture the factors explaining the remaining 82.3% of tax avoidance behavior. For company management within the healthcare industry, firms are advised to maintain balanced operational funding structures and robust profitability, while consistently prioritizing transparent tax compliance over aggressive tax planning to preserve corporate reputation and bolster long-term market value.

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