

The Effect of Accounting Conservatism, Capital Intensity on Tax Avoidance with Independent Commissioners as a Moderating Variables

ABSTRACT

This study aims to provide empirical evidence that accounting conservatism and capital intensity affect tax avoidance and the existence of independent commissioners as moderation variables to interact with the relationship between accounting conservatism and capital intensity on tax avoidance.

This research is associative, the object of this research is on 21 energy sector companies on the Indonesian Stock Exchange for 2017-2021, and the data analysis technique used is SPSS version 25. The results of this study indicate that accounting conservatism and capital intensity positively affect on tax avoidance. Moreover, the independent commissioners can moderate the effect of accounting conservatism on tax avoidance, while the independent commissioners cannot moderate the impact of capital intensity on tax avoidance.

Keywords: Accounting Conservatism; Capital Intensity; Independent Commissioners; Tax Avoidance.

1. INTRODUCTION

“Taxes are contributions to the state (which can be imposed) owed by those who are obliged to pay according to regulations by not getting a return achievement, which can be shown directly, and whose use is to finance public expenditures related to government duties” [21]. Government tax collection is more challenging than imagined [9]. The existence of obstacles in tax collection causes tax payments by taxpayers not to be made optimally, which will cause losses to state revenue in the taxation sector with a large enough amount [5].

Taxpayers as tax subjects often have different perceptions of the government as tax collectors. For the government, taxes are the largest source of state revenue needed to finance national development and other expenses for the welfare of its people. The greater the tax a company pays, the greater the income the state receives. Meanwhile, taxpayers consider that taxes are a burden that can reduce the profits they get, so taxpayers try to minimize the tax burden they will bear. This makes taxpayers try to avoid taxes [7].

The phenomenon is based on a report issued by Global Witness, which states that one of the largest mining companies in Indonesia, PT Adaro Energy Tbk, committed tax evasion from 2009 to 2017. The company is said to have transferred large profits to a growing network of overseas companies that have assisted PT Adaro Energy Tbk in avoiding or reducing taxes that should be paid in Indonesia [22].

Tax avoidance is an effort to avoid taxes that are carried out legally and safely for taxpayers without contradicting the applicable tax provisions (not contrary to the law) where the methods and techniques used tend to take advantage of the weaknesses (gray areas) contained in the Tax Law & Regulation itself to reduce the amount of tax owed [14].

Several factors can influence the occurrence of tax avoidance. The first applies the accounting conservatism principle, and the second is capital intensity proxied by the fixed asset intensity ratio. Tax management must be monitored so that the efforts made do not violate the law by forming corporate governance. The independent board of commissioners greatly influences decisions in a company because the task of the independent board of commissioners is to oversee the policies of the board of directors in carrying out company activities. The independent board of commissioners can be used as an intermediary between management and company owners in making policies to avoid violating the law, including determining strategies related to tax payments.

2. LITERATUR REVIEW

2.1 Agency Theory

"Agency theory is the granting of authority by company owners (shareholders) to company management to carry out company operations by an agreed contract; if both parties have the same interest, namely optimizing company value, then management will act by the interests of company owners"[20]. A principal-agent relationship occurs when an action taken by one person impacts another. Agency theory explains the relationship between two parties in a company where one party in the company acts as an agent, and the other party acts as a principal.

Agency theory will spur agents to increase company profits. When the profit earned increases, the income tax will increase with the increase in corporate profits, so the company is likely to do tax avoidance to avoid increasing the tax burden.

2.2 Tax Avoidance

According to Pohan [14], "tax avoidance is an effort to avoid taxes that are carried out legally and safely for taxpayers without contradicting the applicable tax provisions (not contrary to the law) where the methods and techniques used tend to take advantage of the weaknesses (gray areas) contained in the Tax Law & Regulation itself to reduce the amount of tax owed."

The practice of tax avoidance is legal because it does not violate the tax law. However, tax avoidance is not desired by the government because this is contrary to the interests of the government, which want to obtain as much tax revenue as possible [16]. In general, tax avoidance describes manipulation legally carried out by the taxpayer to reduce taxes. Tax avoidance action is supported because of the weak existence of regulations on tax avoidance and the tax calculation system in Indonesia that uses a self-assessment system. The practice of tax avoidance opens up opportunities for managers to behave opportunistically for short-term profit, which is likely to harm shareholders in the long term [8].

From the explanation, tax avoidance is an effort made by the tax manager to fulfill tax obligations so that their fulfillment can be carried out effectively and efficiently. However, the amount of tax paid is suppressed as low as possible to obtain the expected profit.

2.3 Accounting Conservatism

Glossary of Concept Statement No. 2 FASB (Financial Accounting Statement Board) defines "conservatism as a prudent reaction in the face of the inherent uncertainty in the company to try to ensure that uncertainty and risk in a business environment that provides the best benefit to all users of financial statements."

According to Hery [11], accounting conservatism is controversial. On the one hand, accounting conservatism is considered an obstacle that will affect the quality of financial statements. Accounting reports with conservative principles tend to be biased and do not reflect reality. This opinion is fueled by the definition of conservative accounting, where this principle recognizes income and profits. On the other hand, conservative accounting helps avoid the behavior of manager opportunism.

Based on the above, it can be concluded that managers of companies that adhere to the principle of conservatism will have a more conservative nature over existing uncertainties so that the uncertainties that may arise can be considered. In this case, recognizing expenses takes precedence over profit, even though both have uncertainty.

2.4 Capital Intensity

"Capital intensity is a company's ability to do how much it can invest in its wealth in the form of fixed assets and inventory. Fixed assets are one of the company's assets that reduce the company's income. In contrast, almost all fixed assets can experience depreciation and will undoubtedly be a cost to the company itself. So the more significant the costs incurred due to depreciation from fixed assets, the smaller the level of tax that must be paid or incurred by the company [12].

2.5 Independent Commissioners

"Independent Commissioner is a member of the Board of Commissioners who comes from outside the company or has no direct or indirect relationship with the company. The appointment of an independent commissioner is a counterweight in providing input, ideas, and supervision to the company among the board of commissioners. Therefore, independent commissioners must be neutral and act only based on the company's interests to help maintain the implementation of the principles of Good Corporate Governance, which will later benefit and maintain the company's sustainability [15].

Independent commissioners appointed by the company must have high and robust independence and integrity traits. This is to maintain the commitment of the independent commissioner so that it is not easily influenced by the company's management and the supervisory duties it carries out can run effectively and efficiently. With the existence of an independent board of commissioners in board of commissioners, it is hoped that it will be able to reduce the opportunism of the management so that the financial statements presented have high integrity and the information presented does not mislead the users in the policymaking and decision-making process.

2.6 Conceptual Framework

Accounting conservatism has a positive effect on tax avoidance.

Conservatism can be measured using accruals. If the accrual value is positive, then the profit is classified as conservative because the profit is less than the cash flow obtained by the company in a certain period. The use of accounting conservatism will cause the numbers on the income statement to be set low so that it will have an impact on the taxes that the company will pay to the government. The lower the income earned, the lower the tax that will be paid.

This is in line with research (Sundari & Aprilina, 2017), (Adi & Mildawati, 2018), (Alfarasi & Muid, 2021), which states that accounting conservatism has a positive effect on tax avoidance. Accounting conservatism has an effect in the form of a decrease in corporate profits, which are required as the basis for calculating the company's tax so that the less income generated by the company, the lower the tax paid. This is due to the anticipation of losses even though they have not occurred.

Capital intensity has a positive effect on tax avoidance

Companies that decide to invest in fixed assets can make depreciation costs a deductible expense from income. The depreciation expense will cause the company's taxable income to decrease, which in turn will reduce the amount of tax that the company must pay.

These results are in line with research conducted by (Safitri & Fatahurrazak, 2020), (Dwiyanti & Jati 2019), (Anindyka et al., 2018), (Gumono, 2021), which state that capital intensity has a positive effect on tax avoidance. (Safitri & Fatahurrazak, 2020) state that high investment in fixed assets results in increased depreciation expense on fixed assets, which will affect taxes paid.

Independent commissioners can moderate the effect of accounting conservatism on tax avoidance.

The board of commissioners is the most important risk control mechanism. The existence of a board of commissioners in a company provides internal control so that the company runs by the regulations / procedures that should be. With the presence of an independent board of commissioners in a company, the company will avoid tax violations due to tax avoidance by utilizing the application of accounting conservatism in its financial statements.

Research conducted by (Alfian et al., 2021) states that the independent board of commissioners moderates the influence of accounting conservatism on tax avoidance. The presence of an independent board of commissioners in a company, the better the corporate governance in a company. In this case, the application of accounting conservatism is not a principle used to practice tax avoidance.

Independent commissioners can moderate the effect of capital intensity on tax avoidance.

Independent commissioners provide direction and supervise to avoid information asymmetry that often occurs between principals and agents. Independent commissioners mediate between company management and company owners, making policies so as not to violate the law, including determining strategies related to tax payments. The existence of independent commissioner supervision of the company's management, which has the nature of self-interest to minimize profits for its own interests. Furthermore, the company's efforts to increase the depreciation expense on its fixed assets to reduce the profit presented in the

financial statements are minimized by the presence of an independent board of commissioners in order to avoid large taxes.

Based on the above theoretical framework, it can be illustrated in the conceptual framework as follows:

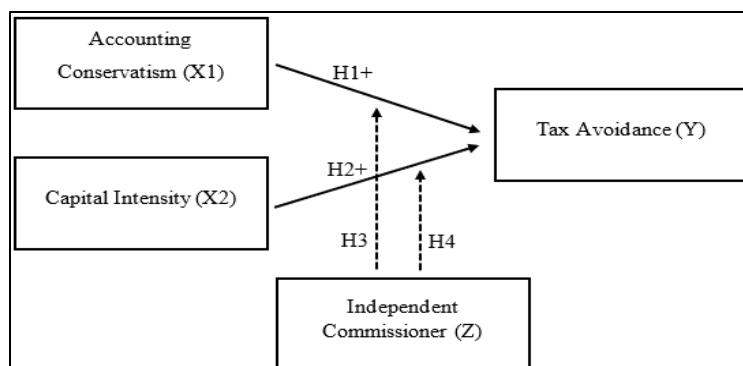


Figure 1. Conceptual Framework Model

2.7 Hypothesis

- H1 : Accounting conservatism has a positive effect on tax avoidance
- H2 : Capital intensity has a positive effect on tax avoidance.
- H3 : Independent commissioners can moderate the effect of accounting conservatism on tax avoidance.
- H4 : Independent commissioners can moderate the effect of capital intensity on tax avoidance.

3. RESEARCH METHODS

3.1 Population and Sample

The population in this study is energy sector companies listed on the Indonesia Stock Exchange in 2017-2021 using sampling techniques based on specific predetermined criteria (purposive sampling) obtained from a sample of 21 companies. The observation period in this study was 5 years, namely 2017-2021, so got 105 research samples.

3.2 Research Analysis Method

The data analysis method used in this study is quantitative analysis, which involves testing the theory through secondary data analysis using descriptive statistical procedures and multiple linear regression analysis, namely Moderated Regression Analysis (MRA) with IBM SPSS software version 25.

This study uses a causal descriptive research approach to test the hypothesis about the effect of several factors, including Accounting Conservatism (X1) and Capital Intensity (X2), on Tax Avoidance (Y), with Independent Commissioners as a moderator (Z).

Tax Avoidance

This study proxied tax avoidance using ETR (Effective Tax Rate). The reason researchers use ETR is that ETR shows the entire tax burden that must be borne by the company, including final taxes and deferred taxes, because tax avoidance does not only come from income tax with the formula [18]:

$$ETR = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

Accounting Conservatism

Accounting conservatism in a company's financial statements can be measured using accruals, a comparison between net income and cash flow operations. The following is the formula for calculating the conservatism index [1] :

$$KNSV = \frac{\text{Net Income} + \text{Depreciation} - \text{AKO} \times -1}{\text{Aset Total}}$$

Capital Intensity

Capital intensity is the comparison of fixed assets to the total assets of a company. Then companies with high fixed assets have a relatively low tax burden compared to those with low fixed assets. Dian Eva Marlinda, Kartika Hendra Titisari, and Endang Masitoh (2020) formulated as follows:

$$CIR = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

Independent Commissioners

The independent commissioner variable is measured by the percentage comparison between the number of independent commissioners and the number of members of the board of commissioners [12]. The similarities are as follows:

$$KI = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Commissioners}}$$

To test the framework, using SPSS 25 analysis tool to test the feasibility of the model, f test and t test. There are several ways to test regression with moderating variables, and one of them is Moderated Regression Analysis (MRA). The regression model of this study is as a follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_1Z + b_4X_2Z + e$$

4. RESULTS AND DISCUSSION

4.1 Results

Descriptive Statistics

This research used data taken from the annual financial reports of 105 sample data of energy companies listed on the Indonesia Stock Exchange (IDX). Table 1 below shows the descriptive statistics, including the research variables, sample sizes, minimum and maximum values of each variable, as well as the mean and standard deviation.

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
KNSV	105	-,2804	,1459	-,0084	,0645
CIR	105	,0311	,9284	,3737	,2502
KI	105	,2000	,7500	,3854	,0899
ETR	105	,0017	,8865	,2432	,1407
Valid N (listwise)	105				

Source: Data Processed by SPSS 25, 2022

Table 1 can be described as follows:

1. An energy sector company with the company code TOBA in 2019 owns the lowest accounting conservatism value of -0.2804. While energy sector companies with the company code MYOH in 2021 own the highest accounting conservatism value of 0.1459. The average value of accounting conservatism is -0.0084. The more conservative a financial statement, the greater the tax avoidance.
2. An energy sector company with the company code TOBA in 2021 owns the lowest capital intensity value of 0.0311. While an energy sector company with the code SHIP in 2018 owns the highest capital intensity value of 0.9284. The average value of capital intensity is 0.3737. It can be interpreted that the company has invested in income-generating assets because the higher the capital intensity value, the possibility of the company doing tax avoidance is also high.
3. An energy sector company with the company code PSSI in 2021 owns the lowest independent commissioner value of 0.2000. An energy sector company with the company code TOBA in 2021 owned the highest independent commissioner value of 0.7500. The average value (mean) of independent commissioners is 0.3854, which means that the average number of independent commissioners in the sampled company is only 38% of the entire board of commissioners. This can show that the higher the number of independent commissioners in a company, the more supervision will run well so that it does not occur or can reduce fraud committed by management. Vice versa, the lower the number of independent commissioners, the lower the supervision in the company.
4. The lowest tax avoidance value of 0.0017 is owned by energy sector companies with the TCPI company code in 2019, and energy sector companies with the company code DEWA in 2021 own the highest tax avoidance value of 0.8865. The average value of tax avoidance is 0.2432, based on Law 36 of 2008 article 17 regarding the amount tax rate for individual and corporate taxpayers of 25%. The higher the ETR value close to the set tax rate value of 25%, the smaller the company's tax avoidance. The company is indicated to do tax avoidance if the Effective Tax Rate (ETR) is less than 25%, and if the ETR is more than 25%, it is indicated that it does not carry out tax avoidance.

Classical Assumption

Classical assumption tests consist of normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The results of the classical assumptions are presented in Table 2 as follows:

Table 2. Classical Assumption Test Results

Classical Assumption Test	Method	Results	Requirements	Description
Normality	Kolmogorov Smirnov	,084	Sig > ,05	Normally distributed
Multicollinearity	VIF & Tollerance KNSV CIR	,979 &1,022 ,979 &1,022	Tolerance> ,10 VIF <10	No multicollinearity
Heteroscedasticity	Glejser test KNSV CIR	,135 ,370	Sig > ,05	No heteroscedasticity
Autocorrelation	Durbin Watson	1,916	Du<DW<4-Du	No autocorrelation

Source: Data Processed by SPSS 25, 2022

This research used to Kolmogrov-Smirnov method. If the Asymp value. If the data is normally distributed, Sig. (2-tailed) > 0.05, but if the Asymp value is. Sig. (2-tailed) < 0.05, then the data is not normally distributed. Based on the results of the normality test shows the value of Asymp. Sig. (2-tailed) of 0.084. Because of the value of Asymp. Sig. (2-tailed) > Sig. 0.05, the research data has been distributed normally to meet the normality assumption. The multicollinearity test examines whether a regression model is found with a correlation between independent variables. This research used the Variance Inflation Factor (VIF), with a tolerance value > 0.10 and a VIF value < 10. Thus it can be concluded that there is no multicollinearity. A good regression model should not correlate with independent variables.

The heteroscedasticity test aims to examine whether there is an inequality of variance of the residuals in the regression model from one observation to another. The Glejser test found no heteroscedasticity problems in this model, as all independent variables have a significant value > 0.05. Then, the autocorrelation test is used to see if there is a correlation between disturbance errors in one period and the previous period in the linear regression model. This study used the Durbin-Watson test, with criteria of $du < DW < 4-du$. Found no autocorrelation problems in this study.

Hypothesis Testing Linear and Absolute Difference

The results of the multiple linear regression and absolute difference hypothesis test are presented in Table 3 as follows:

Table 3. Model Conformity Test Results

Coefficients						
Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	,177	,019		9,445	,000
	KNSV	1,644	,557	1,169	2,949	,004
	CIR	,265	,110	,542	2,404	,018
	KNSV_KI	-3,276	1,372	-,945	-2,388	,019
	CIR_KI	-,231	,266	-,196	-,867	,388

a. Dependent Variable: ETR

Uji F = 0.000

Adjusted R Square = 0.246, DW = 1.916

Source: SPSS data processing 25

Based on Table 3, the results of the model suitability tests, the regression function can be made as follows:

$$Y = 0,177 + 1,644(KNSV) + 0,265(CIR) - 3,276(KNSV_KI) - 0,231(CIR_KI) + e$$

From the regression equation above, it can be explained as follows:

- If no factors affect the value of the energy sector company during the year of observation, it is 0.177 or <1. If there is a 1% increase in the accounting conservatism variable, it will reduce tax avoidance by 1.644. If there is an increase of 1% of the capital intensity variable, it will increase the tax avoidance by 0,265. If there is an increase of 1% of the moderating variable between independent commissioners and accounting conservatism, it will increase tax avoidance by -3.276. Moreover, a 1% increase in the moderating variable between independent commissioners and capital intensity will increase tax avoidance by -0,231.
- Table 2 shows that the F test value is below 0.05, so this model is a fit. Simultaneously all independent variables influence the dependent variable.
- At the Adjust R Square value of 0.246, the independent variables can influence 24.6% of the dependent variable.
- At the t-test, by paying attention to the significant coefficient values in Table 2, it can be said that accounting conservatism and capital intensity positively affect tax avoidance. Moreover, the independent board of commissioners can moderate the effect of accounting conservatism on tax avoidance. In contrast, the independent board of commissioners cannot moderate the effect of capital intensity on tax avoidance.

4.2 Discussion

The effect of accounting conservatism on tax avoidance

Based on the research results, accounting conservatism positively affects tax avoidance, so the first hypothesis (H1) is accepted. Conservative accounting has an impact in the form of a decrease in the company's profit/profit, which is used as a basis for calculating the company's tax obligations. With the lack of profit, the tax obligations must be paid are also lower. Accounting conservatism affects tax avoidance which means the practice of tax avoidance with the concept of conservatism through the ratio of accounts receivable and sales due to asymmetric recognition of delaying the recognition of income/profits and accelerating the

recognition of costs/losses, which can reduce the amount of taxable profit to make company managers profitable reduce the current value of their taxes and increase the value of the company.

The results of this study are in line with the results of the study (Sundari & Aprilina, 2017), (Pamungkas & Mildawati, 2020), (Alfarasi & Muid, 2021), which states that accounting conservatism has a positive effect on tax avoidance. The principle of management prudence recognizes revenues and costs to deal with any risks that may occur based on agency theory which explains that the agent has more information than the principal. The company's management applies accounting conservatism to minimize all risks that will occur in the future.

The effect of capital intensity on tax avoidance

Based on the results of the research obtained, capital intensity has a positive effect on tax avoidance, so the second hypothesis (H2) is accepted.

Capital intensity is how much a company invests in assets in the form of fixed assets. The selection of investments in the form of assets or capital related to taxation is in terms of depreciation (depreciation). A company that has a high level of fixed assets will make the company inclined to minimize taxes as a result of the depreciation of the company's fixed assets annually because depreciation expense can be used to minimize the tax burden. In this case, management can use fixed costs on fixed assets so that the company's tax burden can be reduced, so it can be concluded that the higher the value of capital intensity will increase the company's tendency to carry out tax avoidance activities.

Based on the agency theory, this study illustrates that the management knows more about the actual financial situation of the company while other interested parties do not. Furthermore, the company's management contributes to allocating investment in assets in the form of fixed assets so that depreciation expenses will affect the company's profits which leads to tax avoidance practices.

This research is in line with research conducted by (Safitri & Fatahurrazak, 2020), (Alfian et al., 2021), (Dwiyanti & Jati, 2019), which states that capital intensity has a positive effect on tax avoidance. Companies that decide to invest in fixed assets can make depreciation costs a deductible expense from income. Such depreciation costs will cause the company's taxable profit to be reduced, which will ultimately reduce the amount of tax that the company must pay.

Independent Commissioner in moderating accounting conservatism on tax avoidance

Independent commissioners can moderate accounting conservatism towards tax avoidance based on the research results obtained. This means that the third hypothesis (H3) is accepted. The results of this test mean that the more independent commissioners in the company, the better the corporate governance in a company.

The independent board of commissioners plays a role in overseeing management's actions in implementing an accounting concept. With the supervision of the board of commissioners, applying the principles of accounting conservatism can be applied as appropriate without specific goals to be achieved by the management. Moreover, applying accounting conservatism solely in a case in the future is not a provision for companies that the principle applies to tax avoidance.

The existence of an independent commissioner is indicated to bridge the management to tax avoidance by applying the principle of accounting conservatism in preparing the company's financial statements.

Independent Commissioner in moderating capital intensity on tax avoidance

Based on the research results, independent commissioners are not a variable that moderates capital intensity to tax avoidance. This means that the fourth hypothesis (H4) is rejected, which means that independent commissioners cannot moderate the effect of capital intensity on tax avoidance.

Based on the study's results, it was found that the presence of independent commissioners in the company is not a variable that strengthens or weakens the capital intensity relationship to tax avoidance. The existence of an independent board of commissioners in the company must refrain from influencing its management to carry out creative accounting in its financial statements.

The influence of independent commissioners on corporate tax avoidance can be explained by the greater the number of independent commissioners, the greater the influence to supervise management performance. So the action to carry out tax avoidance will also decrease, but direct internal supervision is quite challenging to affect tax avoidance carried out by the company. This is because the independent commissioner can only supervise the performance of the management who makes decisions is still the management itself. The authority of the independent commissioner cannot directly reduce the management's desire to carry out tax avoidance.

5. CONCLUSION

1. Accounting conservatism has a positive effect on tax avoidance.
Conservative accounting has an impact in the form of a decrease in the company's profit/profit, which is used as the basis for calculating the company's tax obligations. This shows that the more conservative a financial statement is, the greater the tax avoidance will be.
2. Capital intensity has a positive effect on tax avoidance
Management can use fixed costs on fixed assets to reduce the company's tax burden. It can be concluded that the higher the capital intensity, the higher the company's tax avoidance activities.
3. The independent board of commissioners can moderate the effect of accounting conservatism on tax avoidance.
The existence of an independent commissioner is indicated to bridge the management to carry out tax avoidance practices by applying the principle of accounting conservatism in preparing company financial statements.
4. The independent board of commissioners cannot moderate the effect of capital intensity on tax avoidance.
The existence of an independent commissioner in the company cannot influence its management to carry out creative accounting in its financial statements. The existence of an independent commissioner is not a party that bridges the company's management to carry out tax avoidance.

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