

## Profitability Moderates The Relationship Between Capital Intensity and Firm Size on Tax Aggressiveness

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### ABSTRACT

*This study aims to test and analyze profitability in moderating the relationship between capital intensity and firm size on tax aggressiveness. The analysis was carried out using the annual reports of companies listed in the consumer non-cyclical sector on the Indonesia Stock Exchange (IDX) during the 2019-2023 timeframe. The samples contained in this study were 34 consumer non cyclical companies obtained using purposive sampling technique Data was gathered from Indonesia Stock Exchange (IDX) listings or through the official website of each company. The results showed that capital intensity had no effect on tax aggressiveness, firm size had no effect on tax aggressiveness, profitability was unable to moderate / weaken the effect of capital intensity on tax aggressiveness, profitability was unable to moderate / weaken the relationship between firm size and aggressiveness.*

**Keywords:** Capital Intensity; Firm Size; Profitability; Tax Aggressiveness

### INTRODUCTION

Taxes play an important role or function for the state, as they are the largest source of state revenue used to finance state expenditure. In Indonesia, more than 80% of revenue comes from taxes (Faradina, 2025). Tax contributions from the public are allocated to the State Budget (APBN) and then implemented by the government through the development of infrastructure and public facilities, which ultimately benefit the community.

In implementing tax collection, Indonesia adopts three types of systems, one of which is the self-assessment system. Self-assessment is a tax collection system in which taxpayers are given the authority and trust to calculate, deposit, and report all taxes that are their obligation. The self-assessment system is highly dependent on the level of taxpayer compliance. Therefore, its success rate is largely determined by the honesty and awareness of taxpayers in fulfilling their obligations. This taxation system allows individuals and business entities to reduce the amount of tax payable by reducing company operating costs, including tax expenses (Awaliah et al., 2022).

Based on data from the Fiscal Policy Agency (BKF) in 2022, Indonesia's tax ratio was 10.4% of GDP. Indonesia's tax ratio is much lower than the average tax ratio of countries belonging to the Organization for Economic Co-operation and Development (OECD), which is 33.5%, and the average tax ratio in the Asia Pacific region (19%) (pajak.go.id). The low tax ratio indicates a low level of taxpayer compliance, which is caused by taxpayers who have not fulfilled their tax obligations and taxpayers who pay less tax than they should (Kurniawati, 2017).

This is because the main objective of a company is to maximize profits, so taxes are seen as a burden that can reduce profits. Therefore, if the taxes imposed are high, the company has the potential to suffer losses, so many companies look for ways to reduce the amount of tax they pay (Romadhina, 2020).

A company's efforts to minimize its tax burden are referred to as tax aggressiveness. Leksono et al. in Makarim & Asalam (2021) state that tax aggressiveness is a tax planning action for all companies that participate in reducing the company's tax burden. The greater the tax savings made by a company, the more aggressive the company is considered to be towards taxes (Liani & Saifudin, 2020).

Case in point: PT. Bentoel Internasional Investama Tbk. (Bentoel) an Indonesian firm involved in tax evasion. According to the Tax Justice Network, PT Bentoel Internasional Investama was the means by which British American Tobacco (BAT) evaded taxes in Indonesia. Two methods are detailed in the study as ways in which BAT has moved some of its profits out of Indonesia. First, the state lost \$11 million annually in income due to intra-company loans made between 2013 and 2015. Secondly, by remitting US\$ 19.7 million annually to the UK in the form of royalties, expenses, and services. This made Bentoel's losses in Indonesia even worse, costing the country \$2.7 million annually in lost income (Prima, 2019).

There are several factors that can influence tax aggressiveness in companies. The first factor is capital intensity. According to Modjo et al., (2023), capital intensity refers to the level of investment in fixed assets by companies. Previous studies conducted by Makarim & Asalam (2021); Mutia et al., (2021); Kusumawati & Kartika (2023); Safira & Wulandari (2024), Cahyadi et al., (2020) indicate that capital intensity does not affect tax aggressiveness. Meanwhile, the results of research by Modjo et al., (2023); Rosadani & Wulandari (2023); Liani & Saifudin (2020); Romadhina (2020); Sasana et al., (2022) show that capital intensity affects tax aggressiveness. The second factor is firm size. According to Septiani & Suryani (2024), firm size is a scale that can be used to classify the size of a company based on its total assets. Previous studies by Septiani & Suryani (2024); Hulu & Hanah (2024); Haloho & Saragih (2023); Cahyadi et al., (2020) show that firm size does not affect tax aggressiveness. Meanwhile, research by Lubis & Wenten (2024); Rosadani & Wulandari (2023); Liani & Saifudin (2020); Mutia et al., (2021) states that firm size affects tax avoidance.

The non-cyclical consumer sector was chosen because it has stable business characteristics and is resistant to economic fluctuations. Products in this sector, such as food, beverages, and daily necessities, are consistently in demand, regardless of whether the economy is booming or declining. This makes companies in the non-cyclical consumer sector tend to have stable revenues and profitability, making them an attractive subject for analysis to benefit stakeholders, including consumers, the government, and society.

This research includes profitability as a moderating element. Profitability is commonly used as an independent variable, but it is rarely used as a moderating variable. For the years 2019–2023, no research has looked specifically at the non-cyclical consumer sector to see if profitability moderates the effect of capital intensity and firm size on tax aggression.

## **HYPOTHESIS DEVELOPMENT**

### **The Effect of Capital Intensity on Tax Aggressiveness**

Depreciation expenses, which are a reflection of the capital intensity of big fixed assets, may lower tax payments. This is consistent with agency theory, according to which corporations would spend their idle capital in fixed assets so that they may reap the advantages of depreciation expenses and lower their tax liabilities (Rosadani & Wulandari, 2023). A company's bottom line could take a hit due to depreciation

charges. Depreciation reduces taxable revenue and keeps tax rates low for businesses with significant fixed asset portfolios. Hence, a company's ability to engage in tax aggression by reducing its tax burden via depreciation increases as the capital intensity rises (Safira & Wulandari, 2024).

However, Cahyadi et al., (2020) explain that the capital intensity of a company becomes irrelevant if the company continues to record fixed assets that have actually reached the end of their economic life. If assets that should have been removed from the books because their economic value is zero are still recognized, the total value of fixed assets in the financial statements becomes unrealistic. This causes depreciation expenses to not reflect the actual value and cannot be optimally used to reduce profits through the utilization of depreciation. Research conducted by Septiani & Suryani (2024); Hulu & Hanah (2024); Haloho & Saragih (2023); Cahyadi et al., (2020) shows that capital intensity affects tax aggressiveness. Meanwhile, research conducted by Makarim & Asalam (2021); Mutia et al. (2021); Kusumawati & Kartika (2023); Safira & Wulandari (2024), and Cahyadi et al., (2020) shows that capital intensity does not affect tax aggressiveness. Based on the previous literature, the research hypothesis is stated as follows:  
 $H_1$ : It is suspected that capital intensity affects tax aggressiveness.

### **The Effect of Firm Size on Tax Aggressiveness**

Large companies generally have large assets as well, because the size of a company is directly related to the amount of assets it owns. However, every year, assets will experience depreciation, which can reduce the net profit received by the company. These depreciation and amortization costs will reduce the tax burden paid by the company. This is where companies tend to engage in aggressive tax practices (Liani & Saifudin, 2020).

However, according to Haloho & Saragih 2023, strict oversight from the government, analysts, and investors can limit the freedom of some companies to engage in aggressive tax practices. This is because the larger the company, the higher the level of transparency tends to be, as large companies are encouraged to disclose more financial and operational information in their reports compared to smaller companies. Research conducted by Septiani & Suryani (2024); Hulu & Hanah (2024); Haloho & Saragih (2023); Cahyadi et al., (2020) shows that firm size influences tax aggressiveness. Meanwhile, research conducted by Hulu & Hanah (2024), Haloho & Saragih (2023), and Septiani & Suryani (2024) shows that firm size does not affect tax aggressiveness. Based on the previous literature, the research hypothesis is stated as follows:

$H_2$ : It is suspected that firm size affects tax aggressiveness.

### **The Influence of Profitability in Moderating the Relationship between Capital Intensity and Tax Aggressiveness**

The higher the profit value of a business, the greater its profitability. However, high profit values can lead to increased tax costs for businesses. From an agency theory perspective, this situation creates significant opportunities for agents to engage in aggressive tax avoidance that conflicts with the principal's objectives (Modjo et al., 2023). Companies often invest profits in fixed assets because the depreciation of fixed assets can reduce tax burdens, so high profitability will encourage companies to implement tax planning to minimize the taxes paid (Kusumawati & Kartika, 2023).

However, according to Safira & Wulandari (2024), there are limitations for companies with many assets to fully utilize this depreciation to significantly reduce net income. As a result, companies cannot reduce taxes as much as desired through this depreciation mechanism, which indirectly makes them less

aggressive due to the lack of tax loopholes that can be further exploited. Research conducted by Modjo et al., (2023) and Kusumawati & Kartika (2023) suggests that profitability can strengthen the influence of capital intensity on tax aggressiveness. Meanwhile, research conducted by Sasana et al., (2022) and Safira & Wulandari (2024) suggests that profitability cannot strengthen the influence of capital intensity on tax aggressiveness. From the above explanation, the following hypothesis can be formulated:

H<sub>3</sub>: It is suspected that profitability can strengthen the influence of capital intensity on tax aggressiveness.

### The Influence of Profitability in Moderating the Relationship between Firm Size and Tax Aggressiveness

Firm size is a scale by which companies can be classified as large or small based on their total assets. The larger the assets, the higher the productivity. Good productivity will generate higher company profits, which means that the company's profitability will also increase. Profitability, as measured by Return On Assets (ROA), shows that companies with large total assets tend to be more capable and stable in generating profits. This situation can lead to an increase in tax burdens, prompting companies to engage in aggressive tax practices (Rosadani & Wulandari, 2023).

However, according to Haloho & Saragih (2023), strict oversight from the government, analysts, and investors can limit the freedom of some companies to engage in aggressive tax practices. This is because the larger the company, the higher its level of transparency tends to be, as large companies are encouraged to disclose more financial and operational information in their reports than small companies, thereby reducing the likelihood of large companies with high profitability engaging in tax aggressiveness. From the above explanation, the following hypothesis can be formulated:

H<sub>4</sub>: It is suspected that profitability can strengthen the influence of firm size on tax aggressiveness.

Based on the background description, theoretical review, and previous research, the framework for this study is as follows:

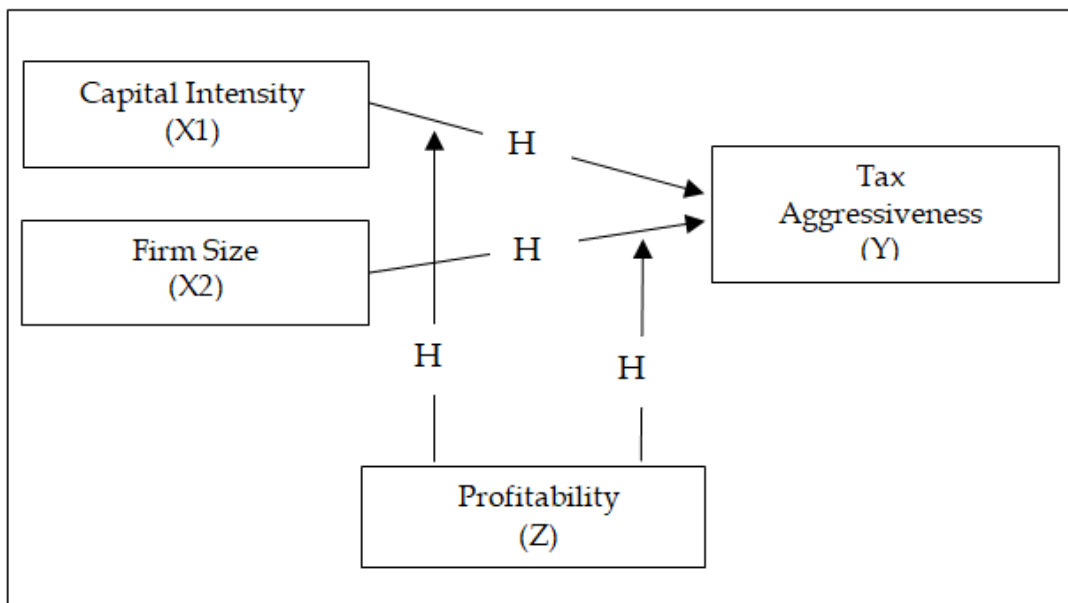


Image 1. Conceptual Framework

## METHOD, DATA, AND ANALYSIS

Two independent factors, a dependent variable, and a moderating variable make up the four variables in this research. X1 serve as independent factors in this research. Y is the dependent variable here. Z in the meanwhile serves as the study's moderating variable. Table 1 details the study's operational variables:

**Table 1** Research Variable Operations

No	Variable	Measurement	Scale	Source
1	Tax Aggressiveness (Y)	$Effective\ Tax\ Rate = \frac{Tax\ Expense}{Earning\ Before\ Tax}$	Ratio	(Septiani & Suryani, 2024)
2	Capital Intensity (X1)	$Capital\ Intensity = \frac{Total\ Fixed\ Assets}{Total\ Assets}$	Ratio	(Romadhina, 2020)
3	Firm Size (X2)	$Size = LN(Total\ Assets)$	Ratio	(Haloho & Saragih, 2023)
4	Profitability (Z)	$Return\ On\ Assets = \frac{Earning\ After\ Tax}{Total\ Assets} \times 100\%$	Ratio	(Modjo dkk., 2023)

Source: Data processed (2025)

Quantitative methods based on secondary data are used in this investigation. Using the official websites of each company and the Indonesia Stock Exchange (IDX), this study gathers data from scientific books, articles, journals, financial reports, and annual reports of non-cyclical consumer sector companies published between 2019 and 2023. The data is analyzed using the literature review and documentation method. Using Excel and Eviews 12, the researchers in this study analyzed the data using descriptive statistics and panel data regression. This research used a sampling approach known as purposive sampling. Purposive sampling is a method for selecting samples according to predetermined criteria, according to Sugiyono (2022:133). To get a representative sample, the sample is chosen according to how well its attributes match the criteria for selecting the sample. Table 2 explains the criteria used to choose the sample for this study:

**Table 2** Research Sample Criteria

No	Criteria	Does Not Meet The Criteria	Meet The Criteria
1	Non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023.	(8)	119
2	Non-cyclical consumer sector companies that publish complete financial reports and annual reports for the period 2019-2023.	(53)	66
3	Non-cyclical consumer sector companies whose financial statements are published in rupiah	(2)	64
4	Non-cyclical consumer sector companies that did not experience losses during the research period, namely 2019-2023.	(30)	34
Final number of companies according to criteria			34
Final sample size (34 x 5 years)			170

Source: Data processed (2025)

## RESULTS AND DISCUSION

### Result

#### Descriptive Statistical Analysis

The study variables' features are explained here with the help of descriptive statistics. Table 3 below details the sample size and features of the data used for descriptive statistics, which include the mean, maximum, minimum, and standard deviation. The sample number is 170 observations and it covers five periods from 2019 to 2023 and comes from 34 enterprises in the non-cyclical consumer sector.

**Table 3** Descriptive Statistical Analysis

	ETR_Y	IM_X1	SZ_X2	ROA_Z
Mean	0,248189	0,321222	29,70351	9,722096
Median	0,225569	0,313752	29,63137	8,098808
Maximum	0,921846	0,762247	32,85992	41,63203
Minimum	0,028550	0,013853	27,37466	0,052581
Std. Dev.	0,108988	0,168257	1,435797	7,298658
Skewness	3,699733	0,238871	0,247328	1,614555
Kurtosis	20,08438	2,648507	2,032192	6,370628
Jarque-Bera	2455,283	2,491813	8,367803	154,3337
Probability	0,000000	0,287680	0,015239	0,000000
Sum	42,19217	54,60774	5049,597	1652,756
Sum Sq. Dev.	2,007454	4,784466	348,3955	9002,699
Observations	170	170	170	170

Source : Data processed (2025)

Tax aggressiveness (Y) has minimum value of 0.028550, which is held by PT. Nippon Indosari Corpindo Tbk. In 2020, the maximum value of 0.921846 is held by PT. Sawit Sumbermas Sarana Tbk. in 2019. Capital intensity (X1) has a minimum value of 0.013853, which is held by PT. Millennium Pharmacon International Tbk. In 2022, the maximum value of 0.762247 is held by PT. Sariguna Primatirta Tbk. in 2021. The firm size (X2) has a minimum value of 27.37466, which was held by PT. Sekar Laut Tbk. in 2020, and a maximum value of 32.85992, which was held by PT. Indofood Sukses Makmur Tbk. In 2023. Profitability (Z) has a minimum value of 0.052581, which is held by PT. Sekar Bumi Tbk. In 2019, the maximum value of 41.63203 was held by PT. Multi Bintang Indonesia Tbk. in 2019.

#### Estimation and Selection of Panel Data Regression Models

**Table 4** Results of Panel Data Regression Model Selection

No	Panel Data Regression Selection Method	Significance Value	Chi-square Probability value & P value	Results of Model Testing
1	Chow Test	CEM = > 0,05 FEM < = 0,05	0,0000	FEM
2	Hausman Test	FEM < = 0,05 REM = > 0,05	0,0133	FEM

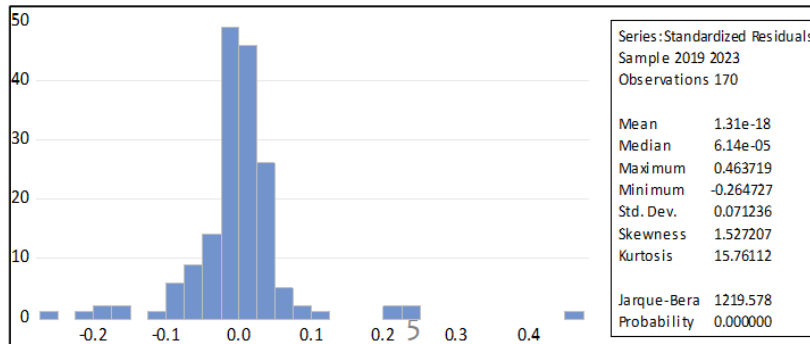
Source : Data processed (2025)

The results of the Chow and Hausman tests make it quite evident that the probability value is lower than the significance level of 0.05. Therefore, the Lagrange Multiplier test is superfluous since the Fixed Effect Model (FEM) is the greatest regression model to utilize.

## Classical Assumption Test

### Normality Test

From the normality test results in Figure 2, it is known that the probability value of the Jarque-Bera test is 0.000000. This result shows that the p-value of the J-B test is less than 0.05 ( $0.000000 < 0.05$ ), so it can be concluded that the data is not normally distributed.



**Image 2.** Conceptual Framework  
Source: Data processed by researchers (2025)

If this assumption is not met, the statistical test results become invalid, especially for small sample sizes. According to Ghozali (2020), the assumption of normal distribution of residuals is more important, especially for small samples. For large samples, the normality test can be ignored, and more emphasis can be placed on the heteroscedasticity and autocorrelation tests. This is consistent with the Central Limit Theorem (CLT). The Central Limit Theorem (CLT) states that for large samples ( $n \geq 30$ ), the normality of residuals becomes less important because the Central Limit Theorem ensures that t-tests, F-tests, and other tests remain valid even if the residuals are not normally distributed (Gujarati & Porter, 2009).

### Multicollinearity Test

**Table 5** Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.028557	444.3035	NA
IM_X1	0.002300	4.699238	1.007062
SZ_X2	3.16E-05	435.4260	1.009055
ROA_Z	1.23E-06	2.828611	1.015723

Source : Data processed (2025)

Table 5 shows that the Variance Inflation Factors (VIF) test model for variables X1, X2, and Z yields VIF values less than 10, indicating that multicollinearity is not present.

### Heteroskedasticity Test

**Table 6** Heteroskedasticity Test

Heteroskedasticity Test: Harvey			
Null hypothesis: Homoskedasticity			
F-statistic	0.857211	Prob. F(3,166)	0.4646
Obs*R-squared	2.593424	Prob. Chi-Square(3)	0.4586
Scaled explained SS	3.249873	Prob. Chi-Square(3)	0.3547

Source : Data processed (2025)

Based on Table 6, the results of the heteroscedasticity test using the Harvey method obtained an Obs\*R-Square value with a Prob.Chi-Square value of 0.4586, which is above 0.05 (0.4586 > 0.05). Therefore, it can be concluded that the results of this study do not show symptoms of heteroscedasticity.

### Autocorrelation Test

**Table 7** Autocorrelation Test

Positive autocorrelation	Hesitant		No Correlation	Hesitant		Negative autocorrelation
	dL	dU	DW	4-dU	4-dL	
0	1,7254	1,7730	1,9082	2.227	2.2746	4

Source : Data processed (2025)

Based on the results of the autocorrelation test in Table 7, the DW value of 1.908238 lies between  $DU < DW < 4 - DU = 1.7730 \leq 1.908238 \leq 2.227$ . Thus, it can be concluded that there are no signs of autocorrelation.

### Panel Data Linear Regression Analysis Test

**Table 8** Panel Data Linear Regression Analysis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.642791	1.458791	1.126132	0.2621
IM_X1	0.372775	0.191247	1.949178	0.0534
SZ_X2	-0.049171	0.047977	-1.024886	0.3073
ROA_Z	-0.005534	0.001918	-2.885831	0.0046

Source : Data processed (2025)

The panel data regression equation model in this study is as follows:  $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + e$ . Then, this equation is substituted based on the figures in Table 8. The resulting regression equation is as follows:

$$Y = 1.642791 + 0.372775X_1 - 0.049171X_2 - 0,005534Z + e$$

The constant value obtained is 1.642791, which means that if the intensity of capital and firm size are 1, then the value of tax aggressiveness is 1.642791. The regression coefficient value for the capital intensity variable is 0.372775, meaning that if capital intensity increases by 1 unit, it will increase the value of tax aggressiveness by 0.372775 units, assuming that other independent variables remain constant. The positive sign indicates a direct relationship between the capital intensity variable and the tax aggressiveness variable. The regression coefficient value for the firm size variable is -0.049171, meaning that if the firm size decreases by 1 unit, it will reduce tax aggressiveness by 0.049171 units, assuming that the values of other independent variables remain constant. The negative sign indicates an inverse relationship between the firm size variable and the tax aggressiveness variable. The regression coefficient value for the profitability variable is -0.005534, meaning that for every 1-unit decrease in profitability, tax aggressiveness decreases by 0.005534 units, assuming that the values of other independent variables remain constant.

## Determination Coefficient Test (R<sup>2</sup>)

**Table 9** Determination Coefficient Test (R<sup>2</sup>)

R-squared	0.572789	Mean dependent var	0.248189
Adjusted R-squared	0.457153	S.D. dependent var	0.108988
S.E. of regression	0.080301	Akaike info criterion	-2.016237
Sum squared resid	0.857607	Schwarz criterion	-1.333740
Log likelihood	208.3801	Hannan-Quinn criter.	-1.739287
F-statistic	4.953373	Durbin-Watson stat	1.770287
Prob(F-statistic)	0.000000		

Source : Data processed (2025)

The corrected R-squared value is 0.457153, or 45%, according to the findings of the coefficient of determination test in Table 9. With this figure, we can see that capital intensity, firm size, and profitability account for 45% of the variance in tax aggression, while other factors account for the remaining 55%.

## Hypothesis Testing

### F Test

**Table 10** F Test

R-squared	0.572789	Mean dependent var	0.248189
Adjusted R-squared	0.457153	S.D. dependent var	0.108988
S.E. of regression	0.080301	Akaike info criterion	-2.016237
Sum squared resid	0.857607	Schwarz criterion	-1.333740
Log likelihood	208.3801	Hannan-Quinn criter.	-1.739287
F-statistic	4.953373	Durbin-Watson stat	1.770287
Prob(F-statistic)	0.000000		

Source : Data processed (2025)

F value is 4.953373. To obtain the F table value, it is necessary to find  $df_1 = k$  (number of independent variables plus dependent variables) - 1 and  $df_2 = n$  (number of data points) - k. In this study,  $df_1 = 3 - 1 = 2$  and  $df_2 = 170 - 3 = 167$ . At a significance level of  $\alpha = 5\%$ , the calculated F-table value is 3.05. Thus, the calculated F value of 4.953373 is greater than the F table value of 3.05, with a Prob(F-statistic) value of 0.000000. This value is smaller than the significance level ( $0.000000 < 0.05$ ). Therefore, it can be concluded that H<sub>0</sub> is rejected and H<sub>1</sub> is accepted, meaning that the independent variables simultaneously influence the dependent variable.

### t Test (Partial)

**Table 11** t Test (Partial)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.642791	1.458791	1.126132	0.2621
IM_X1	0.372775	0.191247	1.949178	0.0534
SZ_X2	-0.049171	0.047977	-1.024886	0.3073
ROA_Z	-0.005534	0.001918	-2.885831	0.0046

Source : Data processed (2025)

Based on the significance value of capital intensity of less than 0.05, it can be concluded that H0 is accepted, which means that capital intensity does not affect tax aggressiveness. The firm size variable shows a probability of less than 0.05, so it can be concluded that H0 is accepted, meaning that firm size has no effect on tax aggressiveness.

## MRA Test

### Moderation Test 1

Table 12 Moderation Test 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.149533	0.064814	2.307094	0.0226
IM_X1	0.480858	0.184703	2.603417	0.0103
ROA_Z	-0.005821	0.004275	-1.361533	0.1756
IM*ROA	0.000244	0.010737	0.022760	0.9819
R-Squared		0.569417		
Adjusted R-Squared		0.452868		

Source : Data processed (2025)

The interaction between X1 and Z variables has a probability value of 0.9819, which is more than the significance threshold ( $0.9819 > 0.05$ ), and a coefficient value of 0.000244, according to the findings of Moderation Test 1 in Table 12 above. In comparison to the t-table value ( $0.022760 < 1.97427$ ), the t-calculated value is less than that. Therefore, it can be concluded that H0 is accepted. With an Adjusted R-square value of 0.452868 or 45%, which indicates that profitability's ability to moderate the effect of capital intensity on tax aggressiveness is only 45%, while the remaining 55% can be explained by other variables not examined in this study. From the results of this study, it can be concluded that profitability cannot moderate or weaken the relationship between capital intensity and tax aggressiveness.

### Moderation Test 2

Table 13 Moderation Test 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.310755	1.195273	2.769873	0.0064
SZ_X2	-0.101288	0.040315	-2.512421	0.0132
ROA_Z	0.002274	0.043424	0.052368	0.9583
SZ*ROA	-0.000264	0.001468	-0.180066	0.8574
R-Squared		0.560692		
Adjusted R-squared		0.441782		

Source : Data processed (2025)

According to Table 13, the interaction between variables X1 and Z shows a probability value of 0.8574, which is greater than the significance level ( $0.8574 > 0.05$ ) and a coefficient value of -0.000264 or an absolute value of 0.000264. The t-calculated value is -0.180066 or an absolute value of 0.180066, which is smaller than the t-table value ( $0.180066 < 1.97427$ ). Therefore, it can be concluded that H0 is accepted and H4 is rejected. With an Adjusted R-square value of 0.441782 or 44%, which indicates that profitability's ability to moderate the influence of firm size on tax aggressiveness is only 44%, while the remaining 56% can be explained by other variables not examined in this study. From the results of this study, it can be

concluded that profitability is unable to moderate or weaken the relationship between firm size and tax aggressiveness.

## Discussion

### The Effect of Capital Intensity on Tax Aggressiveness

Accepting the H0 hypothesis that capital intensity doesn't affect tax aggressiveness is consistent with research findings, as Cahyadi et al., (2020) explain that a company's capital intensity becomes irrelevant if the company continues to record fixed assets that have actually reached the end of their economic life. If assets that should have been removed from the books because their economic value is zero are still recognized, the total value of fixed assets in the financial statements becomes unrealistic. This causes depreciation expenses to not reflect the actual value and cannot be optimally used to reduce profits through the utilization of depreciation. Mutia et al., (2021) also stated that since the main purpose of fixed assets is to be used for company operations, they are not intentionally held to avoid taxes.

These results are in line with research conducted by Makarim & Asalam (2021); Mutia et al. (2021); Kusumawati & Kartika (2023); Safira & Wulandari (2024), and Cahyadi et al., (2020) which shows that capital intensity does not affect tax aggressiveness.

### The Effect of Firm Size on Tax Aggressiveness

The research results show that H0 is accepted, indicating that firm size does not affect tax aggressiveness, which can be explained by Haloho & Saragih (2023), strict oversight from the government, analysts, and investors can limit the freedom of some companies to engage in tax aggressiveness practices. This is because the larger the company, the higher the level of transparency tends to be, as large companies are encouraged to disclose more financial and operational information in their reports compared to smaller companies.

Hulu & Hanah (2024) explain that differences in firm size affect state revenue. If small companies engage in tax aggressiveness, the impact on state revenue is not significant because the amounts involved are not very high. Conversely, if large companies engage in tax aggressiveness, the impact on state revenue is significant. This indicates that the larger a company is, the more attention it receives from tax authorities and investors. As a result, companies tend to reduce their tax aggressiveness practices and comply more with existing tax regulations to avoid penalties.

These results are in line with research conducted by Hulu & Hanah (2024), Haloho & Saragih (2023), and Septiani & Suryani (2024) which shows that firm size does not affect tax aggressiveness.

### The Effect of Capital Intensity on Tax Aggressiveness with Profitability as a Moderating Variable

Based on the results of data processing, profitability does not moderate the relationship between capital intensity and tax aggressiveness. In the context of tax aggressiveness, company profitability tends to increase profits, while capital intensity, which refers to investments in fixed assets such as machinery and buildings, will experience depreciation. This depreciation itself functions as a reduction in taxable income, which companies should be able to utilize to reduce their tax burden (Sasana et al., 2022). However, according to Safira & Wulandari (2024), there are limitations for companies with many assets to fully utilize this depreciation to significantly reduce net profits. As a result, companies cannot

reduce taxes as much as desired through this depreciation mechanism, which indirectly makes them less aggressive due to the lack of tax loopholes that can be further exploited.

In addition, Cahyadi et al., (2020) explain that a company's capital intensity becomes irrelevant if the company continues to record fixed assets that have actually reached the end of their economic life. If assets that should have been removed from the books because their economic value is zero are still recognized, the total value of fixed assets in the financial statements becomes unrealistic. This causes depreciation expenses to not reflect the actual value and cannot be optimally used to reduce profits through the utilization of depreciation.

These results are in line with research conducted by Sasana et al., (2022) and Safira & Wulandari (2024), which shows that profitability weakens the effect of capital intensity on tax aggressiveness.

### **The Effect of Firm Size on Tax Aggressiveness with Profitability as a Moderating Variable**

Based on the results of data processing, profitability does not moderate the relationship between firm size and tax aggressiveness. Haloho & Saragih (2023) explain that strict supervision from the government, analysts, and investors can limit the freedom of some companies to engage in tax aggressiveness practices. This is because the larger the company, the higher the level of transparency tends to be, as large companies are encouraged to disclose more financial and operational information in their reports than small companies, thereby reducing the likelihood of large companies with high profitability engaging in tax aggressiveness.

According to Septiani & Suryani (2024), the size of a company can be measured based on its total assets, where the larger the assets of a company, the higher its productivity tends to be. This high productivity ultimately increases the company's profits, thereby improving its profitability. However, the high level of transparency inherent in large companies especially those with high profitability causes them to receive intense scrutiny from investors and tax authorities. The large profits earned by these companies not only attract market attention but also trigger strict oversight from tax regulators. This situation encourages companies to maintain their reputation and avoid aggressive tax practices that could lead to scandals. Therefore, while there is theoretical potential for large, highly profitable companies to increase net profits through tax aggressiveness, the pressure to maintain transparency and good corporate governance becomes the dominant factor limiting their flexibility. This strict oversight ultimately limits the influence of profitability in moderating the relationship between firm size and tax aggressiveness.

### **CONCLUSION AND SUGGESTION**

This study examines the effect of capital intensity and company size on tax aggressiveness in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the period 2019-2023. The results of the analysis show that capital intensity and company size do not affect tax aggressiveness. This is because capital intensity becomes irrelevant if the company still records fixed assets that have reached the end of their economic life. The recognition of assets with zero economic value makes the total fixed assets in the financial statements unrealistic, so that depreciation expenses do not reflect the actual value and are not optimally used to reduce profits. In addition, strict supervision from the government, analysts, and investors limits companies' aggressive taxation practices because the larger the company, the higher the level of transparency and disclosure of financial and operational information required

compared to small companies. Profitability, which was tested as a moderating variable, was also unable to weaken the relationship between capital intensity and company size on tax aggressiveness.

The implications of this study emphasize the importance of strengthening oversight and transparency in corporate reporting to minimize tax aggressiveness. Governments and tax authorities need to focus more on other factors that have a greater influence on tax avoidance behavior beyond capital intensity and company size. For companies themselves, it is advisable to improve tax compliance as part of good corporate governance in order to avoid the risk of sanctions and maintain a reputation that can have a positive impact on business sustainability.

Theoretically, this study opens up space for further research to identify other factors that can explain tax aggressiveness more comprehensively. Further research is also recommended to examine the role of profitability as a moderating variable in other industrial sectors, so that understanding of the determinants of tax aggressiveness can become broader and more applicable in the context of taxation policy and corporate practices in various sectors.

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