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The Effect of Profitability, Leverage, Operating Cash Flow, and Firm Size on Tax Avoidance: The Moderating Role of Institutional Ownership

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Abstract

This study investigates the effect of profitability, leverage, operating cash flow, and firm size on tax avoidance, with institutional ownership serving as a moderating variable. The research focuses on mining companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. A quantitative research approach was employed using secondary data obtained from companies' annual reports and audited financial statements. The sample was selected through purposive sampling, resulting in 35 mining companies with a total of 175 firm-year observations. Data analysis was conducted using panel data regression and Moderated Regression Analysis (MRA) with EViews 12 software. The empirical findings reveal that profitability and leverage have a positive and statistically significant effect on tax avoidance, indicating that more profitable and highly leveraged firms are more likely to engage in tax avoidance strategies. Conversely, operating cash flow and firm size exhibit negative but statistically insignificant effects on tax avoidance. The moderation analysis demonstrates that institutional ownership significantly moderates the relationships between profitability, operating cash flow, and firm size with tax avoidance, suggesting that institutional investors strengthen corporate oversight and influence managerial tax-related decisions. However, institutional ownership does not significantly moderate the relationship between leverage and tax avoidance. These findings highlight the importance of institutional ownership as an effective corporate governance mechanism in reducing agency problems and shaping corporate tax planning behavior. This study contributes to the accounting and taxation literature by providing empirical evidence on the moderating role of institutional ownership in the relationship between firm-specific characteristics and tax avoidance practices in Indonesian mining companies.

Keywords: Tax Avoidance, Profitability, Leverage, Operating Cash Flow, Firm Size, Institutional Ownership

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

INTRODUCTION

Tax revenue is the primary source of government income and plays a crucial role in financing public services such as education, healthcare, and social protection. However, from a corporate perspective, taxes are often viewed as a cost that reduces net profit, encouraging firms to engage in tax avoidance, which refers to legally minimizing tax liabilities by exploiting loopholes in tax regulations (Andreansyah & Farina, 2022). Tax avoidance has become particularly prevalent in Indonesia's mining sector, as illustrated by the cases of PT Adaro Energy Tbk and PT Freeport Indonesia, both of which were associated with tax disputes involving profit shifting, transfer pricing, and taxable income calculations (Mikrad et al., 2023; Alifia & Heru, 2024). These cases highlight the importance of understanding the determinants of corporate tax avoidance in strategic industries. Previous studies suggest that tax avoidance is influenced by both financial characteristics and corporate governance mechanisms, including profitability, leverage, operating cash flow, firm size, and institutional ownership. Nevertheless, empirical findings remain inconclusive. Some studies report that profitability reduces tax avoidance (Agnes & Kinasih, 2021; Andre & Fitri, 2020; Silviana & Hidayat, 2024), whereas others find contradictory results (Wardoyo et al., 2022; Sari et al., 2023). Similar inconsistencies are also evident in the effects of leverage, operating cash flow, and firm size on tax avoidance. Previous studies found that leverage significantly influences tax avoidance because firms with higher debt levels may utilize interest expenses to reduce taxable income (Prasetya & Mulyadi, 2020; Agustina et al., 2023). However, other studies reported that leverage does not significantly affect tax avoidance, indicating that debt policy is not always used as a tax planning mechanism. In terms of operating cash flow, Rambe (2020) found a significant relationship with tax avoidance, while Maqueira et al. (2023) reported insignificant results. Similar mixed findings are also found in firm size, where some studies suggest that larger firms tend to engage in tax avoidance due to greater resources and tax planning capacity, whereas others argue that firm size has no significant effect because larger firms are subject to greater public and regulatory scrutiny (Norisa et al., 2022; Indra et al., 2024).

Institutional ownership has been widely recognized as an important corporate governance mechanism capable of strengthening managerial oversight and reducing agency conflicts (Rahmadhani & Lastanti, 2024; Rananda, 2023). However, prior evidence regarding its moderating role remains mixed, with several studies reporting insignificant effects (Cahyani et al., 2021; Lestari et al., 2023). Grounded in Agency Theory, this study argues that institutional investors can influence managerial decisions related to tax planning by enhancing monitoring and aligning management interests with shareholders (Han et al., 2023; Bonsón et al., 2023). Accordingly, this study examines the effects of profitability, leverage, operating cash flow, and firm size on tax avoidance while investigating the moderating role of institutional ownership in Indonesian mining companies. By focusing on a sector characterized by substantial tax contributions and complex business operations, this study seeks to provide more comprehensive evidence on the interaction between firm-specific characteristics, corporate governance, and tax avoidance behavior (Pratama et al., 2024).

REVIEW OF LITERATURE

Agency Theory

This study adopts Agency Theory as the primary theoretical framework to explain the

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

relationship between firm characteristics and tax avoidance. Agency Theory describes the contractual relationship between shareholders as the principals and managers as the agents. Under this relationship, shareholders delegate decision-making authority to managers to operate the company, including financial and tax-related decisions (Suryatimur & Sunaningsih, 2022). However, differences in interests between principals and agents may give rise to agency conflicts. Managers may behave opportunistically to achieve performance targets, maximize after-tax profits, or obtain performance-based incentives. In the taxation context, such conflicts may encourage managers to engage in tax avoidance as a strategy to reduce corporate tax liabilities (Yuliani, 2024). Therefore, effective monitoring mechanisms, particularly institutional ownership, are required to ensure that managerial decisions remain aligned with shareholders' interests and the principles of good corporate governance (Sari et al., 2022).

Tax Avoidance

Tax avoidance refers to a firm's legal effort to minimize its tax burden by exploiting loopholes in tax regulations. Unlike tax evasion, which constitutes an illegal violation of tax laws, tax avoidance remains within the boundaries of applicable legislation (Paridah & Rokhayati, 2023). Although legally permissible, tax avoidance has attracted considerable attention because it may reduce government tax revenues and expose firms to reputational risks. In this study, tax avoidance is measured using the Effective Tax Rate (ETR), defined as the ratio of income tax expense to pre-tax income. A lower ETR indicates a higher likelihood of tax avoidance, as a smaller proportion of corporate earnings is paid as taxes (Wirawan & Yuniarwati, 2022).

Profitability

Profitability reflects a firm's ability to generate earnings from its available resources. Firms with higher profitability generally possess stronger financial capacity but are also subject to greater tax obligations (Aulia & Hariyanto, 2020). Consequently, management may be motivated to implement tax planning strategies to reduce tax liabilities and maximize after-tax profits. From the perspective of Agency Theory, managers may engage in tax avoidance because net income is frequently used as a performance indicator and a basis for managerial compensation. Therefore, profitability is considered an important determinant of corporate tax avoidance behavior (Nugraha et al., 2020).

Leverage

Leverage represents the extent to which a firm relies on debt financing. Debt financing has tax implications because interest expenses are generally tax-deductible, thereby reducing taxable income. Consequently, firms with higher leverage may utilize interest deductions as part of their tax planning strategies (Aziz, 2021). From an agency perspective, leverage also reflects managerial decisions regarding capital structure optimization to improve tax efficiency and financial performance. However, excessive leverage may increase financial risk and creditor monitoring, suggesting that its effect on tax avoidance depends on firm-specific conditions and existing governance mechanisms (Tasniyah & Aristantia, 2024).

Operating Cash Flow

Operating cash flow reflects a firm's ability to generate cash from its core business activities. Strong operating cash flow indicates sufficient liquidity to finance operations, meet financial obligations, and implement financial strategies, including tax planning (Taliding et al., 2022). On one hand, higher operating cash flow may enhance a firm's capacity to fulfill its tax obligations,

DANADYAKSA
POST MODERN ECONOMY JOURNAL

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

thereby reducing incentives for tax avoidance. On the other hand, abundant liquidity may provide managers with greater flexibility to pursue more sophisticated tax planning strategies. Therefore, operating cash flow is an important variable in explaining tax avoidance because corporate liquidity may influence managerial discretion in tax-related decision-making (Toumeh et al., 2021).

Firm Size

Firm size represents the scale of a company's operations, total assets, and organizational complexity. Larger firms generally possess greater financial resources, more sophisticated organizational structures, and better access to professional expertise and tax consultants, enabling them to implement more effective tax planning strategies (Safitri & Arifin, 2023). However, large firms are also subject to closer scrutiny by regulators, investors, and the public. Such heightened visibility may discourage aggressive tax avoidance because of potential reputational and compliance risks. Accordingly, the relationship between firm size and tax avoidance is expected to be dynamic, depending on the balance between tax planning capabilities and external monitoring pressures (Darma & Afrilia, 2024).

Institutional Ownership

Institutional ownership refers to the proportion of a company's shares held by institutional investors, such as banks, insurance companies, pension funds, investment firms, and other financial institutions. From a corporate governance perspective, institutional ownership serves as an effective monitoring mechanism over managerial behavior (Jumailah, 2020). Institutional investors generally possess superior analytical capabilities, substantial financial resources, and strong economic incentives, enabling them to encourage managers to make more prudent and accountable decisions. In the context of tax avoidance, institutional ownership is expected to restrain managerial opportunism and discourage excessively aggressive tax avoidance practices. Accordingly, this study positions institutional ownership as a moderating variable that may strengthen or weaken the relationships between profitability, leverage, operating cash flow, firm size, and tax avoidance (Indira et al., 2024).

Conceptual Framework and Hypotheses

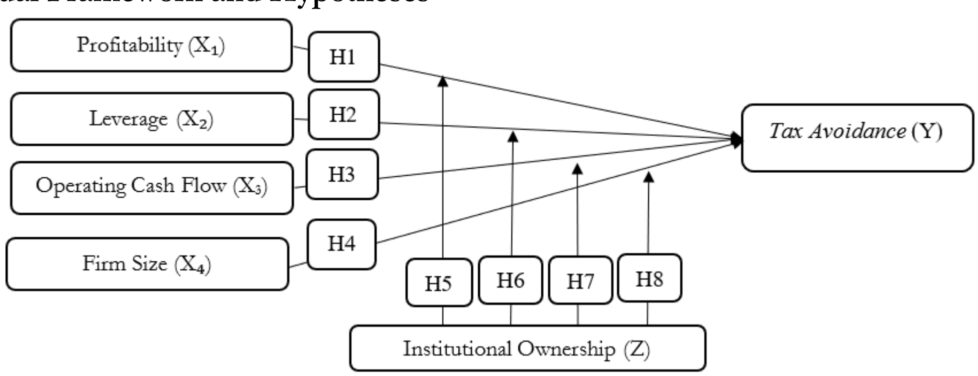

Figure 2.
Conceptual Framework

Based on the conceptual framework illustrated in **Figure 2**, the following hypotheses are proposed:

H1. The Effect of Profitability on Tax Avoidance

Return on Assets (ROA) reflects a company's effectiveness in utilizing its total assets, whether

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

financed through equity or debt, to generate profits. ROA also serves as an indicator of historical performance that can be used to evaluate a firm's ability to generate earnings and sustain financial performance in subsequent periods (Setyaningsih et al., 2023). Higher profitability leads to greater taxable income, resulting in a higher corporate tax burden (Wardoyo et al., 2022). According to Agency Theory, conflicts of interest may arise between managers, acting as agents, and shareholders, acting as principals. Managers are expected to maximize firm value by increasing after-tax profits, as profitability is commonly used as a performance indicator and a basis for managerial compensation (Putra et al., 2025). Under conditions of high profitability, taxes are often perceived as a cost that reduces net income. Consequently, managers may be motivated to engage in tax avoidance strategies to minimize tax liabilities while maintaining favorable financial performance from the shareholders' perspective (Harnovinsah et al., 2025; Tjung & Khairudin, 2024). Moreover, ROA reflects a firm's capability to optimize its assets in generating profits and serves as an important evaluation measure for both management and stakeholders in assessing future financial performance. Previous studies by Ismiani and Endang (2020) and Siti and Mariyam (2025) demonstrate that profitability is associated with a firm's tendency to manage its tax obligations.

H1: Profitability has a positive effect on tax avoidance.

H2. The Effect of Leverage on Tax Avoidance

Leverage reflects the extent to which a company relies on debt financing to support its investment and operational activities. Debt financing not only influences the firm's capital structure but also has tax implications because interest expenses are deductible from taxable income (Widyasti & Putri, 2021). The Debt-to-Equity Ratio (DER) is commonly used to measure the proportion of debt relative to equity, making leverage an important determinant of corporate tax management strategies, including tax avoidance (Pamungkas, 2021). From the perspective of Agency Theory, conflicts of interest may arise among managers, shareholders, and creditors (Cristina et al., 2020). Creditors expect firms to fulfill their obligations related to interest and principal repayments, whereas managers seek to maximize after-tax profits for shareholders (Sari, 2023). When leverage is high, interest expenses can reduce taxable income, thereby lowering corporate tax liabilities (Nurmalina, 2023). Empirical evidence provided by Geovani and Lorina (2022) and Mahdiana and Amin (2020) indicates that leverage is significantly associated with tax avoidance. A higher proportion of debt financing increases interest expenses, which affect cost structures and taxable income, thereby creating incentives for management to optimize tax planning as part of the firm's financial strategy.

H2: Leverage has a positive effect on tax avoidance.

H3. The Effect of Operating Cash Flow on Tax Avoidance

Operating cash flow reflects a company's ability to generate cash from its core business activities and is considered an important indicator of corporate financial strength (Amelia & Purnama, 2023). Strong operating cash flow indicates operational stability and the firm's ability to sustain its business activities over the long term (Mumtazah & Purwanto, 2020). Such financial flexibility enables companies to finance various strategic activities, including tax planning supported by professional tax expertise (Oktaviatin et al., 2024). From the Resource-Based View (RBV) perspective, firms with adequate financial resources possess greater capabilities to develop more effective tax planning strategies. Strong operating cash flow enables firms to employ tax consultants, implement efficient revenue recognition methods, and take advantage of available tax provisions.

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

Furthermore, firms with substantial operating cash flows are more likely to preserve cash flow stability by minimizing tax payments through tax avoidance practices.

Based on Agency Theory, the relationship between shareholders and managers may give rise to agency conflicts because managers may behave opportunistically to maximize their own interests (Boedihardjo & Ardini, 2024). In this context, tax avoidance can be used as a strategy to maintain financial performance and meet shareholders' expectations (Sari et al., 2023). Management therefore has incentives to optimize tax management in order to reduce tax expenses while maintaining after-tax profitability (Pasupati, 2020). Previous studies by Lawita (2022) and Restiani and Jelanti (2024) found that operating cash flow has a positive and significant effect on tax avoidance. Companies with stronger operating cash flows provide greater opportunities for management to implement tax avoidance strategies aimed at improving tax efficiency, although such practices may also intensify agency conflicts.

H3: Operating cash flow has a positive effect on tax avoidance.

H4. The Effect of Firm Size on Tax Avoidance

Firm size reflects the scale and capacity of a company in managing its economic resources. Large firms generally have greater operational complexity, more sophisticated organizational structures, and higher public exposure, resulting in broader scrutiny of their strategic decisions (Pratama et al., 2024). Firm size, commonly measured by total assets and total revenue, is also associated with a company's ability to provide more comprehensive financial information and influences its tax avoidance practices (Setiawan et al., 2024).

According to Agency Theory, differences in interests between shareholders and managers may encourage opportunistic behavior, including tax avoidance practices (Adiwibowo et al., 2020). Large firms typically engage in higher transaction volumes, possess more complex organizational structures, and have greater financial resources, thereby providing managers with more opportunities to implement aggressive tax management strategies (Aziz, 2021). Furthermore, large companies have greater access to tax consultants and financial engineering techniques to minimize tax liabilities, although such practices may expose them to regulatory sanctions, reputational risks, and agency costs (Norisa et al., 2022). Empirical evidence from Hitijahubessy et al. (2022) and Rahmawati and Nani (2021) indicates that firm size is significantly associated with tax avoidance. As firm size increases, companies generally possess greater capacity to implement sophisticated tax planning strategies. Moreover, business expansion is often accompanied by higher profitability and tax obligations, which may encourage management to adopt tax-efficient strategies.

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

H5. Institutional Ownership Moderates the Effect of Profitability on Tax Avoidance

Institutional ownership refers to the proportion of a company's shares held by professional institutions, such as investment firms, banks, pension funds, and insurance companies (Jumailah, 2020). The presence of institutional investors enhances monitoring quality because they possess substantial resources, analytical expertise, and a long-term investment orientation (Eka Prasatya & Mulyadi, 2020). From a corporate governance perspective, institutional ownership functions as a monitoring mechanism that constrains managerial opportunistic behavior, including aggressive tax avoidance practices (Rahmadhani & Lastanti, 2024).

From the perspective of Agency Theory, higher profitability increases corporate tax liabilities, thereby motivating managers to engage in tax avoidance in order to maintain after-tax earnings (Sri

Vol. 4 No. 1, (2026), 768–788 **e-ISSN: 3025-8545**

Widiantari, 2023). However, substantial institutional ownership may restrain aggressive tax avoidance because institutional investors generally prioritize long-term corporate reputation and regulatory compliance (Cahyani et al., 2021). Previous studies by Adelia et al. (2023) and Rosandi (2022) demonstrate that profitability is associated with firms' tax management behavior. Nevertheless, this relationship may be influenced by institutional ownership through its more effective monitoring function. Therefore, institutional ownership is expected to weaken the positive relationship between profitability and tax avoidance.

H5: Institutional ownership weakens the positive relationship between profitability and tax avoidance.

H6. Institutional Ownership Moderates the Effect of Leverage on Tax Avoidance

Companies with high leverage incur interest expenses that can reduce taxable income, thereby creating incentives for tax avoidance (Geno et al., 2020). However, firms with substantial institutional ownership are generally subject to stricter monitoring, particularly regarding financial decision-making. Institutional investors tend to discourage excessive tax avoidance because it may expose the company to reputational damage and regulatory sanctions (Putra et al., 2025). Consequently, institutional ownership may limit management's ability to exploit leverage as an aggressive tax avoidance strategy (Pasaribu & Mulyani, 2020). Institutional ownership represents the percentage of shares held by institutions such as investment companies, banks, pension funds, and other financial institutions (Lawita, 2022). Institutional investors possess the expertise, experience, and resources necessary to effectively monitor corporate activities. According to Agency Theory, monitoring by institutional shareholders helps reduce agency conflicts between managers as agents and shareholders as principals (Indira et al., 2024). Empirical studies conducted by Cahyani et al. (2021) and Sanchez et al. (2020) indicate that leverage is associated with corporate tax management strategies. However, this relationship may be weakened by institutional ownership through its monitoring role, which constrains managerial discretion in utilizing debt structures for tax avoidance purposes.

H6: Institutional ownership weakens the positive relationship between leverage and tax avoidance.

H7. Institutional Ownership Moderates the Effect of Operating Cash Flow on Tax Avoidance

Institutional ownership serves as a monitoring mechanism over managerial policies, including tax-related decisions. Such oversight encourages managers to exercise greater caution in utilizing operating cash flow to engage in excessive tax avoidance practices (Restiani & Jelanti, 2024). Operating cash flow reflects a company's ability to generate cash from its core business activities and indicates its capacity to fulfill financial obligations, including tax payments (Amrullah & Mayangsari, 2024). Nevertheless, strong operating cash flow may also motivate managers to reduce tax expenses in order to preserve after-tax profitability (Hasan & Septiningrum, 2023). According to Agency Theory, managers may behave opportunistically to maximize their personal interests, one manifestation of which is tax avoidance (Jensen & Meckling, 1976, as cited in Adiwibowo et al., 2020). In this context, institutional ownership functions as an effective monitoring mechanism that mitigates managerial opportunism. Institutional investors, such as insurance companies, banks, and pension funds, possess sufficient experience, expertise, and resources to supervise managerial practices effectively (Rahmawati, 2020). Previous studies by Abdurrosyid and Damayanti (2023) and Hazmi and Firmansyah (2024) demonstrate that operating cash flow significantly influences tax

Vol. 4 No. 1, (2026), 768–788 **e-ISSN: 3025-8545**

avoidance. Institutional ownership is therefore expected to moderate this relationship, as greater institutional ownership strengthens corporate oversight and reduces opportunities for aggressive tax avoidance.

H7: Institutional ownership weakens the positive relationship between operating cash flow and tax avoidance.

H8. Institutional Ownership Moderates the Effect of Firm Size on Tax Avoidance

Large firms generally possess greater financial and organizational resources to implement tax planning strategies, including taking advantage of opportunities for tax avoidance (Ainniyya et al., 2021). However, they are also subject to greater scrutiny from regulators, investors, and the public, requiring management to exercise greater caution when formulating tax strategies (Lestari et al., 2023). In this context, institutional ownership strengthens corporate oversight by limiting managers' incentives to engage in aggressive tax avoidance. Conversely, lower levels of institutional ownership may weaken the effectiveness of monitoring mechanisms, thereby providing greater managerial discretion for large firms to undertake tax avoidance practices (Jayanti et al., 2021). According to Agency Theory, institutional shareholders function as an effective monitoring mechanism over managerial decision-making (Sari et al., 2023). Institutional investors have a vested interest in ensuring the long-term sustainability of the company; therefore, they encourage management to make decisions that not only maximize short-term financial performance but also preserve the firm's long-term reputation (Andre & Fitri, 2020). Previous studies by Lestari et al. (2023) and Safitri et al. (2023) indicate that firm size is associated with corporate tax management practices. However, this relationship may be influenced by corporate governance mechanisms. In particular, institutional ownership is expected to weaken the relationship between firm size and tax avoidance by strengthening oversight and limiting managerial discretion in tax-related decision-making.

H8: Institutional ownership weakens the positive relationship between firm size and tax avoidance.

RESEARCH METHOD

This study employs a quantitative approach with a causal associative research design to examine the effects of profitability, leverage, operating cash flow, and firm size on tax avoidance, with institutional ownership serving as a moderating variable. The study utilizes secondary data obtained from the annual reports and audited financial statements of mining companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The research population comprises all mining companies listed on the IDX throughout the observation period. The sample was selected using a purposive sampling technique based on predetermined criteria. Specifically, the sample includes mining companies that were consistently listed on the Indonesia Stock Exchange and published complete annual reports and audited financial statements for each fiscal year from 2020 to 2024. Based on these selection criteria, 35 mining companies were included in the final sample, resulting in a total of 175 firm-year observations. The sample selection criteria are presented as follows:

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

Table 1.
Sample Selection Procedure

Sample Selection Criteria	Number of Companies
Mining sector companies consistently listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period	63
Less: Companies that did not publish complete annual reports and financial statements for the 2020–2024 period	(28)
Final sample of companies	**35**
Observation period (2020–2024)	**5 years**
Total firm-year observations (35 × 5)	**175**

Source: *Prepared by the authors based on data from the Indonesia Stock Exchange (IDX), 2026.*

The dependent variable in this study is tax avoidance, measured using the Effective Tax Rate (ETR). The independent variables include profitability, proxied by Return on Assets (ROA); leverage, measured using the Debt-to-Equity Ratio (DER); operating cash flow, measured as the ratio of operating cash flow to total assets; and firm size, measured by the natural logarithm of total assets. Institutional ownership serves as the moderating variable and is measured as the proportion of outstanding shares held by institutional investors. Data were collected using the documentation method by retrieving and processing financial information from the annual reports and audited financial statements of the sampled companies. The collected data were analyzed using panel data regression and Moderated Regression Analysis (MRA) with EViews 12. The analytical procedures consisted of descriptive statistical analysis, panel data model selection through the Chow test, Hausman test, and Lagrange Multiplier (LM) test, followed by classical assumption tests. Hypothesis testing was subsequently conducted using the coefficient of determination (R^2), F-test, t-test, and moderation analysis to examine both the direct effects of the independent variables and the moderating effect of institutional ownership on tax avoidance.

RESULTS AND DISCUSSION

Panel Data Regression Model Selection

After estimating the panel data regression using the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), the next step was to determine the most appropriate panel data regression model for this study.

a. Chow Test

The Chow test was conducted to determine the most appropriate model between the Fixed Effect Model (FEM) and the Common Effect Model (CEM) in panel data regression (Sumarjo, Mangantar, & Rumokoy, 2022). The model selection was based on the established decision criteria. If the cross-section Chi-square probability is less than the significance level of 0.05, the Fixed Effect Model (FEM) is considered the appropriate model. Conversely, if the cross-section Chi-square probability exceeds 0.05, the Common Effect Model (CEM) is selected, and the Hausman test is not required (Sumarjo et al., 2022). The results of the Chow test are presented

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

below.

Table 3.
The Result of Chow Test

Redundant Fixed Effects Tests
Pool: DPANEL
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.099249	(34,134)	0.0000
Cross-section Chi-square	101.533135	34	0.0000

Source: EViews 12 output

Based on Table 3, the cross-section Chi-square probability is less than 0.05. Therefore, the Fixed Effect Model (FEM) is considered the most appropriate model for this study.

b. Hausman Test

The Hausman test was conducted to determine the most appropriate panel data regression model between the Random Effect Model (REM) and the Fixed Effect Model (FEM) (Madany, Ruliana, & Rais, 2022). According to the decision criteria, if the Chi-square probability is less than 0.05, the Fixed Effect Model (FEM) is selected. Conversely, if the Chi-square probability exceeds 0.05, the Random Effect Model (REM) is considered more appropriate (Arifianto, 2023). The results of the Hausman test are presented below.

Table 4.
Results of the Hausman Test

Correlated Random Effects - Hausman Test
Pool: DPANEL
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.753484	4	0.7810

Source: Authors' calculations using EViews 12 (2026).

Based on the results presented in Table 4, the probability value is greater than 0.05, indicating that the Random Effect Model (REM) is more appropriate for this study.

c. Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test, developed by Breusch and Pagan, was conducted to determine whether the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM). According to the established decision criteria, if the probability value is less than 0.05, the Random Effect Model (REM) is selected. Conversely, if the probability value is greater than 0.05, the Common Effect Model (CEM) is considered the more appropriate model (Arifianto, 2023).

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

The results of the Lagrange Multiplier (LM) test are presented in Table 5

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1.386884	Prob. F(2,168)	0.2527
Obs*R-squared	2.842412	Prob. Chi-Square(2)	0.2414

Source: *Authors' calculations using EViews 12 (2026).*

Based on the results presented in Table 5, the Breusch–Pagan probability value is 0.2414, which is greater than 0.05. Therefore, the Common Effect Model (CEM) is considered the most appropriate model for this study.

Panel Data Regression Model Selection

The panel data regression analysis in this study was conducted using the Common Effect Model (CEM). This model was selected after a series of model selection procedures, including the Chow test, Hausman test, and Lagrange Multiplier (LM) test, which indicated that the Common Effect Model was the most appropriate specification for the data. The estimated results of the panel data regression are presented in Table 6.

Table 6.
Panel Data Regression Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.160168	0.048331	-3.313977	0.0011
ROA	0.077492	0.033818	2.291449	0.0232
DER	0.011648	0.003571	3.261519	0.0013
AKO	-0.042494	0.030752	-1.381818	0.1688
SIZE	-0.004782	0.002566	-1.863565	0.0641

Source: Authors' calculations using EViews 12 (2026).

Based on Table 6, the estimated panel data regression equation is as follows:

$$Y = -0.160168 + 0.077492ROA + 0.011648DER - 0.042494OCF - 0.004782SIZE$$

The regression equation can be interpreted as follows:

a) The constant value of −0.160168 indicates that when profitability (ROA), leverage (DER), operating cash flow (OCF), and firm size (SIZE) are assumed to be constant or equal to zero, the value of tax avoidance, as proxied by the Effective Tax Rate (ETR), is −0.160168.
b) The regression coefficient for profitability (ROA) is 0.077492, indicating that a one-unit increase in profitability is associated with a 0.077492-unit increase in tax avoidance, assuming all other variables remain constant. Conversely, a one-unit decrease in profitability is associated with a 0.077492-unit decrease in tax avoidance.
c) The regression coefficient for leverage (DER) is 0.011648, indicating that a one-unit increase in leverage is associated with a 0.011648-unit increase in tax avoidance, holding all other variables constant. Likewise, a one-unit decrease in leverage is associated with a 0.011648-unit decrease in tax avoidance.

DANADYAKSA
POST MODERN ECONOMY JOURNAL
Vol. 4 No. 1, (2026), 768–788 **e-ISSN: 3025-8545**

d) The regression coefficient for operating cash flow (OCF) is −0.042494, indicating that a one-unit increase in operating cash flow is associated with a 0.042494-unit decrease in tax avoidance, assuming the other variables remain constant.
e) The regression coefficient for firm size (SIZE) is −0.004782, indicating that a one-unit increase in firm size is associated with a 0.004782-unit decrease in tax avoidance, ceteris paribus.

Hypothesis Testing

a. t-Test

Table 7.
Results of the t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.160168	0.048331	-3.313977	0.0011
ROA	0.077492	0.033818	2.291449	0.0232
DER	0.011648	0.003571	3.261519	0.0013
AKO	-0.042494	0.030752	-1.381818	0.1688
SIZE	-0.004782	0.002566	-1.863565	0.0641

Source: *Authors' calculations using EViews 12 (2026).*

1. Effect of Profitability (ROA) on Tax Avoidance

The test results indicate that the profitability (ROA) variable has a t-statistic of 2.291449 and a probability value of 0.0232, which is lower than the 0.05 significance level. Therefore, profitability has a positive and statistically significant effect on tax avoidance. This finding suggests that companies with higher profitability tend to have stronger incentives to engage in tax planning strategies to minimize their tax burden.

2. Effect of Leverage (DER) on Tax Avoidance

The results show that the leverage (DER) variable has a t-statistic of 3.261519 and a probability value of 0.0013, which is below the 0.05 significance level. Thus, leverage has a positive and statistically significant effect on tax avoidance. This finding indicates that firms with higher debt levels are more likely to engage in tax avoidance practices due to the tax shield benefits generated by interest expenses.

3. Effect of Operating Cash Flow (OCF) on Tax Avoidance

The test results indicate that the operating cash flow (OCF) variable has a t-statistic of −1.381818 and a probability value of 0.1688, which exceeds the 0.05 significance level. Therefore, operating cash flow does not have a statistically significant effect on tax avoidance. This finding suggests that a firm's operating cash flow condition does not significantly influence its decision to engage in tax avoidance practices.

4. Effect of Firm Size (SIZE) on Tax Avoidance

The results indicate that the firm size (SIZE) variable has a t-statistic of −1.863565 and a

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

probability value of 0.0641, which is greater than the 0.05 significance level. Accordingly, firm size does not have a statistically significant effect on tax avoidance. This finding implies that the size of a company does not significantly determine the extent to which it engages in tax avoidance practices.

b. F-Test

Table 8.
Results of the F-Test

R-squared	0.077206	Mean dependent var	-1.474355
Adjusted R-squared	0.055493	S.D. dependent var	2.086951
S.E. of regression	0.334002	Sum squared resid	18.96472
F-statistic	3.555792	Durbin-Watson stat	1.761590
Prob(F-statistic)	0.008176		

Source: *Authors' calculations using EViews 12 (2026).*

The simultaneous significance test (F-test) was conducted to examine whether the independent variables jointly affect the dependent variable. Based on the results presented in Table 8, the probability value of the F-statistic is 0.008176, which is lower than the 5% significance level (0.05). This result indicates that profitability (ROA), leverage (DER), operating cash flow (OCF), and firm size (SIZE) jointly have a statistically significant effect on the Effective Tax Rate (ETR).

b. Coefficient of Determination (R^2) Test

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

R-squared	0.028519	Mean dependent var	-0.235596
Sum squared resid	22.73939	Durbin-Watson stat	2.139446

Source: EViews 12 output

The R-squared value obtained from the data processing results in Table 9 is 0.077206. This value indicates that the variables ROA, DER, AKO, and SIZE are only able to explain 7.72% of the variation in the dependent variable. Meanwhile, the remaining 92.28% is explained by other variables that are not included in the regression model of this study.

c. Moderation Analysis Results

The next step is to conduct a moderation test to determine whether institutional ownership plays a significant role in moderating the relationship between profitability, leverage, operating cash flow, and firm size on tax avoidance.

Vol. 4 No. 1, (2026), 768–788 **e-ISSN: 3025-8545**

Table 10.
Results of the Moderation Analysis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.136643	0.040170	-3.401580	0.0008
ROA	1.581849	0.168750	9.373914	0.0000
DER	-0.053969	0.035715	-1.511113	0.1327
AKO	-0.194808	0.093328	-2.087349	0.0384
SIZE	0.002300	0.003038	0.757074	0.4501
ROAZ	6.855153	0.746860	9.178634	0.0000
DERZ	0.085853	0.043847	1.958023	0.0519
AKOZ	0.244610	0.111090	2.201901	0.0291
SIZEZ	-0.010204	0.002727	-3.742067	0.0003

Source: EViews 12 output

$Y = -0.160168 + 0.077492X1 + 0.011648X2 - 0.042494X3 - 0.004782X4$

Based on the table, it can be observed that:

a) Institutional ownership is significant as a moderating variable in the relationship between ROA and ETR, with a probability value of $0.0000 < 0.05$.
b) Institutional ownership is not significant as a moderating variable in the relationship between DER and ETR, with a probability value of $0.5119 > 0.05$.
c) Institutional ownership is significant as a moderating variable in the relationship between AKO and ETR, with a probability value of $0.0291 < 0.05$.
d) Institutional ownership is significant as a moderating variable in the relationship between SIZE and ETR, with a probability value of $0.0003 < 0.05$.

Effect of Profitability on Tax Avoidance

The results show that profitability has a positive and significant effect on tax avoidance. This finding indicates that a company's ability to generate profits is related to its tax burden management strategies (Lia Nirawati et al., 2022). Companies with higher levels of profitability tend to have stronger incentives to engage in tax planning, because the higher the profit earned, the greater the potential tax burden that must be borne. Therefore, management is encouraged to optimize tax strategies in order to minimize tax liabilities and maintain after-tax financial performance (Bayu Pasupati, 2020). From an agency theory perspective, tax avoidance practices can be explained by conflicts of interest between managers as agents and company owners as principals. Managers have incentives to improve after-tax financial performance because it is often used as a basis for evaluation and compensation. Therefore, managers may be encouraged to make more aggressive tax decisions (Stefany Tjung & Khairudin, 2024). This finding is consistent with Ismiani & Endang (2020) and Siti & Mariyam (2025), which state that profitability has a positive relationship with tax avoidance. However, it is not consistent with Gultom (2021) and Wardoyo et al. (2022), which found a negative relationship. These differences may be caused by variations in research periods, applicable tax regulations, and industry characteristics.

Effect of Leverage on Tax Avoidance

The results show that leverage has a positive and significant effect on tax avoidance. This

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

indicates that a company's capital structure, which relies more on debt, is related to its tax liability management strategy (Ali Jamaludin, 2020). The use of debt has fiscal consequences because interest expenses can be treated as tax-deductible expenses. Therefore, companies can utilize debt structure not only as a financing source but also as a tax planning instrument to reduce tax burdens (Adityarahman Pamungkas, 2021). From an agency theory perspective, management's decision to increase debt usage can be understood as an effort to maximize firm value and shareholder welfare through tax efficiency (Isnaini et al., 2024). However, this strategy also has the potential to increase financial risk and create conflicts of interest between managers and owners. Therefore, leverage-based tax planning must be managed carefully to avoid long-term risks (Sari et al., 2023). This finding is consistent with Geovani & Lorina (2022), but not fully aligned with Pasaribu & Mulyani (2020) and Ainniyya et al. (2021), which found that leverage has no significant effect on tax avoidance.

Effect of Operating Cash Flow on Tax Avoidance

The results show that operating cash flow has a negative but not significant effect on tax avoidance. Thus, operating cash flow cannot be considered a key factor in explaining corporate tax avoidance practices (Restiani & Desi Jelanti, 2024). Companies with high operating cash flows indeed have greater financial flexibility to support tax planning strategies. However, the non-significant effect indicates that cash availability is not always the main consideration in tax avoidance decisions (Wardani & Nugrahanto, 2022). Tax avoidance strategies are more likely influenced by managerial policies, tax compliance risk levels, and corporate monitoring mechanisms. From an agency theory perspective, this result shows that although managers have liquidity flexibility, tax avoidance actions are still constrained by monitoring mechanisms and principals' interests in maintaining reputation and sustainability. This finding is consistent with Nurmalina (2023) and Aryanti & Handayani (2024), but differs from Arianto Taliding et al. (2022) and Andre & Fitri (2020), which found a negative effect.

Effect of Firm Size on Tax Avoidance

The results show that firm size has a negative but not significant effect on tax avoidance. This indicates that the size of a company does not directly determine the level of tax avoidance practices (Rahayu, 2020). Large companies generally have more resources, more complex operations, and greater capacity for tax planning. However, they also face stricter scrutiny from regulators, investors, and the public. Therefore, firm size does not necessarily lead to more aggressive tax avoidance (Anggita, 2023). From an agency theory perspective, stronger monitoring mechanisms in large firms may limit managerial discretion in tax avoidance. Strong supervision is needed to protect owners' interests and maintain corporate reputation (Amrullah & Sekar Mayangsari, 2024). This finding is supported by Jayanti et al. (2021) and Norisa et al. (2022), but differs from Ainniyya et al. (2021) and Partiwi et al. (2022).

Institutional Ownership Moderates the Effect of Profitability on Tax Avoidance

The results show that institutional ownership is able to moderate the relationship between profitability and tax avoidance. This indicates that the presence of institutional investors strengthens monitoring over management, particularly in highly profitable firms (Adelia et al., 2023). When profitability increases, companies have stronger incentives to engage in tax planning. However, institutional ownership can limit managerial opportunistic behavior to prevent aggressive tax avoidance (Safitri & Arifin, 2023). From an agency theory perspective, institutional

Vol. 4 No. 1, (2026), 768–788 **e-ISSN: 3025-8545**

ownership reduces conflicts between managers and shareholders through stricter monitoring. Institutional investors have the capacity and incentive to ensure that managerial decisions align with shareholder interests and do not create excessive tax compliance risks (Florencia, 2022). This finding is consistent with Prasatya et al. (2020), Rosandi (2022), and Jumailah (2020).

Institutional Ownership Moderates the Effect of Leverage on Tax Avoidance

The results show that institutional ownership is not able to moderate the relationship between leverage and tax avoidance. This indicates that institutional investors are not strong enough to influence the relationship between corporate debt structure and tax avoidance practices (Jumailah, 2020). Although leverage can be used as a tax-saving instrument through interest expenses, institutional ownership does not significantly restrict its use for tax avoidance purposes (Rahmadhani & Lastanti, 2024). From an agency theory perspective, institutional investors act as a monitoring mechanism to reduce managerial opportunism. However, this role is not always effective in the context of leverage (Abdurrosyid & Damayanti, 2023). This may be due to capital structure characteristics, creditor pressure, or varying institutional investor orientations. Thus, institutional ownership does not significantly weaken or strengthen the leverage–tax avoidance relationship.

Institutional Ownership Moderates the Effect of Operating Cash Flow on Tax Avoidance

The results show that institutional ownership is able to moderate the relationship between operating cash flow and tax avoidance. This indicates that institutional investors influence how firms use operating cash flow in tax decision-making (Hazmi & Firmansyah, 2024). When institutional ownership is higher, operating cash flow management tends to be more cautious and controlled, including in tax planning strategies (Siti & Mariyam, 2025). This finding suggests that institutional ownership functions not only as a governance mechanism but also directs financial policies toward prudence (Oktavia Erlin et al., 2023). Stronger supervision encourages management to use cash flow more efficiently without increasing tax compliance risk (Agnes & Kinasih, 2021). From an agency theory perspective, higher institutional ownership reduces information asymmetry and limits managerial opportunistic behavior in financial decisions, including taxation decisions (Lestari et al., 2023). This finding is consistent with Abdurrosyid & Damayanti (2023) and Hazmi & Firmansyah (2024).

Institutional Ownership Moderates the Effect of Firm Size on Tax Avoidance

The results show that institutional ownership is able to moderate the relationship between firm size and tax avoidance. This indicates that large firms with higher institutional ownership tend to receive stronger monitoring from institutional investors (Rananda, 2023). Such supervision limits managerial discretion in engaging in aggressive tax avoidance. Although large firms have resources and operational complexity that enable tax planning strategies, institutional investors can suppress such behavior through intensive monitoring functions (Pratomo & Nuraulia, 2021). From an agency theory perspective, institutional ownership serves as an effective monitoring mechanism to reduce conflicts between managers and shareholders. With such oversight, tax decisions in large firms tend to be more conservative and compliance-oriented. This finding is consistent with Lestari et al. (2023), Hitijahubessy et al. (2022), and Indira et al. (2024).

Vol. 4 No. 1, (2026), 768–788 e-ISSN: 3025-8545

CONCLUSION

The results show that profitability and leverage have a positive and significant effect on tax avoidance, while operating cash flow and firm size have a negative and insignificant effect. Institutional ownership strengthens most relationships except leverage. The study supports Agency Theory by showing that higher profitability and leverage increase managerial opportunistic behavior, while strong cash flow and larger firms tend to limit tax avoidance due to stronger monitoring. Practically, firms should manage profitability and leverage carefully to reduce tax risks, while investors, regulators, and tax authorities should strengthen monitoring and supervision. Future research should expand samples, use alternative tax avoidance measures, and include broader governance variables for more comprehensive results.

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