

Determinants of Tax Avoidance: The Role of Tax Disclosure and Firm Characteristics (Empirical Study on LQ45-Listed Firms on the Indonesia Stock Exchange, 2022–2024)

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ABSTRACT

Tax disclosure has emerged as a mechanism through which firms signal accountability for their tax positions, yet whether it constrains or merely accompanies corporate tax avoidance remains unsettled in emerging markets. Drawing on Legitimacy Theory and Agency Theory, this study examines the effect of GRI 207 tax disclosure and four firm characteristics (profitability, leverage, growth opportunity, and firm size) on corporate tax avoidance among LQ45-listed firms on the Indonesia Stock Exchange. Using a Fixed Effects panel regression on 87 firm-year observations (29 firms, 2022–2024), with tax disclosure hand-scored through content analysis against the GRI 207 index and tax avoidance proxied by the Effective Tax Rate, the results show that GRI 207 disclosure has no significant effect on tax avoidance. Instead, profitability significantly increases tax avoidance while leverage is associated with more, rather than less, aggressive tax positions; growth opportunity and firm size show no independent effect. Jointly, however, all variables significantly explain variation in tax avoidance, indicating that internal financial characteristics outweigh voluntary disclosure as drivers of tax behaviour among Indonesia's blue-chip firms

INTRODUCTION

Indonesia's tax-to-GDP ratio remains persistently low relative to regional and OECD benchmarks, a shortfall that limits the government's capacity to fund public services and constrains the case for continued reliance on voluntary corporate tax transparency. A nationally representative survey by Hoy et al. (2024) found that roughly a quarter of formal Indonesian firms indirectly admitted to tax evasion, with the share rising among firms that perceive tax administration as burdensome. Although tax avoidance operates within the bounds of the law, in contrast to evasion, the boundary between the two is frequently blurred in practice, and the Directorate General of Taxes has reported persistent accumulation of tax receivables arising from underpayment (Hindayati et al., 2024).

The LQ45 index, comprising the forty-five most liquid and highly capitalised firms on the Indonesia Stock Exchange, offers a particularly informative setting for this question. Because LQ45 membership spans banking, consumer goods, energy, telecommunications, property, and industrial sectors, constituent firms are subject to differing regulatory regimes even as they share the high visibility that index membership confers. Pratama and Efendi (2025) found that financial institutions exhibit greater tax avoidance aggressiveness than non-financial firms, raising the question of whether the disclosure-avoidance relationship holds consistently across a cross-sector, blue-chip sample. At the same time, the heightened public and regulatory scrutiny that large, prominent firms attract may act as a countervailing force against aggressive tax positions.

Against this backdrop, tax disclosure has become a central mechanism through which stakeholders assess the integrity of a firm's tax practices. The adoption of GRI Standard 207 on tax transparency has encouraged Indonesian listed companies to provide more comprehensive voluntary disclosure of their tax strategy, governance, and country-by-country activity (Aulia, 2024). Evidence on whether disclosure actually constrains avoidance is mixed: Hajawiyah et al. (2024), studying 215 non-financial IDX-listed firms, found that more aggressive tax positions were associated with less forthcoming tax reporting, while Stiglingh et al. (2022) found that greater tax transparency among South African JSE-listed firms was associated with higher effective tax rates. Alsaadi (2020), by contrast, found that CSR disclosure was positively associated with tax avoidance among European firms, particularly where financial-tax reporting conformity was low – evidence consistent with disclosure functioning as a reputational shield rather than a genuine constraint.

Beyond disclosure, firm-specific characteristics shape the managerial incentives and constraints surrounding tax planning. Firms with strong growth opportunities typically hold more intangible assets and investment flexibility that generate tax-planning latitude (Machdar, 2022); leverage creates a tax incentive through the deductibility of interest expense; profitability determines both the capacity and the incentive to engage in tax planning; and market capitalisation, as a proxy for size and visibility, is theorised to expose firms to political, agency, and legitimacy pressures that constrain aggressive avoidance.

Whether these characteristics operate jointly with, or independently of, voluntary tax disclosure has not been systematically examined for a cross-sector, blue-chip Indonesian sample. This study addresses that gap by jointly testing GRI 207 tax disclosure and four firm characteristics – profitability, leverage, growth opportunity (market-to-book value), and firm size (market capitalisation) – as determinants of corporate tax avoidance among LQ45-listed firms on the Indonesia Stock Exchange over 2022–2024, drawing on Legitimacy Theory and Agency Theory as complementary theoretical lenses.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy Theory explains why firms strive to align their conduct with the expectations, norms, and values of the society in which they operate. Suchman (1995) frames this relationship as a social contract: society permits a firm to continue operating only as long as its actions are perceived as appropriate. Because legitimacy is socially constructed rather than permanent, firms facing a legitimacy threat may respond by genuinely altering their behaviour or by managing stakeholder perceptions, including through voluntary disclosure (Deegan, 2002; O'Donovan, 2002). Applied to taxation, companies perceived as paying insufficient tax may face reputational risk, giving managers an incentive to disclose tax strategy, governance, and payments as a signal of responsible conduct (Hardeck et al., 2023). However, disclosure and legitimacy are not necessarily aligned: disclosure may be used strategically to manage perceptions rather than to reflect a complete account of a firm's tax position (Overesch & Wolff, 2021), meaning that higher disclosure does not automatically imply lower avoidance.

Agency Theory

Agency Theory complements this view by explaining the role of governance in constraining managerial opportunism. Jensen and Meckling (1976) describe the agency relationship as a contract between principals and agents in which information asymmetry creates the potential for managers to pursue their own interests at shareholders' expense. Tax planning decisions involve considerable managerial discretion: aggressive strategies can raise after-tax profit but expose the firm to regulatory penalty and reputational cost. Larger, more visible firms typically face higher agency costs and correspondingly greater incentives to provide voluntary disclosure that reduces information asymmetry and constrains managerial discretion (Jensen & Meckling, 1976).

Tax Avoidance and Tax Disclosure

Tax avoidance refers to the legal structuring of a taxpayer's operations to reduce tax liability by exploiting gaps, ambiguities, and cross-jurisdictional variation in tax treatment, in contrast to the illegal misrepresentation of income that characterises evasion (Hanlon & Heitzman, 2010). Because avoidance cannot be observed directly, researchers commonly proxy it using the Effective Tax Rate (ETR), the Cash ETR, or Book-Tax Differences, each with known limitations (Hanlon & Heitzman, 2010). Tax disclosure, meanwhile, has moved beyond a

purely technical accounting matter into a subject discussed alongside corporate responsibility and sustainability (Müller et al., 2020). GRI 207: Tax, introduced in 2019, provides a structured basis for evaluating tax transparency across four components – approach to tax, tax governance and risk management, stakeholder engagement, and country-by-country reporting – offering greater comparability than the content-analysis approaches used in earlier disclosure research (Global Sustainability Standards Board, 2019).

Hypothesis Development

From a Legitimacy Theory perspective, firms disclose tax information to demonstrate adherence to social expectations, which should constrain aggressive tax planning that could threaten legitimacy. Consistent with this, Stiglingh et al. (2022) and Rudyanto (2025) find that GRI 207-based disclosure is associated with lower tax avoidance. However, Alsaadi (2020) documents the opposite pattern for CSR disclosure among European firms, and Hajawiyah et al. (2024) find that more aggressive Indonesian firms disclose less – a reversed causal direction that likewise implies a negative disclosure–avoidance association. On balance:

H1: Tax disclosure negatively influences the level of corporate tax avoidance.

Agency Theory suggests that as profitability rises, so does the potential tax burden, strengthening managers' incentive to pursue tax planning that protects after-tax shareholder returns (Jensen & Meckling, 1976).

H2: Return on assets positively influences the level of corporate tax avoidance.

Because interest expense is tax-deductible, higher leverage is theorised to lower taxable income through the interest tax shield, an effect reinforced by agency pressure from creditor monitoring (Jensen & Meckling, 1976).

H3: Leverage positively influences the level of corporate tax avoidance.

Firms with higher market-to-book ratios typically hold greater growth opportunities and intangible assets, which afford tax-planning flexibility through accelerated depreciation and investment allowances (Machdar, 2022).

H4: Market-to-book value positively influences the level of corporate tax avoidance.

Larger, more visible firms are theorised to face stronger governance oversight, analyst scrutiny, and reputational exposure, constraining aggressive tax positions (Jensen & Meckling, 1976).

H5: Market capitalisation positively influences the level of corporate tax avoidance.

Because tax disclosure and firm characteristics jointly shape managerial incentives around tax planning rather than operating in isolation (Stiglingh et al., 2022; Rudyanto, 2025):

H6: The independent variables simultaneously have a significant effect on corporate tax avoidance.

METHODOLOGY

This study uses a quantitative, explanatory design based on panel data regression. The dependent variable, tax avoidance, is proxied by the Current Effective Tax Rate (current tax expense divided by pre-tax income); a lower ETR

indicates a higher level of tax avoidance. Tax disclosure, the primary independent variable, was constructed through content analysis of annual and sustainability reports against the nine indicators of the GRI 207: Tax (2019) standard, scored on a three-point scale (0 = not disclosed, 1 = partially disclosed, 2 = fully disclosed) and expressed as a percentage of the maximum attainable score. The four firm-characteristic variables were measured as follows: return on assets (net income / total assets), leverage (total liabilities / total assets), market-to-book value (market value of equity / book value of equity), and market capitalisation (natural logarithm of share price × shares outstanding), following Stiglingh et al. (2022) and Rudyanto (2025).

The population comprises firms consistently listed on the LQ45 index of the Indonesia Stock Exchange during 2022–2024. Purposive sampling was applied using four criteria: continuous LQ45 listing over the period; accessible annual and sustainability reports; explicit adoption of GRI Standards in sustainability reporting; and positive pre-tax income throughout the period (firms with negative pre-tax income were excluded because a negative denominator distorts the ETR). Of 33 firms with consistent LQ45 listing, four were excluded for inaccessible reports or negative pre-tax income, yielding a final sample of 29 firms and 87 firm-year observations.

Model selection followed the standard sequential procedure for panel data – the Chow test to choose between the Common Effect Model and the Fixed Effects Model, and the Hausman test to choose between the Fixed Effects Model and the Random Effects Model (Baltagi, 2005; Widarjono, 2007). Both tests favoured the Fixed Effects Model (FEM), which was adopted for hypothesis testing. Classical assumption checks (normality, multicollinearity, heteroscedasticity, and autocorrelation) were performed following Ghazali (2018) prior to interpreting the regression output. The estimated model is specified as:

$$TA_{it} = \alpha + \beta_1 TD_{it} + \beta_2 ROA_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 MTB_{it} + \varepsilon_{it}$$

where TA is tax avoidance (ETR), TD is tax disclosure, ROA is return on assets, LEV is leverage, SIZE is market capitalisation, and MTB is market-to-book value, for firm *i* in year *t*. Hypotheses were tested using the F-test (simultaneous significance), the t-test (partial significance, $\alpha = 0.05$), and the adjusted R^2 (explanatory power).

RESERCH RESULTS

Descriptive statistics for the 87 firm-year observations are summarised in Table 1. The mean ETR of 15.75% is below Indonesia's 22% statutory corporate tax rate, and its near-symmetric distribution (skewness -0.18) suggests reasonably consistent tax positions across the sample. Mean tax disclosure of 58.7% indicates that LQ45 firms disclose slightly more than half of the GRI 207 indicators on average, with disclosure ranging from 27.8% to 94.4%. ROA and leverage are both strongly right-skewed, reflecting a small number of high-performing and highly leveraged outliers within the sample.

Table 1. Descriptive Statistics (n = 87)

Variable	Mean	Median	Std. Dev.	Min	Max
TA (ETR)	0.1575	0.1929	0.1058	0.0000	0.4252
TD (GRI 207)	0.5868	0.5556	0.2128	0.2778	0.9444
ROA	0.0968	0.0566	0.1869	0.0009	1.6368
LEV	0.5280	0.4559	0.4114	0.0308	3.6279
SIZE (ln MC)	31.9262	31.7661	1.1237	29.6039	34.7150
MTB	2.0528	1.4659	1.7067	0.3592	9.5931

Source: Data processed using EViews 13, 2026.

Model selection tests confirmed the Fixed Effects Model as most appropriate: the Chow test rejected the Common Effect Model (Cross-section $F = 8.73$, $p = 0.000$), and the Hausman test rejected the Random Effects Model ($\chi^2 = 20.80$, $p = 0.0009$) in favour of FEM. Classical assumption checks indicated no multicollinearity (all pairwise correlations below 0.70), no heteroscedasticity (Glejser test, all $p > 0.05$), and no autocorrelation (Durbin-Watson = 2.47, within the acceptable 1.5–2.5 range); residual non-normality (Jarque-Bera $p = 0.000$) was not treated as disqualifying given the sample size of 87, consistent with the Central Limit Theorem (Ghasemi & Zahediasl, 2012).

Table 2. Fixed Effects Panel Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.2622	1.3574	-0.9298	0.3567
TD	0.0642	0.0583	1.1015	0.2757
ROA	0.3771	0.1316	2.8642	0.0060*
LEV	-0.1648	0.0610	-2.6995	0.0093*
SIZE	-0.0444	0.0430	-1.0311	0.3071
MTB	0.0053	0.0163	0.3291	0.7434

Source: Data processed using EViews 13, 2026. Adjusted $R^2 = 0.7703$; F -statistic = 9.7425 ($p = 0.0000$); Durbin-Watson = 2.4661. *significant at 5%. Note: because ETR is inversely related to tax avoidance, coefficient signs are reversed when interpreted in terms of tax avoidance (e.g., the negative LEV coefficient on ETR corresponds to a positive effect on tax avoidance).

The model explains a substantial share of variation in tax avoidance (adjusted $R^2 = 0.77$), and the independent variables are jointly significant ($F = 9.74$, $p = 0.000$), supporting H6. At the individual level, only ROA and leverage are statistically significant. ROA has a significant positive coefficient on ETR ($p = 0.006$), indicating that more profitable firms report higher effective tax rates – i.e., lower tax avoidance is not supported; rather, in terms of avoidance, higher profitability is associated with greater tax avoidance, supporting H2. Leverage has a significant negative coefficient on ETR ($p = 0.009$), meaning higher leverage

is associated with a lower effective tax rate and thus greater tax avoidance; because H3 had predicted this direction for avoidance via the interest tax shield, this result is consistent with H3 being supported, though the underlying mechanism (discussed below) differs from the conventional shield explanation. Tax disclosure ($p = 0.276$), firm size ($p = 0.307$), and market-to-book value ($p = 0.743$) are not statistically significant, so H1, H4, and H5 are not supported.

DISCUSSION

The insignificant effect of GRI 207 tax disclosure is directionally consistent with a “legitimation shield” interpretation of Legitimacy Theory: firms may use comprehensive voluntary disclosure to project transparency and manage stakeholder perceptions while their underlying tax position is shaped by other factors. This pattern echoes Alsaadi (2020), who found CSR disclosure positively associated with tax avoidance among European firms, particularly where financial-tax reporting conformity was low, and stands in partial contrast with Stiglingh et al. (2022), who found that greater tax transparency was associated with higher effective tax rates among South African firms. The lack of significance in the present sample is also plausibly linked to a structural feature of the data: a high frequency of firm-years with very low current tax expense, likely reflecting Indonesian tax incentives, which compresses variation in ETR and reduces the model's power to detect a linear disclosure effect.

The significant, positive effect of profitability on tax avoidance is consistent with Agency Theory: as profitability rises, so does the potential tax burden, strengthening managerial incentives to pursue legitimate tax-planning avenues that protect after-tax shareholder value. This finding aligns with the broader use of profitability as a robust firm-level determinant in related studies (Rudyanto, 2025; Stiglingh et al., 2022).

The finding that higher leverage is associated with greater tax avoidance runs counter to the conventional interest-tax-shield logic, which would predict the opposite once creditor monitoring is considered, and diverges from Stiglingh et al. (2022) and Rudyanto (2025), who both found leverage statistically insignificant in comparable models. A plausible institutional explanation is that Indonesia's thin-capitalisation rule (Minister of Finance Regulation No. 169/PMK.010/2015), which caps the debt-to-equity ratio eligible for interest deductibility, together with OJK prudential capital requirements for financial constituents, may push heavily leveraged LQ45 firms toward tax-minimising positions that are distinct from a straightforward interest-shield mechanism. This divergence from prior non-LQ45 samples suggests that leverage-related tax behaviour may be sector- and regulation-contingent rather than universal.

The insignificant effects of market-to-book value and market capitalisation suggest that, among LQ45 constituents, growth opportunities are already priced into stable valuations rather than translated into aggressive investment-linked tax planning, and that size-related governance scrutiny, while directionally consistent with Agency Theory, is not strong enough on its own to produce a statistically distinguishable effect – a result that parallels the insignificant firm-size coefficient reported by Stiglingh et al. (2022). Taken together, the significant

joint effect alongside limited individual significance indicates that tax avoidance among Indonesia's blue-chip firms is a multidimensional outcome best explained by the interaction of firm characteristics rather than by any single determinant, with internal financial dynamics – profitability and capital structure – emerging as more decisive than external transparency signals in this setting.

CONCLUSIONS AND RECOMMENDATIONS

This study finds that GRI 207 tax disclosure does not significantly constrain corporate tax avoidance among LQ45-listed firms, consistent with disclosure functioning, at least in part, as a legitimacy-management tool rather than a substantive behavioural constraint. Profitability significantly increases tax avoidance, and leverage is associated with greater, rather than lesser, tax avoidance, a pattern plausibly linked to Indonesia's thin-capitalisation and prudential regulatory environment. Growth opportunity and firm size show no significant independent effect, though all five variables jointly explain a substantial share of variation in tax avoidance.

For regulators such as the Directorate General of Taxes and the Financial Services Authority (OJK), the results suggest that voluntary GRI 207 adoption alone is unlikely to meaningfully curb tax avoidance among large, high-visibility firms, and that supervisory attention may be better directed toward profitability- and leverage-linked tax planning. For firms, the findings indicate that voluntary tax transparency should be paired with substantive tax governance rather than treated as a stand-alone accountability mechanism if it is to influence actual tax outcomes and investor trust.

FURTHER RESEARCH

This study is limited by an observation window constrained to 2022–2024, the earliest period for which GRI 207-based disclosure data are consistently available; by macroeconomic and regulatory conditions specific to this period that could not be isolated from the model; and by the manual, judgment-involving nature of content-analysis-based disclosure scoring. Future research could extend the observation period as GRI 207 adoption matures, replicate the model across other emerging markets to test institutional sensitivity, employ alternative tax avoidance proxies such as Cash ETR or Book-Tax Differences to triangulate the findings, and incorporate additional governance-related variables such as board independence, audit committee effectiveness, and institutional ownership concentration.

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