EL MUHASABA: Jurnal Akuntansi (e-Journal)
Volume 17 , No. 2, Tahun 2026
P ISSN: 2086-1249 ; E ISSN: 2442-8922

Determinants of Tax Avoidance: The Effects of Narrative Disclosure, Profitability, Leverage, and Firm Size

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| *Submit 30 Mei 2026* | *Diterima 13 Juli 2026* | *Terbit 20 Juli 2026* |

Abstract

Purpose: *This study aims to examine the effect of narrative disclosure, profitability, leverage, and firm size on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange during 2020–2024.*
Method: *This study uses data from energy sector companies selected through purposive sampling. Narrative disclosure is measured using sentiment analysis based on the Loughran–McDonald dictionary with R Studio, and analyzed using panel data regression with EViews 13*
Results: *The results show that narrative disclosure and leverage have a negative and significant effect on tax avoidance. Meanwhile, profitability and firm size have no effect on the dependent variable..*
Implications: *This study highlights the importance of transparency in narrative disclosure to reduce tax avoidance and provides insights for regulators to improve corporate reporting quality*
Novelty: *This study integrates sentiment analysis of narrative disclosure into tax avoidance research in the energy sector, which remains underexplored in Indonesia.*

Keywords*: tax avoidance; narrative disclosure; profitability; leverage; firm size*

Abstrak

Tujuan: Penelitian ini bertujuan untuk menguji pengaruh pengungkapan naratif, profitabilitas, *leverage*, dan ukuran perusahaan terhadap penghindaran pajak pada perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia selama periode 2020–2024.
Metode: Penelitian ini menggunakan data perusahaan sektor energi yang dipilih melalui teknik *purposive sampling*. Pengungkapan naratif diukur menggunakan analisis sentimen berbasis kamus Loughran–McDonald dengan bantuan R Studio, dan dianalisis menggunakan regresi data panel dengan EViews 13.
Hasil: Hasil penelitian menunjukkan bahwa pengungkapan naratif dan *leverage* berpengaruh negatif dan signifikan terhadap penghindaran pajak. Sementara itu, profitabilitas dan ukuran perusahaan tidak berpengaruh terhadap variabel dependen.
Implikasi: Penelitian ini menekankan pentingnya transparansi dalam pengungkapan naratif untuk mengurangi praktik penghindaran pajak serta

memberikan wawasan bagi regulator dalam meningkatkan kualitas pelaporan perusahaan.
Kebaruan: Penelitian ini mengintegrasikan analisis sentimen pengungkapan naratif dalam studi penghindaran pajak pada sektor energi, yang masih jarang diteliti di Indonesia.

Kata kunci: penghindaran pajak; pengungkapan naratif; profitabilitas; *leverage*; ukuran perusahaan

INTRODUCTION

Tax avoidance is a practice used by companies to minimize their tax obligations through tax planning strategies that remain within legal boundaries, although it is often considered unethical by stakeholders (Hasan et al., 2024; Nicol Manapa & Yulazri, 2024). Ladhari et al. (2025) emphasize that tax avoidance, while legal, can approach the limits of rule abuse and is often linked to increased risks of information asymmetry. Sanoran (2025) states that tax avoidance is a legal effort to reduce taxes owed, and this practice was proven to increase during the pandemic in response to economic pressure. Companies practicing tax avoidance can exploit loopholes in tax regulations to reduce their tax burden, even though this practice can increase legal and reputational risks for the company (Hasan et al., 2024).

Various internal and external factors influence tax avoidance practices, including both financial and non-financial aspects. Hossain et al. (2024) show that company characteristics such as profitability, leverage, and company size play an important role in triggering tax avoidance. Larger and more profitable business entities usually have higher capabilities and motivations to implement aggressive tax planning strategies. On the other hand, Ladhari et al. (2025) state that financial factors such as external financing pressure and information asymmetry also influence tax avoidance, especially because companies with limited access to funding tend to look for internal ways to save cash, one of which is by avoiding taxes.

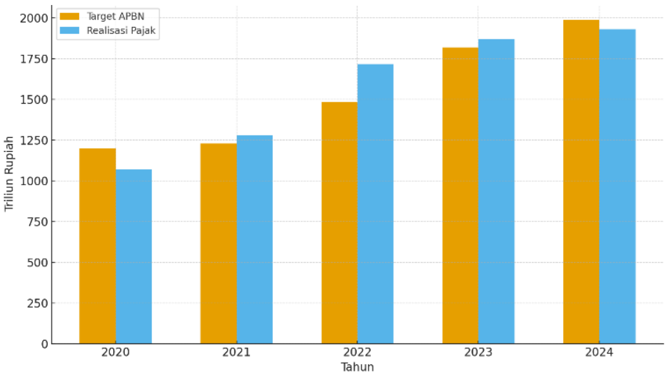

Figure 1. Comparison of State Budget (APBN) Targets and Tax Revenue Realization
Source: Processed data (2026)

Although the Indonesian government has recorded significant tax revenue growth in recent years, tax avoidance remains a major obstacle in the country's efforts to maximize state income. In 2022, tax revenue realization reached Rp1,716.8 trillion, a 34.3% increase compared to 2021. However, in 2023, the growth rate slowed to 8.9% with a total revenue of Rp1,869.2 trillion. This trend continued in 2024, where tax revenue grew by only 3.5% to Rp1,932.4 trillion, failing to reach the target set in the State Budget (APBN) of Rp1,988.9 trillion (Kementerian Keuangan Republik Indonesia, 2025). One of the main causes of suboptimal tax revenue is the widespread practice of tax avoidance by companies. The Tax Justice Network report shows that Indonesia loses up to Rp44 trillion every year due to tax avoidance by multinational corporations and Rp1 trillion due to asset flight abroad (Direktorat Jenderal Pajak, 2025). Practices such as financial statement manipulation, fictitious transactions, and transfer pricing are among the approaches many companies use to reduce their tax burden. One major case that caught the attention of the Directorate General of Taxes was the transfer pricing scheme by a coal company with the stock code ADRO, involving a subsidiary in Singapore. Due to this scheme, the potential lost tax revenue was estimated at approximately 125 million USD per year between 2009 and 2017 (Nugraha & Rahmawati, 2024).

Information disclosure strategies have also changed to balance the need for information that can no longer be met by traditional financial reports alone (Rahman, 2023). Financial reports that only contain numbers are considered insufficient because they tend to ignore narrative non-financial information, even though such information is very important for assessing company value, evaluating performance, and anticipating internal and external risks (Makhlouf et al., 2024). Therefore, the need for narrative disclosure is increasing. Narrative disclosure is information presented in the form of textual explanations in financial reports covering company strategy, operational activities, financial projections, and profit distribution plans. This includes documents such as CEO letters, board of commissioners' reports, corporate governance reports, IPO prospectuses, management analysis and discussion (MD&A), and company press releases (Senave et al., 2023).

In the context of tax avoidance, Hasan et al., (2024) show that companies tend to use a more positive narrative disclosure tone to build a good image in the eyes of stakeholders despite practicing tax avoidance, as part of an impression management strategy. Grande-Herrera et al. (2025) reported that a more positive disclosure tone is associated with lower subsequent financial performance, suggesting that managers may use tone as a tool to influence stakeholders' perceptions. Furthermore, this practice may exacerbate information asymmetry between firms and creditors and increase lenders' risk exposure, particularly when tax avoidance strategies are implemented aggressively and with limited transparency (Ladhari et al., 2025).

Profitability is a measure of a company's efficiency in creating profit using the assets or resources it owns (Pratama et al., 2025). Hossain et al. (2024) explain that companies with high profitability are more likely to be driven to engage in tax avoidance because the larger the profit obtained, the larger the tax burden borne; therefore, companies will try to minimize it through legal strategies. Based on previous research by Pratama et al. (2025), companies with high profit levels have a strong drive to practice tax avoidance to lower the tax burden, which ultimately can increase company value. This aligns with research by Hossain et al., (2024) showing that companies earning large profits have strong incentives to lower their effective tax rate (ETR). When a company achieves high profitability, it often leads to a larger tax burden, pushing them to develop ways to avoid taxes to keep net profit stable (Sari et al., 2025).

Leverage is a measure of the debt-to-equity ratio, showing the level of a company's dependence on loans to finance its operations. Generally, leverage is often linked to tax avoidance efforts because interest costs from debt can be used as deductions in tax calculations (Pratama et al., 2025). High leverage results in significant interest expenses. However, these interest expenses can be used as a tax deduction because they are recognized as costs in financial reports (Sari et al., 2025). Companies with high leverage are usually more intensive in their tax avoidance efforts because larger debt opens more opportunities to reduce taxable profit through loan interest costs (Hasanah & Augustin, 2025). Hossain et al. (2024) found that companies with high leverage levels have a tendency to be active in tax avoidance actions because the interest burden from debt can be used as a tax deduction, thereby lowering the tax burden. Leverage is also related to transfer pricing practices, where multinational companies can arrange inter-company loans as an effort to shift interest burdens to countries with lower tax rates (Apriani, 2025).

In a study by Sanoran (2025). larger companies usually have more complex organizational structures and more sufficient resources to perform aggressive tax planning. Company size also significantly affects tax strategies, where large-scale businesses generally have higher operational complexity and resource support that allows for more effective tax avoidance strategies (Mukarramah & Nugroho, 2025). Large entities have broader resource capacity to arrange various tax avoidance strategies because complex operational activities open greater opportunities to exploit regulatory gaps (Sari et al., 2025). Hossain et al. (2024) show that large entities have the advantage of broader resources, access to professional tax consultant services, and organizational complexity, which supports them in exploiting legal loopholes more effectively to design tax avoidance strategies.

This research differs substantially from previous research by Hasan et al. (2024), which focused on the relationship between tax avoidance, corporate governance, and narrative disclosure tone in public companies in Pakistan from 2011–2020. That study emphasized the role of board of directors' characteristics (such as independence, gender diversity, and family ownership) and ownership structures (foreign and managerial ownership) in influencing the narrative disclosures used by companies indicated to be avoiding taxes. The approach used in that study was sentiment analysis of annual reports and panel regression analysis to test the relationship between variables.

Meanwhile, this research addresses the topic with a more current timeframe, from 2020 to 2024, in the Indonesian context and focuses on the energy sector, which contributes significantly to the national GDP and state revenue. This research also integrates narrative disclosure, profitability, leverage, and company size as determinants of tax avoidance, but with different dimensions and approaches than Hasan et al. (2024), who focused more on manipulating disclosure tone as a managerial tool to manage public perception. The energy sector was chosen as the focus of this research because it contributes significantly to Indonesia's Gross Domestic Product (GDP). According to the Ministry of Energy and Mineral Resources, the mining and quarrying sector—which is part of the energy sub-sector—contributed Rp2,198 trillion or 10.5% of Indonesia's total GDP in 2023. Additionally, the Director General of Mineral and Coal stated that mining industry downstreaming is an important strategy to increase the contribution to national economic growth (Kementerian ESDM, 2024). Therefore, tax management in this sector is very important for analyzing how energy companies contribute to state income and how they manage their tax obligations. Profitability and leverage are used as independent variables in this research, both of which have a direct influence on the tax policies of business entities. Profitability describes the company's ability to generate profit, which is related to how much tax the company must pay. Meanwhile, leverage relates to the use of debt obligations as a means of funding company activities. Therefore, both profitability and leverage are important factors in studying tax avoidance behavior in the Indonesian energy sector.

Based on the background and research gap described above, this study aims to examine the effect of narrative disclosure, profitability, leverage, and firm size on tax avoidance in Indonesian energy sector companies during the 2020–2024 period. Unlike previous studies that primarily focused on the role of corporate governance and disclosure tone in developed or different institutional settings, this study provides empirical evidence from the Indonesian energy sector, which plays a strategic role in national economic growth and state revenue. By integrating both financial and non-financial determinants of tax avoidance, this research is expected to enrich the literature on corporate tax behavior and provide practical insights for regulators, investors, and other stakeholders in promoting greater transparency and improving tax compliance.

Agency theory describes the inherent conflict within modern corporate structures between shareholders as principals and managers as agents, where information asymmetry often results in issues like moral hazard and adverse selection due to managers' deeper operational knowledge (Hasan et al., 2024; Jensen & Meckling, 1976). While shareholders aim to maximize firm value, managers are frequently driven by rational, individualistic motives and personal incentives that can lead to deviant decision-making (De Vito & Jacob, 2023; Duhoon & Singh, 2023). This divergence of interests significantly impacts financial transparency and accountability, particularly when managers leverage their superior access to data to engage in manipulative practices such as tax avoidance to influence investor perceptions (Catherine & Mukhtaruddin, 2025; Ramania & Pratiwi, 2025). Although these strategies may temporarily enhance "on-paper" profits or fulfill managerial goals, they ultimately obscure financial clarity and accumulate systemic risks that degrade long-term investment value and shareholder welfare (Pratama et al., 2025).

Political cost theory posits that companies operate under significant social and political pressures, where larger firms due to their higher public visibility face greater scrutiny from regulators and tax authorities (Watts & Zimmerman, 1986; Graham et al., 2014). To mitigate the risks of wealth redistribution or negative public perception, these large-scale entities often adjust their corporate and tax strategies to align with social expectations, effectively using company size as a primary proxy for these political costs. Empirical testing of this theory, such as that conducted by Belz et al. (2019), frequently analyzes the relationship between company size and the Effective Tax Rate (ETR), supported by Zimmerman's (1983) findings that a positive relationship exists between size and ETR, suggesting that larger companies bear a higher tax burden as a direct consequence of the significant political costs they face.

Narrative disclosure serves as a critical component of annual reports by providing non-financial context to quantitative data (Makhlouf et al., 2024), yet within the framework of agency theory, it is often utilized as a strategic tool for impression management to reduce information asymmetry and protect managerial interests (Kayed et al., 2025; Huang et al., 2014). In the context of tax avoidance, companies frequently employ optimistic and persuasive language to distract stakeholders from aggressive tax strategies, emphasizing narratives of sustainability and compliance to maintain corporate legitimacy and reputation (Liu et al., 2022). Research by Hasan et al. (2024) and Bassyouny & Aboud (2025) suggests that this positive tone functions as a manipulative instrument to obscure tax avoidance practices from shareholders and tax authorities, consistent with the view that such narratives are used to redirect attention away from adverse financial information.

H$_1$: Narrative disclosure has a positive effect on tax avoidance

Profitability serves as a fundamental indicator of an entity's financial health and its effectiveness in utilizing resources to generate earnings, providing highly profitable companies with the cash flow flexibility to manage tax strategies (Hasan et al., 2024). While some argue that profitable firms may prioritize transparency and fiscal compliance to mitigate reputational risks and public scrutiny (Yahaya et al., 2025; Cao et al., 2021), others emphasize that greater profits increase the potential for tax savings through aggressive planning, such as transfer pricing or tax haven utilization (Duhoon & Singh, 2023). From an agency theory perspective, as profitability escalates, the corresponding tax burden also rises, prompting managers to engage in tax avoidance to suppress tax liabilities and optimize reported net income without compromising their performance image before shareholders (Fadhila & Andayani, 2022; Paraswati & Purwaningsih, 2024; Nicol Manapa & Yulazri, 2024; Khairunnisa et al., 2023). This alignment of management incentives with financial optimization is supported by various empirical studies indicating that higher profitability leads to a greater tendency for tax avoidance as a response to increased income tax liabilities (Hossain et al., 2024; Noviyanti & Muid, 2019; Sarimin & Oktari, 2023).

H$_2$: Profitability has a positive effect on tax avoidance.

Leverage reflects a company's reliance on external debt, which provides significant tax savings through the interest tax shield mechanism (Hasan et al., 2024). While some studies suggest that high leverage might actually reduce the incentive for additional aggressive tax planning since fiscal benefits are already achieved via deductible interest expenses (Duhoon & Singh, 2023), others argue that aggressive capital structures drive companies to seek further tax reductions to enhance short-term liquidity and manage financial pressure (Yahaya et al., 2025). High leverage is also associated with increased information asymmetry and cash flow volatility, incentivizing non-transparent tax avoidance pathways (Cao et al., 2021). Within agency theory, leverage acts as both a disciplinary mechanism for management and a legal source of tax shields, where deductible interest expenses effectively lower the taxable income base (Patar, 2024; Fadhila & Andayani, 2022; Sarimin & Oktari, 2023). Empirical evidence from various researchers consistently indicates a positive relationship between leverage and tax avoidance, as companies strategically increase debt to exploit these tax-deductible interest burdens and minimize total tax liabilities (Hossain et al., 2024; Paraswati & Purwaningsih, 2024; Noviyanti & Muid, 2019; Khairunnisa et al., 2023).

H3: Leverage has a positive effect on tax avoidance.

Firm size serves as a primary attribute illustrating an entity's resource levels, operational complexity, and economic influence, where larger companies typically possess more sophisticated organizational structures and superior access to strategic tax planning expertise (Yahaya et al., 2025). While their vast resources and specialized tax departments may enable complex legal avoidance schemes like transfer pricing or profit shifting, the political cost theory suggests that high public visibility subjects these large entities to more intense scrutiny from governments and regulators (Watts & Zimmerman, 1986; Ehima & Ohonba, 2024). Consequently, larger firms often adopt more cautious fiscal behaviors to meet heightened expectations for corporate governance and regulatory compliance, aiming to minimize the significant political risks associated with aggressive tax tactics (Duhoon & Singh, 2023). Empirical studies by Belz et al. (2019) and Nabila & Ramdani (2022) support this perspective, finding that as firm size increases, the tendency to engage in tax avoidance decreases to avoid regulatory spotlights that could jeopardize operational stability.

H4: Firm size has a negative effect on tax avoidance.

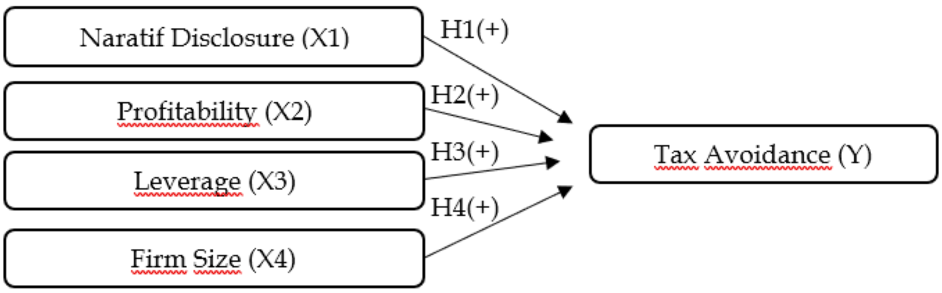

Figure 2. Conceptual Framework
Source: Processed Data (2026)

METHOD

This study employs a quantitative approach with an explanatory research design aimed at testing the influence of narrative disclosure, profitability, leverage, and company size on tax avoidance. The research is conducted deductively by testing hypotheses based on existing theories using empirical data (Paramita et al., 2021). The research objects are energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, focusing on annual reports and corporate financial statements as the primary data sources. This study adapts previous research models that examine the link between narrative disclosure and tax avoidance using both textual and financial analysis approaches (Hasan et al., 2024). The population in this study consists of all 91 energy sector companies listed on the IDX for the 2020–2024 period. The energy sector was chosen because of its strategic contribution to Indonesia's economic growth and tax revenue, making it an important context for examining corporate tax avoidance practices. The sample is determined using a purposive sampling technique with the following criteria:

Table 1. Purposive Sampling Results

No	Description	Total
1	Energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period	91
2	Companies outside the energy sector listed on the main and development boards of the Indonesia Stock Exchange	(15)
3	Companies that did not present complete annual financial reports during the 2020-2024 period	(30)
4	Companies with outlier data	(8)
	Companies meeting the criteria	38
	Research Sample = 38 x 5 years	**190**

Source: Processed Data (2026)

The data used is secondary data collected through documentation methods from annual reports and financial statements officially published by the companies and the Indonesia Stock Exchange (IDX) (Hardani et al., 2020). Data analysis is conducted by processing quantitative and textual data in an integrated manner. The Narrative Disclosure variable is measured using a lexicon-based sentiment analysis approach based on the Loughran–McDonald Dictionary implemented in RStudio, following the methodology of Hasan et al. (2024). The analysis begins by collecting the annual reports of sample companies for the 2020–2024 period from the official websites of the Indonesia Stock Exchange (IDX) and the respective companies. Since annual reports are generally available in Portable Document Format (PDF), all reports are first converted into plain text (.txt) format to ensure that they can be processed by the R programming environment. After the conversion process, each text file is reviewed and cleaned to remove unreadable characters, symbols, and unnecessary formatting. All cleaned text files are then stored in a single folder as the corpus for sentiment analysis.

In the initial stage of the analysis, several supporting R packages are installed and loaded, including tidyverse for data manipulation, tidytext for text mining and tokenization, textdata for accessing the Loughran–McDonald financial sentiment dictionary, and readtext for importing multiple text documents simultaneously. Subsequently, all .txt files stored in the corpus folder are imported into RStudio using the readtext function. The filename of each document is then automatically separated into two identifiers, namely the company code and observation year, allowing each annual report to be accurately identified throughout the analysis.

The next step is tokenization, in which the textual contents of each annual report are transformed into individual words (tokens). After tokenization, the Loughran–McDonald Dictionary is loaded into RStudio using the lexicon_loughran function available in the textdata package. This dictionary was specifically developed for financial documents and is considered more appropriate than general-purpose sentiment dictionaries because it reduces the misclassification of financial terminology. Each token extracted from the annual reports is subsequently matched with the dictionary using the (inner_join) function so that only words included in the financial sentiment lexicon are retained for further analysis.

Table 2. Operational Definitions of Variables

No	Variable	Indicators	Measurements	Reference Sources
Independent Variable (X)				
1	Narrative disclosure	Net positive tone (NPT)	(Positive words minus negative words) / (positive words plus negative words), whereby positive and negative words represent the frequency based on the Loughran–McDonald dictionary	(Hasan et al., 2025)
2	Profitabilitas	Return on assets (ROA)	ROA= $\frac{\text{Net Profit}}{Total\ Asset}\ x\ 100\%$	(Cao et al., 2021)
3	Leverage	Debt to equity rasio (DER)	DER= $\frac{Total\ Debt}{Total\ Equity}\ x\ 100\%$	(Yahaya et al., 2025)
4	Firm size	The natural logarithm (Ln) of total assets	Firm Size = Ln (Total Asset)	(Duhoon & Singh 2023)
Dependent Variable (Y)				
1	Tax Avoidance	Effective tax rate (ETR)	ETR= $(\frac{Tax\ Expanse}{pre\ tax\ book\ income})\ x\ -1$	(Bassyouny & Aboud, 2025)

Source: Processed Data (2026)

The Loughran–McDonald Dictionary classifies financial words into six sentiment categories: positive, negative, uncertainty, litigious, constraining, and superfluous. After the matching process, RStudio calculates the frequency of each sentiment category for every company and observation year using the (count) function. The resulting data are then transformed into a structured format using the (pivot_wider) function, allowing each sentiment category to be represented as a separate variable. Following Hasan et al. (2024), this study measures Narrative Disclosure using the Narrative Positive Tone (NPT) index, calculated as:

(NPT = (positive - negative) / (positive + negative)

A higher NPT value indicates a more positive narrative tone in the company's annual report, whereas a lower value indicates a greater prevalence of negative language. Finally, the sentiment analysis results are exported as a .csv file using the (write.csv) function. The resulting Narrative Disclosure scores are subsequently merged with the other research variables, namely profitability, leverage, firm size, and tax avoidance, to construct the final panel dataset for regression analysis. While financial variables such as tax avoidance, profitability, leverage, and company size are measured using financial ratios sourced from the financial statements. Furthermore, the data is analyzed using panel data regression with the aid of EViews software to test the relationships between variables and the research hypotheses. The analysis stages include selecting the best regression model and statistically testing the significance of the independent variables' influence on the dependent variable.

The study employs panel data regression, combining cross-sectional and time-series data to capture variations across energy companies during the 2020–2024 period, providing more informative parameter estimates (Nuryanto & Pambuko, 2018). Following the methodological approach of Hasan et al. (2024), the analysis is conducted using EViews for regression modeling and RStudio for measuring Net Positive Tone (NPT) via sentiment analysis. The systematic process includes descriptive statistics, model selection, classical assumption tests, hypothesis testing, and regression analysis to validate the research objectives. The regression model utilized in this study is expressed through the following equation:

$$Y = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e$$

RESULTS AND DISCUSSION

This study applies descriptive statistical analysis to summarize and explain the characteristics of the empirical data collected. The analysis includes key statistical measures, namely the minimum value, maximum value, mean, and standard deviation for each research variable. These descriptive statistics are intended to provide a clearer understanding of the distribution and overall characteristics of the variables examined in this study. The results of the descriptive analysis for the dependent variable (tax avoidance) as well as the independent variables (narrative disclosure, profitability, leverage, and firm size) are presented in the following section.

The descriptive statistics reveal that the effective tax rate, used as a proxy for tax avoidance, ranges from -1.277808 to 1.918857. Across energy sector firms listed on the Indonesia Stock Exchange between 2020 and 2024, the mean effective tax rate is 0.200717, while the median reaches 0.194717. Furthermore, the standard deviation of 0.306219 suggests considerable dispersion in the effective tax rates, indicating substantial differences in tax avoidance practices among the sampled companies. Regarding the independent variables, narrative disclosure, proxied by net positive tone, ranges from a minimum of -0.446266 to a maximum of 0.213559. The variable records a mean of 0.128085 and a standard deviation of 0.123448, indicating a relatively consistent level of narrative disclosure across the sampled firms despite observable cross-sectional variation. In addition, profitability, measured by return on assets (ROA), varies between -0.383619 and 0.616346, with an average value of 0.082150 and a standard deviation of 0.134260. These statistics suggest that firms exhibit differences in their profit-generating performance over time and across observations, although the overall dispersion remains within a reasonable range.

Table 3. Descriptive Statistical Test Results

Variable	Mean	Median	Max	Min	Std.Dev.
Tax avoidance	0,200717	0,194717	1,918857	-1,277808	0,306219
Narrative disclosure	-0,128085	-0,149024	0,213559	-0,446266	0,123448
Profitabilitas	0,082150	0,055841	0,616346	-0,383619	0,134260
Leverage	1,227244	0,855616	7,408325	0,020998	1,257063
Firm Size	19,70528	19,55089	23,10117	15,94792	1,688806

Source: Processed Data (2026)

Moreover, leverage, as measured by the debt-to-equity ratio (DER), ranges from a minimum of 0.020998 to a maximum of 7.408325. The variable has a mean value of 1.227244 and a standard deviation of 1.257063, indicating considerable heterogeneity in firms' financing strategies and their dependence on debt relative to equity. Meanwhile, firm size, proxied by the natural logarithm of total assets, spans from 15.94792 to 23.10117, with an average of 19.70528 and a standard deviation of 1.688805. These findings suggest that the sampled companies are generally large in scale, although noticeable variation in firm size remains across the observations.

The appropriate panel data estimation model was determined through a sequential model selection procedure involving three statistical tests: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. These tests were conducted to identify the model that best fits the characteristics of the data. The outcomes of the model selection process are presented below.

Table 4. Chow Test Result

Effects Test	*Statistic*	d.f.	Prob.
Cross-section F	1,869003	(37,148)	0,0047
Cross-section Chi-square	72,844174	37	0,0004

Source: Processed Data (2026)

As reported in Table 4, the Chow test produced a Cross-section F probability value of 0.0047, which is below the 5% significance threshold. This result indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM), leading to the acceptance of the FEM and the rejection of the CEM.

Table 5. Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14,271578	4	0,0065

Source: Processed Data (2026)

Based on the Hausman Test results in Table 5, The Cross-section random probability value is 0.0065, which is less than 0.05, meaning the Fixed Effect Model is accepted.

The classical assumption tests applied in panel data analysis differ somewhat from those used in conventional multiple linear regression with cross-sectional data. Following the model selection procedure, this study performs the three classical assumption tests required for panel data analysis using the Fixed Effect Model (FEM), which was identified as the most appropriate specification, in accordance with Basuki (2021). The findings of the normality test are presented in the figure below.

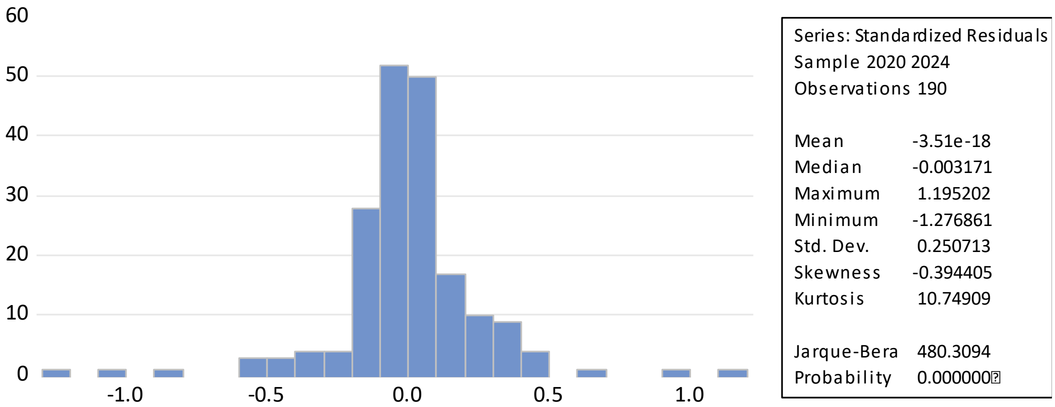

Figure 3. Normality Test Results
Source: EViews 13 Output, processed data (2026)

As illustrated in Figure 3, the Jarque–Bera test produced a probability value of 0.00000, which is lower than the 5% significance level. This outcome indicates that the residuals do not conform to a normal distribution. Nevertheless, this issue does not invalidate the analysis because, according to the Central Limit Theorem, the assumption of normality becomes less critical when the sample size is sufficiently large. Gujarati (2006) explains that samples exceeding 30 observations can be considered adequate for statistical inference even when the underlying distribution is non-normal. Since this study is based on 190 observations, the sample size is deemed sufficient to satisfy the normality requirement through the application of the Central Limit Theorem.

Table 6. Multicollinearity Test Result

	X1	X2	X3	X4
X1	1			
X2	-0,008952	1		
X3	-0,181059	-0,255106	1	
X4	-0,052696	0,226654	0,278250	1

Source: Processed Data (2026)

Based on the multicollinearity test results in the Table 6, it can be observed that the correlation coefficient values between the independent variables are lower than 0.85; therefore, it can be concluded that the model is free from multicollinearity issues.

Table 7. Heteroskedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,653925	1,300036	0,503005	0,6157
X1	-0,614468	0,221926	-2,768799	0,0063
X2	-0,125366	0,213025	-0,588504	0,5571
X3	0,023434	0,023605	0,992774	0,3224
X4	-0,028936	0,065804	-0,439725	0,6608

Source: Processed Data (2026)

According to the results of the Glejser heteroskedasticity test presented in Table 7, all independent variables exhibit probability values exceeding the 0.05 significance level. These findings indicate that the regression model is free from heteroskedasticity, suggesting that the variance of the residuals remains constant across the observations.

Table 8. F-test results

F-statistic	*Prob(F-statistic)*
1,775303	0,006993

Source: Processed Data (2026)

The results of the F-test presented in Table 8 indicate that the model has an F-statistic probability value of 0.006993, which is below the 5% significance threshold. This finding confirms that the independent variables, namely narrative disclosure, profitability, leverage, and firm size, jointly have a statistically significant effect on the dependent variable, tax avoidance. Therefore, these variables collectively contribute to explaining variations in tax avoidance among the observed firms.

Table 9. Coefficient of Determination Test Results (R^2)

R-squared	Adjusted R-squared
0,329672	0,143973

Source: Processed Data (2026)

The coefficient of determination results presented in Table 9 show an adjusted R-squared value of 0.143973. This value indicates that the variables of narrative disclosure, profitability, leverage, and firm size are able to explain

14.39% of the changes in tax avoidance, whereas the remaining 85.61% is attributable to other variables beyond the scope of this research model. The limited explanatory power of the model implies that tax avoidance is a multifaceted corporate decision influenced by various factors that have not been examined in this study, including corporate governance mechanisms, audit effectiveness, managerial characteristics, capital intensity, and evolving tax policies. Accordingly, future research may consider incorporating additional determinants to enhance the model's predictive capability and provide a more comprehensive understanding of tax avoidance behavior.

Table 10. Panel Data Regression

Variable	Coefficient	t-Statistic	Prob.
C	-1,585106	-0,967722	0,3348
X1	-0,827127	-2,958093	0,0036
X2	0,252722	0,941584	0,3479
X3	-0,067973	-2,285497	0,0237
X4	0,088430	1,066584	0,2879

Source: Processed Data (2026)

The first hypothesis proposing that narrative disclosure has a positive influence on tax avoidance is not supported. The t-test results demonstrate that narrative disclosure has a statistically significant effect on tax avoidance, as indicated by a probability value of 0.0036, which is below the 0.05 significance level, and a t-statistic value of 2.958093 exceeding the t-table value of 1.972. Nevertheless, the negative regression coefficient of -0.827127 suggests an inverse association between the variables, implying that greater use of positive narrative disclosure (*net positive tone*) is associated with a lower tendency of firms to undertake tax avoidance practices. The descriptive analysis further indicates differences in firms' disclosure optimism, with a mean NPT value of 0.128085 and a standard deviation of 0.123448. Companies that employ a more positive disclosure tone tend to demonstrate lower tax avoidance levels compared with firms exhibiting less favorable narrative expressions.

These results indicate that the tone used in narrative disclosure functions as a means of maintaining corporate reputation and strengthening managerial accountability, rather than serving solely as an opportunistic communication strategy (Hasan et al., 2024). Despite the implementation of regulatory frameworks by the OJK, including POJK No. 8/POJK.04/2017, which are intended to improve corporate transparency, their impact may remain constrained by persistent information asymmetry and limitations in monitoring effectiveness (Rahmawati et al., 2025). Viewed through the lens of agency theory, narrative disclosure can act as a tool to minimize information gaps between management and stakeholders while influencing external perceptions, ultimately reducing incentives for aggressive tax avoidance behavior (Hasan et al., 2024). This finding differs from previous studies conducted by Bassyouny and Aboud (2025) and Hasan et al. (2024), which reported a positive association between narrative disclosure and tax avoidance. In contrast, the present study demonstrates that a more positive disclosure tone is linked to greater transparency and a lower propensity for firms to engage in tax avoidance practices.

The second hypothesis, which predicts that profitability has a positive impact on tax avoidance, is not supported. The t-test results show that profitability does not exert a statistically significant influence on tax avoidance, as reflected by a probability value of 0.3479, which exceeds the 0.05 significance level, and a t-statistic of 0.941584, which is lower than the t-table value of 1.972. Although the regression coefficient has a positive value of 0.252722, the relationship is insufficient to demonstrate a significant effect. The descriptive statistics further indicate that differences in return on assets (ROA) across firms are not accompanied by substantial variations in tax avoidance behavior. These findings imply that profitability alone does not serve as a primary factor determining a company's inclination to undertake tax avoidance strategies.

The findings indicate that corporate tax avoidance behavior is influenced by more than just profitability, as it is also shaped by organizational policies, regulatory compliance, and the prevailing tax framework. Government initiatives aimed at improving tax supervision, including risk-based auditing, international information sharing, the application of GAAR, and the global minimum tax policy (Direktorat Jenderal Pajak, 2025; Madya & Bongaya, 2021), have contributed to reducing opportunities for tax avoidance. Furthermore, the results provide insufficient evidence to confirm agency theory, since companies with higher profitability do not consistently demonstrate greater tendencies to avoid taxes (Pratama et al., 2025; Noviyanti & Muid, 2019; Duhoon & Singh, 2023). These outcomes support the conclusions reported by Sarimin & Oktari (2023), Fadhila & Andayani (2022), Patar (2024), Hasanah & Augustin (2025), Sari et al. (2025), Wijaya et al. (2024), and Apriani (2025). However, the findings differ from previous studies conducted by Hossain et al. (2024), Paraswati & Purwaningsih (2024), Nicol Manapa & Yulazri (2024), Sulaeman (2021), and Noviyanti & Muid (2019), which identified different relationships regarding profitability and tax avoidance practices.

The third hypothesis, which proposes that leverage influences tax avoidance, is not supported in the expected direction. Based on the t-test results, leverage is found to have a statistically significant impact on tax avoidance, as indicated by a significance level of 0.0237 (< 0.05) and a t-value of -2.285497. The negative regression coefficient of -0.067973 suggests an inverse relationship, implying that an increase in leverage is associated with a lower likelihood of firms implementing tax avoidance strategies. The descriptive analysis shows substantial differences in DER levels among the observed companies, where PT Bayan Resources Tbk records the highest DER value of 7.408325, while PT Rig Tenders Indonesia Tbk reports the lowest value of 0.020998. This variation demonstrates that companies apply different capital structure approaches depending on their financial conditions.

The results suggest that leverage is no longer considered a dominant mechanism for reducing tax obligations, as companies must consider potential reputational consequences and the growing monitoring activities conducted by creditors and investors. In addition, the implementation of regulations such as PMK No. 169/PMK.010/2015 restricts excessive reliance on debt-based tax planning strategies (Hariaji & Akbar, 2021). Companies with high levels of leverage are also likely to adopt more cautious financial policies in order to preserve long-term operational stability (Sari et al., 2025). These findings differ from the results of Hossain et al. (2024), Fadhila & Andayani (2022), Khairunnisa et al. (2023), Paraswati & Purwaningsih (2024), Nicol Manapa & Yulazri (2024), and Noviyanti & Muid (2019). However, they are in line with the conclusions of Sarimin & Oktari (2023), Sulaeman (2021), and Sari et al. (2021).

The fourth hypothesis, which proposes that firm size has an influence on tax avoidance, is not accepted. The results of the t-test reveal that firm size does not significantly affect tax avoidance, as indicated by the significance probability of 0.2879, which is greater than the 0.05 threshold, and the t-statistic value of 1.066584, which is below the t-table value of 1.972. While the regression coefficient of 0.088430 reflects a positive relationship, the impact remains statistically insignificant. The descriptive statistics further demonstrate that variations in company size among firms, whether larger or smaller, do not correspond with meaningful differences in tax avoidance behavior. Therefore, firm size cannot be considered a major factor determining corporate tax avoidance practices.

The findings indicate that larger companies do not necessarily demonstrate higher levels of tax avoidance, as tax control mechanisms, including tax restitution procedures implemented by tax authorities and regulations designed to promote equity within the taxation system, may reduce such practices (Madya & Bongaya, 2021). In addition, despite the argument of political cost theory that large firms are exposed to greater political scrutiny and pressure, this effect is not proven to be statistically significant in the current study (Belz et al., 2019; Pratama et al., 2025). These results are inconsistent with the studies conducted by Paraswati & Purwaningsih (2024), Nicol Manapa & Yulazri (2024), Wijaya et al. (2024), and Noviyanti & Muid (2019). However, they support the findings of Hossain et al. (2024), Sarimin & Oktari (2023), Patar (2024), Sulaeman (2021), and Sari et al. (2021).

CONCLUSION

This research demonstrates that narrative disclosure has a significant negative relationship with tax avoidance, implying that the use of a more favorable disclosure tone can discourage companies from implementing tax avoidance strategies. This finding emphasizes the importance of transparency in reducing information asymmetry and limiting managerial opportunistic actions. Conversely, profitability and firm size are found to have no significant influence on tax avoidance, indicating that corporate tax strategies are not primarily determined by profitability levels or company scale. This result reflects the growing effectiveness of tax administration and supervision mechanisms, including risk-based audits, information exchange systems, GAAR enforcement, and global minimum tax policies (Duhoon & Singh, 2023; Sarimin & Oktari, 2023; Fadhila & Andayani, 2022; Patar, 2024; Hasanah & Augustin, 2025; Wijaya et al., 2024). Furthermore, leverage shows a significant negative effect on tax avoidance, suggesting that firms with greater debt exposure tend to implement more cautious financial policies due to regulatory limitations, including PMK No. 169/PMK.010/2015, as well as concerns related to reputation and business continuity risks (Sarimin & Oktari, 2023; Sulaeman, 2021; Sari et al., 2021). Overall, the results indicate that non-financial elements, particularly disclosure practices and regulatory environments, provide stronger explanations of tax avoidance behavior compared with conventional financial characteristics.

Future studies are encouraged to utilize broader samples and longer research periods to enhance the reliability and applicability of the findings. Researchers may also consider developing an Indonesian-specific financial terminology dictionary to improve the measurement of narrative disclosure tone within the local context. In addition, expanding the use of empirical studies, especially those originating from developing economies, would provide a more comprehensive perspective and address the current limitations related to available data and academic references.

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