

Systematic Literature Review on the Determinants of Tax Avoidance: Based on Financial Analysis

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Abstract: State finances rely heavily on tax revenues, yet tax avoidance remains a persistent obstacle that can reduce government income. This practice is commonly associated with internal corporate conditions. Therefore, this research examines how profitability, leverage, firm size, and capital intensity relate to tax avoidance behavior. Employing a descriptive design with a Systematic Literature Review (SLR), the study evaluates ten empirical articles published between 2021 and 2025 in Sinta and Scopus indexed journals. The analysis indicates that the influence of these internal factors varies across studies. Profitability and leverage demonstrate contradictory effects, as strong earnings and higher debt may stimulate aggressive tax planning through tax shields, but may also restrain avoidance to preserve corporate image. Firm size likewise presents inconsistent results due to regulatory and public attention. In contrast, capital intensity generally shows minimal influence because investments in fixed assets are directed toward operational efficiency. These findings provide valuable considerations for policymakers to strengthen tax deduction regulations and encourage responsible corporate tax compliance.

Keywords: Capital Intensity; Firm Size; Leverage; Profitability; Tax Avoidance.

1. Introduction

Taxes are legally mandated payments that individuals and organizations must remit to the government under applicable legislation. Despite the absence of direct compensation, the collected revenue is allocated to sustain public administration and strengthen community welfare (Wijayanah & Basuki, 2021). In addition, taxation plays a crucial role in influencing and directing economic policy.

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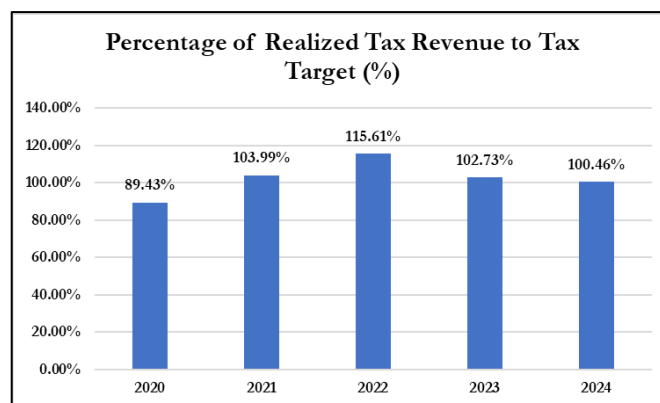


Figure 1. Percentage of Realized Tax Revenue to Tax Target.

Source: Performance Report Direktorat Jenderal Pajak (2024)

Figure 1 reveals a fluctuating trend in tax revenue realization throughout 2020–2024. The revenue achieved in 2020 remained below the target determined by the Directorate General of Taxes. In contrast, the realization from 2021 to 2024 consistently exceeded the set targets. However, the changing pattern of revenue growth and stability underscores the importance of strengthening tax collection strategies. According to Prasetyawati & Fuadah (2025), such variability may reflect systemic challenges, including the likelihood of tax avoidance among taxpayers.

Tax avoidance refers to lawful strategies employed by corporations to minimize tax payments without contravening statutory provisions. Since taxes are frequently perceived as a cost that diminishes corporate profit, companies tend to exploit regulatory loopholes or interpretive gaps within tax laws to reduce their fiscal obligations while remaining legally compliant (Wicaksono & Adi, 2023). The Tax Justice Network estimates that Indonesia suffers losses of approximately USD 2,736.5 million annually due to corporate tax avoidance, along with USD 69.8 million resulting from offshore asset transfers, as documented in the Minister of Finance Decree Number 27/KM.10/KF.4/2024 (Faradina, 2024).

Such conditions highlight that tax avoidance practices are closely associated with internal corporate characteristics, particularly profitability. Profitability indicates a company's effectiveness in generating earnings from its resources through operational performance, sales activities, and asset management (Putri & Naibaho, 2022). Higher profitability levels tend to increase tax exposure, prompting firms to pursue tax avoidance strategies to reduce fiscal pressure and stabilize net profits. In addition, leverage is considered another determinant of tax avoidance behavior. Leverage reflects the proportion of debt utilized within a firm's capital structure, where interest payments can reduce taxable income and potentially function as a tool for tax optimization (Erwan et al., 2023).

Firm Size, as a representation of organizational characteristics, is frequently linked to tax avoidance strategies. Ubwarin et al. (2021) suggest that large firms possess superior financial resources, operational sophistication, and tax management capabilities compared to smaller firms. Moreover, capital intensity is also believed to contribute to tax avoidance practices. Aisyah et al. (2024) note that firms with a high share of fixed assets generally generate greater depreciation costs, which may be used to legitimately reduce taxable income in line with existing tax provisions. Therefore, internal aspects including profitability, leverage, firm size, and capital intensity are crucial factors in understanding tax avoidance. This research aims to investigate these relationships through a Systematic Literature Review of prior empirical studies.

2. Proposed Method

This study adopts a descriptive approach through a Systematic Literature Review (SLR) methodology. SLR is a systematic technique used to collect, evaluate, and interpret findings from existing research to answer defined research questions in an organized manner (Sandy et al., 2024). In the initial phase, studies discussing tax avoidance were identified by reviewing

journals indexed in Sinta and Scopus. The collected literature was then analyzed to explore independent variables influencing tax avoidance and their relevance to contemporary issues.

The search process applied keywords such as tax avoidance, profitability, leverage, firm size, and capital intensity covering publications from 2021 to 2025. The initial search yielded 45 articles from Scopus (Q1–Q4) and Sinta (S1–S2). After filtering for open-access availability, 29 articles remained. A further relevance screening produced 10 selected studies, which were analyzed to gain a deeper understanding of tax avoidance research.

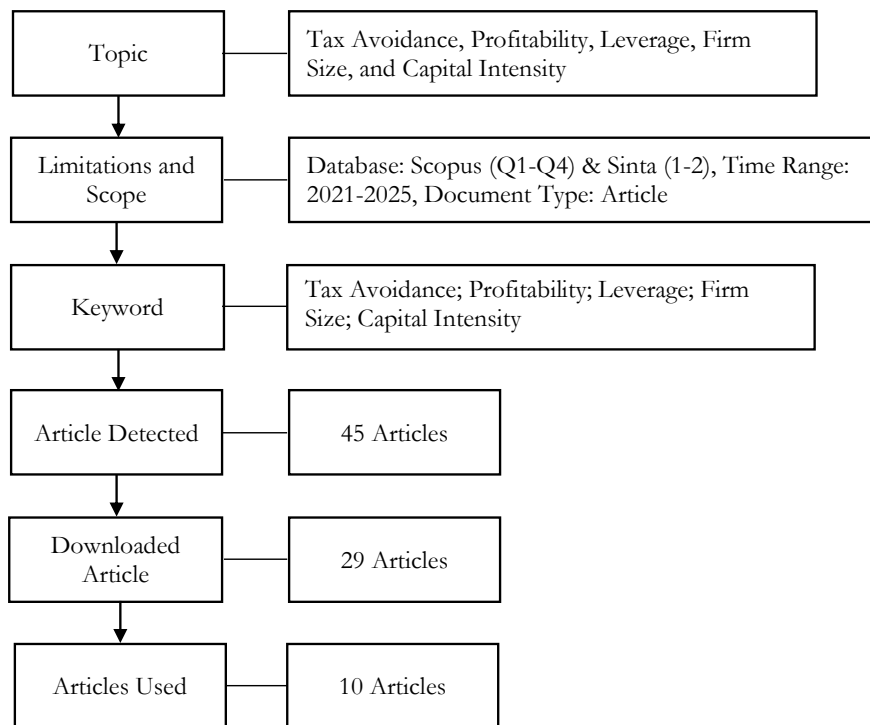


Figure 2. Article Selection Chart.
Source: Author's Data Processing (2026)

3. Results and Discussion

Results

Index Journal

As illustrated in Table 1, the identified literature originates from indexed scholarly journals, contributing to the robustness and credibility of the research conclusions.

Table 1. Index Journal.

No	Index	Number of Articles	Percentage (%)
1	Scopus (Q1 – Q4)	2	20%
2	Sinta (1 – 2)	8	80%
	Total	10	100%

Source: Author's Data Processing (2026)

According to the data in Table 1, the selected literature consists of ten journal articles indexed by Scopus and SINTA. The composition comprises one article from Scopus Q2, one from Scopus Q3, and eight from SINTA 2.

Year of Research Article

Figure 3 presents the results of the identification showing the number of literature sources used in this study from 2021 to 2025.

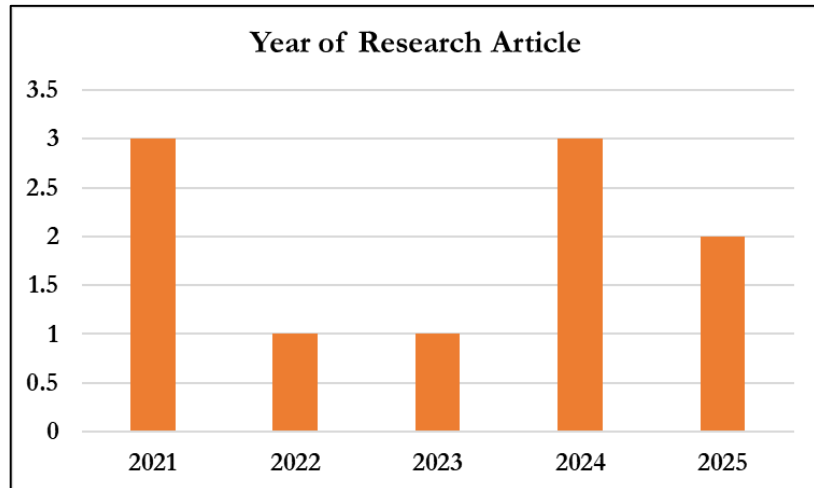


Figure 3. Year of Research Article.

Source: Author's Data Processing (2026)

According to Figure 3, the literature included in this study was published during the 2021–2025 period. The analysis covers 10 articles, with publication numbers varying by year: three in 2021, one in 2022, one in 2023, three in 2024, and two in 2025.

Research Result

Presented below are studies that fulfill the predetermined criteria for examining the relationship between profitability, leverage, firm size, capital intensity, and tax avoidance. Each article is concisely summarized based on its author, title, and major findings, whether statistically significant or not. This summary forms the foundation for subsequent analysis in the discussion section.

Table 2. Articles related to Profitability, Leverage, Firm Size, Capital Intensity and Tax Avoidance.

No	Peneliti	Judul	Hasil
1.	(Gumelar et al., 2024)	Effect Of Profitability, Leverage, Firm Size On Tax Avoidance Case study on Banking Companies Listed on the IDX 2023 Period	1. Profitability has a negative effect on Tax Avoidance 2. Leverage has a negative effect on Tax Avoidance 3. Firm Size has no effect on Tax Avoidance
2.	(Sari & Ramli, 2023)	The Effect Of Leverage, Company Size, Company	1. Leverage has a positive effect on Tax Avoidance

- | | | |
|------------------------------------|--|---|
| | Risk On Tax Avoidance In 2020-2022 Case Study of a Manufacturing Company in the Raw Materials Sector | 2. Firm Size has a positive effect on Tax Avoidance |
| 3. (Hermawan et al., 2021) | Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan Terhadap Tax Avoidance Perusahaan Property dan Real Estate | 1. Profitability has a positive effect on Tax Avoidance
2. Leverage has a positive effect on Tax Avoidance
3. Firm Size has no effect on Tax Avoidance |
| 4. (Puspitasari & Wulandari, 2022) | Analisis Faktor yang Mempengaruhi Tax Avoidance Perusahaan Perbankan | 1. Firm Size has a positive effect on Tax Avoidance
2. Leverage has a negative effect on Tax Avoidance |
| 5. (Hendayana et al., 2024) | Exploring impact of profitability, leverage and capital intensity on avoidance of tax, moderated by size of firm in LQ45 companies | 1. Profitability has a positive effect on Tax Avoidance
2. Leverage has a positive effect on Tax Avoidance
3. Capital Intensity has no effect on Tax Avoidance |
| 6. (Sumartono & Puspitasari, 2021) | Determinan Tax Avoidance: Bukti Empiris pada Perusahaan Publik di Indonesia | 1. Profitability has a negative effect on Tax Avoidance
2. Leverage has a positive effect on Tax Avoidance
3. Firm Size has no effect on Tax Avoidance |
| 7. (Nursiam & Kusumawati, 2025) | Determinants of Tax Avoidance From a Financial Perspective | 1. Profitability has a negative effect on Tax Avoidance
2. Capital Intensity has a positive effect on Tax Avoidance
3. Firm Size has a positive effect on Tax Avoidance |
| 8. (Pambudi et al., 2025) | Independent Commissioners' Role in CEO Tenure, Capital Intensity and Firm Size Tax Avoidance | 1. Capital Intensity has no effect on Tax Avoidance
2. Firm Size has a positive effect on Tax Avoidance |
| 9. (Ulfa et al., 2021) | The Effect of CEO Tenure, Capital Intensity, | 1. Capital Intensity has no effect on Tax Avoidance |

	and Firm Size On Tax Avoidance	2. Firm Size has a no effect on Tax Avoidance
10. (Hossain et al., 2024)	Nexus between profitability, firm size and leverage and tax avoidance: evidence from an emerging economy	<ol style="list-style-type: none"> 1. Profitability has a positive effect on Tax Avoidance 2. Firm Size has positive effect on Tax Avoidance 3. Leverage has a positive effect on Tax Avoidance

Source: Author's data processing (2026)

The synthesis of ten relevant articles presented in Table 1 demonstrates that several independent variables yield differing results regarding their influence on tax avoidance. These variations illustrate the adaptive and evolving character of scientific research as it responds to changing contexts, study objects, and temporal conditions. A deeper discussion of the effects of profitability, leverage, firm size, and capital intensity on tax avoidance is provided in the next section.

Discussion

The Effect of Profitability on Tax Avoidance

Corporate profitability is frequently identified as a determinant of tax avoidance, though empirical evidence remains inconsistent. Research by Hendayana et al. (2024) and Hermawan et al. (2021) suggests that firms with higher profitability are more inclined to undertake tax avoidance, as larger profits lead to greater tax liabilities and motivate management to apply legal tax-planning strategies. Similarly, Hossain et al. (2024) report that profitable firms often adopt more assertive tax strategies to optimize returns and satisfy shareholder expectations.

Conversely, Gumelar et al. (2024) and Sumartono & Puspitasari (2021) reveal a negative relationship, indicating that highly profitable firms may avoid aggressive tax practices in order to preserve reputation and regulatory compliance. Furthermore, Nursiam & Kusumawati (2025) highlight that the effect depends on profitability indicators: ROE tends to increase tax avoidance, while ROA tends to reduce it. These contrasting findings imply that the profitability–tax avoidance relationship is complex and shaped by firm characteristics and measurement methods.

The Effect of Leverage on Tax Avoidance

Leverage is recognized as a determinant of corporate tax avoidance, although empirical findings remain inconsistent. Gumelar et al. (2024) report that firms with substantial debt levels often exploit interest expenses to lower taxable income. Similarly, Hendayana et al. (2024) demonstrate that higher leverage positively contributes to tax avoidance due to the tax-deductible nature of interest payments. Hermawan et al. (2021) further reveal a significant positive relationship between leverage and tax avoidance in property and real estate firms, suggesting that greater debt obligations encourage companies to minimize tax-related costs. Supporting this view, Hossain et al. (2024) argue that leverage serves as a tax shield, as interest deductions effectively reduce corporate tax liabilities.

Research by Sumartono & Puspitasari (2021) reports that leverage positively and significantly influences tax avoidance, implying that greater reliance on debt may serve as a corporate strategy to optimize tax liabilities. Conversely, Puspitasari & Wulandari (2022) identified a significant negative relationship, suggesting that firms with substantial debt already incur high interest expenses that reduce taxable income, thereby limiting the need for additional tax avoidance practices. Supporting this perspective, Sari & Ramli (2023) found that although leverage shows a positive statistical association, highly leveraged firms tend to prioritize debt management and interest obligations over aggressive tax avoidance. These contrasting findings indicate that the leverage–tax avoidance relationship is dynamic and shaped by financial conditions and corporate financing policies.

The Effect of Firm Size on Tax Avoidance

Firm size is often considered a potential determinant of tax avoidance; however, empirical evidence remains inconsistent. Some studies indicate that firm size does not significantly influence tax avoidance behavior. For instance, Gumelar et al. (2024) found that larger firms tend to prioritize enhancing operational performance and profitability to attract investors rather than engaging in aggressive tax strategies. Similarly, Hermawan et al. (2021) argued that tax avoidance may occur across companies of different scales, suggesting that firm size is not a decisive factor. Supporting this view, Sumartono & Puspitasari (2021) as well as Ulfa et al. (2021) concluded that large firms often operate under stricter tax authority scrutiny, prompting greater caution in their tax planning practices.

Several studies indicate that firm size influences tax avoidance behavior. Hossain et al. (2024) report that larger firms significantly increase tax avoidance because they possess greater resources to implement efficient tax planning. Similar conclusions were reached by Puspitasari & Wulandari (2022) and Sari & Ramli (2023), who argue that large-scale firms generally hold greater assets and profits, leading to higher tax liabilities and motivating them to adopt strategies to minimize taxes. Conversely, findings by Nursiam & Kusumawati (2025) and Pambudi et al. (2025) suggest that larger firms may actually reduce tax avoidance due to concerns about reputation, legitimacy, and strict monitoring by regulators and the public. These mixed results highlight that the relationship between firm size and tax avoidance is dynamic and shaped by governance quality, organizational context, and oversight intensity.

The Effect of Capital Intensity on Tax Avoidance

Capital intensity is theoretically considered a determinant of tax avoidance since a substantial share of fixed assets produces depreciation expenses that may lower taxable income. Nevertheless, empirical evidence largely indicates that capital intensity has no significant impact on tax avoidance. Hendayana et al. (2024) argue that fixed-asset investment is primarily aimed at expanding production capacity. Greater capacity can increase company revenue and potentially raise tax liabilities. Likewise, Pambudi et al. (2025) emphasize that assets such as land, buildings, and machinery mainly support operational activities rather than serving as instruments for exploiting depreciation in tax avoidance. Ulfa et al. (2021) also

conclude that firms do not deliberately increase fixed-asset investment solely to reduce tax obligations.

Nursiam & Kusumawati (2025) reported contrasting findings, showing that capital intensity positively influences the Effective Tax Rate (ETR). This suggests that firms with higher capital intensity tend to engage less in tax avoidance. From a legitimacy theory perspective, companies holding substantial fixed assets often face stronger scrutiny from investors, creditors, and regulators, prompting greater transparency and tax compliance to preserve their reputation and societal legitimacy. These results highlight that the relationship between capital intensity and tax avoidance is dynamic and shaped by investment goals, external monitoring, and firm-specific operational characteristics.

4. Conclusions

A systematic literature review of ten studies indicates that internal corporate characteristics exert dynamic and heterogeneous effects on tax avoidance behavior. Profitability and leverage demonstrate mixed influences: higher profits and debt levels may motivate firms to pursue aggressive tax strategies—such as exploiting interest expenses as tax shields—to minimize liabilities. Conversely, firms with strong profitability often restrain tax avoidance to preserve reputation and compliance, while excessive leverage may already reduce taxable income, diminishing the need for additional avoidance strategies. Evidence regarding firm size and capital intensity is similarly inconsistent. Large firms possess greater resources to optimize tax efficiency, yet heightened public scrutiny and concerns over legitimacy frequently discourage aggressive practices. Meanwhile, capital intensity tends to show limited impact, as investments in fixed assets are primarily aimed at expanding production capacity rather than exploiting depreciation for tax reduction.

Considering the substantial variability across empirical findings, future studies are encouraged to broaden the range of literature examined and incorporate additional relevant variables to achieve a more holistic perspective. For policymakers and tax authorities, insights into debt utilization and the benefits associated with firm size may provide a valuable foundation for refining regulations on tax deduction limits to enhance state revenue. Meanwhile, corporate management should pursue tax efficiency carefully and in strict compliance with existing regulations to safeguard the company's public credibility and legitimacy.

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