

Determinants of Tax Avoidance in the Indonesian Chemicals Sub-Sector: The Moderating Role of Firm Size

Muhamad Rafly¹, Richad Alamsyah²

¹Institut Bisnis dan Informatika Kesatuan, Indonesia; 1raflymuha18@gmail.com; ²Institut Bisnis dan Informatika Kesatuan, Indonesia; 2alamsyah.richad@ibik.ac.id;

Background: Taxes play a crucial role as the main source of national development financing and as an essential instrument in achieving economic stability. However, despite the steady increase in Indonesia's tax revenue, the country's tax-to-GDP ratio remains relatively low compared to other ASEAN nations. This gap indicates the persistence of corporate tax avoidance practices. The chemicals sub-sector within the basic materials industry presents an interesting case due to its operational complexity, high capital intensity, and cross-border transactions that may facilitate such practices.

Purpose: This study aims to examine the influence of transfer pricing, capital intensity, and institutional ownership on tax avoidance, as well as to investigate the moderating effect of firm size on these relationships. The research seeks to provide empirical evidence on the determinants of tax avoidance and contribute to the ongoing discussion on how firm characteristics shape corporate tax behavior.

Methodology: A quantitative research approach was employed using secondary data derived from the annual financial statements of chemical sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024. The final sample consisted of 45 firm-year observations obtained through a purposive sampling technique. Data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA) with the assistance of EViews software to examine both direct and moderating effects.

Finding: The findings reveal that transfer pricing has no significant effect on tax avoidance, while capital intensity exerts a positive influence, and institutional ownership has a negative effect. Furthermore, firm size moderates only the relationship between capital intensity and tax avoidance. These results suggest that larger firms with greater investment in fixed assets tend to engage more in tax avoidance practices, whereas strong institutional ownership mitigates such behavior through enhanced monitoring and governance mechanisms.

Limitation: The study is limited by the use of quantitative secondary data and financial indicators, which may not fully capture behavioral or managerial aspects influencing tax avoidance. In addition, potential macroeconomic or regulatory factors were not explicitly included in the analysis, leaving room for future research to integrate broader environmental and policy dimensions.

Originality: This research extends prior studies by integrating firm size as a moderating variable in examining the relationship between firm characteristics and tax avoidance, particularly in the chemical sub-sector an industry that has received limited scholarly attention in Indonesia. The study provides new empirical insights into how capital intensity and institutional ownership interact with firm size to influence corporate tax strategies, offering valuable implications for policymakers and regulators in designing more effective tax compliance frameworks.

Keywords: Capital Intensity, Firm Size, Institutional Ownership, Tax Avoidance, Transfer Pricing