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Capital Intensity, Firm Size, Leverage, and Tax Avoidance: Moderating Role of Audit Quality

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Abstract

Purpose – This study aims to analyze the effect of capital intensity, firm size, and leverage on tax avoidance, with audit quality as a moderating variable in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange for the period 2018-2024.
Design/Methodology/Approach – The data used in this study is secondary data obtained from financial reports. The population in this study is 66 companies, and the sampling technique used is purposive sampling, so the sample in this study is 34 companies. The analysis used in this study is multiple linear regression and moderated regression analysis (MRA).
Findings – The results of this study partially indicate that capital intensity, firm size, and leverage have no effect on tax avoidance. Meanwhile, audit quality weakens the positive relationship between capital intensity and tax avoidance. On the other hand, audit quality does not moderate the relationship between firm size and tax avoidance. In addition, audit quality strengthens the positive relationship between leverage and tax avoidance.

Research limitations/Implications – This study has implications for policymakers and other stakeholders in ensuring that companies fulfill their tax obligations and demonstrate greater accountability.

Keywords: Audit Quality, Capital Intensity, Firm Size, Leverage, Tax Avoidance

Introduction

Governments rely on corporate tax as a major source of income to pay for things like public infrastructure, healthcare, education, and other important services (Andrejovská & Glova, 2025). Companies do use a lot of different financial tools and organisational traits to lawfully lower their tax bills, nevertheless (Norris & Lima, 2023). In developing economies like Indonesia, these behaviours have a big effect on government revenue and fiscal sustainability, which has gotten a lot of attention from researchers and regulators (Ogneru & Stancu, 2020; Khuong et al., 2020).

Prior studies indicate that many firm attributes, including capital intensity, firm size, and leverage, significantly influence corporate tax avoidance. Companies with substantial capital can employ depreciation expenses and asset assessment techniques to reduce their taxable income (Kim et al., 2022). Firms with significant capital requirements have a large amount of fixed assets and allocate resources to property, plant, and equipment, allowing them to apply larger depreciation deductions. By allocating the cost of an asset over its useful life, these deductions reduce taxable income. Firms can minimize their taxable income by utilizing asset valuation and appraisal techniques, including accelerated depreciation or asset revaluation (Hossain et al., 2024). Capital-intensive firms rely on external resources and therefore modify their financial statements to attract investors by showing reduced tax liabilities and increased financial stability (Rodríguez et al., 2021).

Larger firms have greater resources and more complex operations, which may allow them the opportunity to organize strategic finances. As a result, their tax avoidance practices tend to be more aggressive and systematic (Rizqia & Lastiati, 2021; Lungu et al., 2023). According to agency theory, larger firms may experience higher agency conflicts due to the separation of ownership and control, which causes managers to pursue tax avoidance strategies that benefit managerial interests rather than shareholder interests (Ahmed et al., 2023).

Leverage can influence tax avoidance because interest payments on debt are tax deductible, potentially encouraging firms to finance operations through debt to reduce their tax liabilities (Akinleye et al., 2019). Companies with substantial debt may diminish their corporate tax liabilities by maximising interest

deductions. Excessive debt may increase the company's financial risk and reduce its overall stability (Faulkender & Smith, 2016). Signalling theory suggests that companies with significant debt may demonstrate assurance in their future cash flows and profitability, making debt a beneficial financing approach that avoids tax obligations (Wongsinhirun et al., 2024).

The role of audit quality as a moderator is not well understood, especially in Indonesia, although the relationship has been extensively studied. Audit firms with good reputations and rigorous audit practices demonstrate superior audit quality. Improved audit quality is expected to make tax avoidance more difficult by increasing financial transparency and ensuring regulatory compliance (Rizqia & Lastiati, 2021; Lungu et al., 2023). Understanding the impact of audit quality on tax avoidance is important, considering variables such as firm size, capitalization, and debt levels.

The non-cyclical consumer sector in Indonesia includes industries such as food, beverages, pharmaceuticals, and household products, which are characterized by consistent demand regardless of economic volatility. This sector frequently attracts the attention of tax authorities because of its high transaction volume and the potential for tax avoidance through methods like cost management. Companies allocate significant investments in fixed assets, such as plants, equipment, or production facilities. They also use debt to support expansion, such as building production facilities or financing distribution. Entities in this sector often have consistent revenue streams, making them attractive to investors and suitable for tax optimization measures aimed at increasing profit margins (Halim, 2024). These organizations, due to their continued success, are under constant pressure from shareholders to maintain profit growth, which often prompts management to use tax avoidance strategies to achieve financial goals and increase shareholder value (Karavitis et al., 2025).

This study investigates the impact of capital intensity, firm size, and leverage on corporate tax avoidance, emphasising the significance of audit quality in Indonesia's non-cyclical consumer Sector. The relationship between company characteristics and tax avoidance practices has been extensively studied. However, incorporating audit quality as a moderating variable provides a unique perspective by exploring how the role of auditors can influence this relationship. This study examines whether high-quality auditors can suppress or enhance the effectiveness of tax avoidance strategies, an aspect that has rarely been discussed in depth in the literature. This research is important because it provides insights for regulators to design more effective tax policies to reduce tax avoidance practices, strengthen corporate governance, support tax policies, and assist stakeholders in decision-making, particularly in the non-

cyclical consumer sector. This study extends prior research by demonstrating a practical instance of how audit quality affects the relationship between a company's unique characteristics and its tax avoidance strategies. This study examines consumer non-cyclical firms listed on the Indonesia Stock Exchange (IDX) from 2018 to 2024. The findings of this study will assist policymakers and other stakeholders in ensuring that corporations fulfil their tax obligations and exhibit greater accountability.

Literature Review & Hypothesis

Agency theory was introduced by Jensen and Meckling in 1972, which explains how managers can act in their own self-interest, such as engaging in aggressive tax planning when there is no strict control (Rodríguez et al., 2021). Tax avoidance is a way for managers to manage their earnings or lower their tax bill, which can lead to a conflict of interest between agents and principals. Audit quality helps solve the agency problem by providing monitoring and assurance (Ionescu et al., 2023). This activity will change how much firm-specific factors affect tax avoidance.

Signalling theory states that companies employ observable indicators to communicate credible information to external stakeholders (Pavlou et al., 2025). The engagement of respected auditors or a judicious tax approach may be viewed as signs of effective governance. Tax avoidance can harm a company's reputation and elevate the risk of regulatory examination.

Capital intensity, characterised as the ratio of investment in fixed assets, affects a company's tax planning methods. Agency theory asserts that managers of capital-intensive enterprises may employ significant depreciation charges related to these assets to diminish their taxable income. This represents a form of tax avoidance that does not immediately affect reported income. Studies demonstrate that companies with higher capital intensity have greater opportunities to utilise tax depreciation, hence decreasing their tax obligations (Prasetyo & Wulandari, 2021; Safitra & Totanan, 2025).

H_1: Capital intensity has an impact on tax avoidance

Large corporations generally possess greater resources, technical proficiency, and access to advanced legal and accounting services, facilitating the implementation of more efficient and frequently more assertive tax avoidance methods (Honggo & Marlinah, 2019; Cumming & Nguyen, 2025; Alrobai et al., 2025). From an agency theory, the lack of transparency in large firms may allow managers to obscure aggressive tax strategies, unless robust governance measures are implemented. From signaling theory, tax authorities and the public prioritise larger corporations due to their greater internal resources and more stable financial standing.

H_2: Firm size has an impact on tax avoidance

Leverage measured by the debt-to-equity ratio (DER), significantly influences a company's tax approach mainly through interest deductibility, which diminishes taxable income. Agency theory explains that managers may either over-leverage the company to use tax shields or avoid significant debt to protect their personal interests, depending on their incentives. Empirical study indicates that debt diminishes taxable income through interest payments; nonetheless, heavily leveraged corporations may still endeavour to avoid taxes to fulfil their financial objectives (Hendayana et al., 2024; Alrobai et al., 2025)
H_3: Leverage has an impact on tax avoidance.

Thorough audits enhance the transparency of financial information and diminish information asymmetry (Hendi & Sherly, 2024). They also function as a mechanism to prevent managers from engaging in opportunistic behavior. Agency theory posits that high-quality audits enhance the reliability of financial records, hence complicating tax avoidance efforts. Engaging a reputable auditor conveys that a company is committed to regulatory compliance and integrity, hence reducing the likelihood of tax evasion attempts (Rizqia & Lastiati, 2021; Lungu et al., 2023). The quality of the audit should influence the relationship between firm characteristics and tax avoidance.
H4a: Audit quality moderates the relationship between capital intensity and tax avoidance
H4b: Audit quality moderates the relationship between firm size and tax avoidance
H4c: Audit quality moderates the relationship between leverage and tax avoidance.

Research Method

This study uses a quantitative research approach using panel data regression analysis to test the effect of capital intensity, company size, and leverage on tax avoidance, as well as the moderating role of audit quality. It utilises secondary data sourced from annual financial reports available on the official IDX website. The population comprises all firms listed in the consumer non-cyclicals sector on the Indonesia Stock Exchange (IDX) from 2018 to 2024. The sample was chosen through purposive sampling based on the following criteria: (1) Companies must have been consistently listed in the consumer non-cyclicals sector throughout the study period (2018–2024), and (2) Companies must possess comprehensive and readily accessible financial data pertinent to the variables examined in this research. In accordance with these criteria, 34 companies were chosen, yielding 238 data observations. Data analysis was performed using SPSS software.

Tax avoidance as the dependent variable is measured by the Effective Tax Rate (ETR), which is calculated by dividing total tax expenses by earning before tax. The ETR reflects how much tax a company actually pays relative to its revenue. The ETR reflects the end result of all strategies,

such as utilizing tax incentives, tax holidays, transfer pricing, and tax reduction through depreciation, thus providing a comprehensive picture, rather than focusing solely on one type of tax avoidance. A lower effective tax rate indicates increased tax avoidance. This metric has been used in recent studies to illustrate how firms reduce their tax liabilities while complying with legal requirements (Wongsinhirun et al., 2024).

$$\text{ETR} = \frac{\text{Tax Expense}}{\text{Earning Before Tax}}$$

The first variable is capital intensity, which shows how much a business relies on capital assets to operate. Capital intensity is assessed by evaluating the ratio of net fixed assets to total assets. Companies that exhibit high capital intensity usually benefit from tax deductions derived from depreciation, which affects their tax strategy (Hendayana et al., 2024).

$$\text{Capital Intensity} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

Firm size as a second variable is an important factor to consider while exploring strategies to avoid corporate taxes. Compared to smaller businesses, larger businesses typically have more complex organisational structures, more resources, and better access to sophisticated tax preparation tactics. As a result, the size of a business is related to how much tax avoidance it engages in (Cumming & Nguyen, 2025).

$$\text{Firm Size} = \text{LN Total Assets}$$

Leverage refers to a company's use of borrowed funds to finance business activities. Interest payments on loans are generally tax deductible, creating a tax shield. This tax shield reduces the company's taxable income, thereby lowering its overall tax liability. As a result, companies may prefer debt financing as a tactic for tax avoidance, as it legally reduces their tax obligations (Deng et al., 2020).

$$\text{Leverage} = \frac{\text{Total Liability}}{\text{Total Equity}}$$

Audit quality is an essential element of company governance that guarantees the precision and dependability of financial statements. Companies examined by the Big Four auditors are assigned the code "1", while others receive the code "0". Higher audit quality is believed to inhibit aggressive tax strategies due to higher compliance and stronger reputation. This study examines audit quality as a moderator, assessing its influence on the relationship between company-specific characteristics and tax avoidance.

The following defines the empirical model used in this study:

Model 1:

$$ETR_i = \beta0 + \beta1CI_i + \beta2SIZE_i + \beta3DER_i + \beta4AQ_i + \varepsilon_i$$

Model 2:

$$ETR_i = \beta0 + \beta1CI_i + \beta2SIZE_i + \beta3DER_i + \beta4AQ_i + \beta5(CI_i \times AQ_i) + \beta6(SIZE_i \times AQ_i) + \beta7(DER_i \times AQ_i) + \varepsilon_i$$

Where ETR is the effective tax rate, CI is capital intensity, SIZE indicates firm size, DER indicates leverage, AQ indicates audit quality, and the moderating influence of audit quality by the interaction term CI×AQ and SIZExAQ.

Results and Discussion

Table 1
Descriptive Statistics

Variables	Obs.	Mean	SD	Min	Max
CI	238	0.32	0.17	0.01	0.77
SIZE	238	21.41	5.77	13.62	31.02
DER	238	1.32	1.62	0.07	9.22
ETR	238	0.27	0.26	0.03	2.94

Source: Processed Data (2025)

Table 1 presents the descriptive statistics for the main variables in this study, namely capital intensity (CI), firm size (SIZE), leverage (DER), and tax avoidance (ETR). The average capital intensity is at a value of 0.31358, with a minimum of 0.0139 and a maximum of 0.7667. This discrepancy means that some businesses have a lot of fixed assets that they use a lot in their daily operations, while others have relatively few assets. The standard deviation of 0.1679 suggests that there is a substantial amount of difference between businesses and years.

The average size of a business is 21.418. The smallest is 13.6200 and the largest is 31.0231. This range suggests that the sample has both medium-sized and large businesses. The standard deviation of 5.7735 implies that firm size remains the same from one observation to the next.

The average leverage ratio (DER) is 1.3165, which suggests that the companies in the sample don't use debt financing too much. The range of 0.0720 to 9.2190 shows that some organisations have a lot of debt while others don't have as much. The substantial standard deviation of 1.6178 supports this observation.

The average effective tax rate (ETR) for not paying taxes is 0.2718. This means that enterprises pay about 27,18% of their profits in taxes on average. But other enterprises don't have to pay much in taxes at all, with ETR values as low as 0.0320. The greatest ETR is 2.9408, which suggests that there were periods when taxes cost more than what people made before taxes. This could have happened because of changes in deferred taxes or losses. A standard deviation of 0.2614 reveals that the ways companies pay taxes are very different from each other.

Table 2
Frequency Distribution

Audit Quality	Frequency	Percentage (%)
Non-Big Four	91	38.2%
Big Four	147	61.8%
Total	238	100.0%

Source: Processed Data (2025)

Table 2 illustrates the frequency of the audit quality variable's occurrence. A Big Four accounting firm audits around 61.8% of all observations, equivalent to 147 company-year data points. The majority believe that this arrangement enhances audit quality and facilitates closer monitoring. In contrast, 66 observations (30%) were audited by non-Big Four auditors, reflecting less stringent oversight or because firms chose to save costs rather than use a Big Four auditor.

This distribution shows that most of the companies in the Big Four use audits of high quality. This could affect how much companies use aggressive tax methods. The quality of the audit is important because companies who are audited by well-known auditors may feel more pressure to follow tax laws and be open about their finances.

Table 3
The Classical Assumption Tests

Variables	Normality test	Multicollinearity test		Heteroskedasticity test	Autocorrelation test
	Asymp. Sig. (2-tailed)	Tolerance	VIF	Sig.	Durbin-Watson
CI	0.070	0.952	1.051	0.199	1.980
SIZE		0.892	1.121	0.358	
DER		0.923	1.083	0.707	
AQ		0.945	1.058	0.057	

Source: Processed Data (2025)

In table 3, the One-Sample Kolmogorov-Smirnov test was used to test normality, showing that the Asymp. Sig. (2-tailed) value of the normality test was 0.070, which was above the significance value of 0.05. So, it can be concluded that the data was normally distributed.

Furthermore, the multicollinearity test showed that the tolerance values for all variables were above 0.1 and the VIF values were below 10. In conclusion, there was no multicollinearity in the regression model, indicating that the model could be used for further analysis without the risk of bias due to high correlations between independent variables.

The heteroscedasticity test aims to test whether the regression model exhibits unequal variation in residual values from one observation to another. In the table, the sig. CI, SIZE, DER, and AQ values are above 0.05, which means that there is no evidence of heteroscedasticity.

An autocorrelation test was conducted to examine whether there was a correlation between the disturbance error in the current period and the previous period in the linear

regression model. In this study, the Durbin-Watson test was used to detect autocorrelation. Table 3 shows that the Durbin-Watson value was 1.980, while the lower limit (dL) value of 1.7519 and upper limit (dU) value of 1.8290. The Durbin-Watson value is between dU and (4-dU) 2.1710, which means that no autocorrelation was found in the regression model.

Table 4
Multiple Regression Analysis

Variable	Coefficient	S.E.	t	Sig.
Constant	0.205	0.014	14.445	0.000
CI	0.019	0.016	1.215	0.226
SIZE	0.004	0.000	0.092	0.927
DER	0.004	0.004	0.896	0.371
AQ	0.025	0.005	4.501	0.000
Adjusted R^2		0.084		
F Statistic		5.643 (P value 0.0003)		

Source: Processed Data (2025)

In Model 1, which tests the direct effects only, the results show that Audit Quality is positively and significantly associated with tax avoidance. Meanwhile, Capital Intensity, Size, and Debt to Equity Ratio do not show a significant relationship with tax avoidance. The F-test results show an F-statistic value of 5.643 with a p-value of 0.0003, meaning that the regression model is statistically significant. This proves that all independent variables have a significant influence on the effective tax rate. The R-squared value of around 8.4% indicates that other unobserved factors may also play an important role in determining tax performance.

Table 5
Moderated Regression Analysis

Variable	Coefficient	S.E.	t	Sig
Constant	-1.399	0.184	-7.592	0.000
CI	-0.054	0.020	-2.765	0.006
SIZE	-0.059	0.060	-0.984	0.326
DER	0.048	0.013	3.653	0.000
AQ	-0.097	0.100	-0.968	0.334
CI_AQ	0.357	0.117	3.062	0.002
SIZE_AQ	0.005	0.004	1.305	0.193
DER_AQ	-0.037	0.017	-2.150	0.033
Adjusted R^2		0.131		
F Statistic		5.775 (P value 0.004)		

Source: Processed Data (2025)

Model 2 shows that between capital intensity and audit quality there is a positive interaction, meaning that audit quality strengthens the effect of capital intensity on ETR. Meanwhile, the interaction between leverage and audit quality is significantly negative, indicating that audit quality strengthens the effect of leverage on ETR. CI and DER show a significant relationship, while SIZE do not show a significant relationship. Audit quality shows an insignificant negative effect on ETR.

Regression analysis shows that the overall model is statistically significant as indicated by the F statistic value of 5.775 and p value of 0.004. This indicates that the independent variables and their interactions collectively have a significant effect on the effective tax rate. The adjusted R square value of 0.131 indicates that only 13.1% of the variation in ETR is explained by the model, while there are still other unobserved factors that can also contribute to tax performance.

The Effect of Capital Intensity on Tax Avoidance

The regression results show that capital intensity has a positive but insignificant effect on tax avoidance, as evidenced by a β value of 0.019 and p = 0.226. This finding is consistent with previous research by Hendayana et al. (2024) and Safitra & Totanan (2025), which argued that firms with higher capital investment would benefit from depreciation and investment-related deductions, potentially reducing their tax burden. Based on agency theory, managers can use capital expenditures to reduce taxable income through depreciation benefits. Depreciation, a non-cash expense, decreases reported income, thereby reducing a company's tax liability, without influencing its actual cash flow. This strategy can enhance shareholder value by increasing after-tax profits. However, it gives managers greater discretion, which can lead to agency problems if not properly monitored. According to signaling theory, high capital intensity can indicate that a company is investing for future growth. However, if accompanied by deliberate tax avoidance, stakeholders will perceive this strategy not as an indication of efficiency, but as a way to obscure business profitability.

The Effect of Firm Size on Tax Avoidance

The regression results show that firm size has a positive but insignificant effect on tax avoidance, as evidenced by a β value of 0.00004 and p = 0.927. This finding is consistent with previous research by Honggo & Marlinah (2019), Cumming & Nguyen (2025), and Alrobai et al. (2025), which shows that companies with large assets tend to be more capable and stable in generating profits, and therefore more likely to engage in tax avoidance to reduce their tax burden by utilizing abundant resources. Based on agency theory, managers employ complex technical strategies to reduce taxes. Large corporations generally have complex organizational structures with a clear separation between owners and managers, thus opening up

opportunities for managers to exploit information asymmetries. Furthermore, they also have more adequate resources to devise legal tax avoidance strategies. According to signaling theory, large companies tend to have stable cash flows and better access to financial resources. This sends a positive signal to investors and creditors, as the company has healthy liquidity and strong financial stability.

The Effect of Leverage on Tax Avoidance

The regression results show that leverage has a positive but insignificant effect on tax avoidance, as evidenced by a β value of 0.004 and p = 0.371. This finding is consistent with previous research by Hendayana et al. (2024) and Alrobai et al. (2025), which states that companies with high leverage will obtain high interest rates, thereby reducing their tax burden. Based on agency theory, managers can use interest expenses to increase net income before taxes, thus reducing the tax burden. Based on signaling theory, highly leveraged companies that are able to manage their debt well are often considered to have competent management.

Audit Quality Moderates the Relationship Between Capital Intensity and Tax Avoidance

The regression results show that audit quality weakens the positive relationship between capital intensity and tax avoidance, as evidenced by a β value of 0.357 and p = 0.002. This study shows that high-quality audits are capable of identifying aggressive tax avoidance strategies that are not in accordance with regulations. From an agency perspective, independent and competent auditors can reduce information asymmetry between managers and shareholders by ensuring that financial statements are not used to conceal tax avoidance practices, thereby preventing managers from acting opportunistically. Big Four auditors send a strong signal to stakeholders, such as tax authorities, regarding the legitimacy and transparency of a company. Effective audits ensure compliance with regulations and credibility.

Audit Quality Moderates the Relationship Between Firm Size and Tax Avoidance

The regression results show that audit quality does not moderate the relationship between firm size and tax avoidance, as evidenced by a β value of 0.005 and p = 0.193. This shows that high quality audits are not sufficient to reduce tax avoidance by companies. Larger companies typically have more resources and political power, giving them greater opportunities to manage their taxes. While it should be easier for competent inspectors to monitor operations, corporate complexity can hinder auditors from preventing tax evasion. Agency theory suggests that larger organisations typically experience more significant agency challenges due to the distance between owners and management. High-quality audits may be beneficial for maintaining a company's reputation, but they do not deter

management from engaging in aggressive tax planning. Signaling theory suggests that when the Big Four audit large organizations, they provide strong signals of financial reporting transparency, but do not consistently reflect tax compliance.

Audit Quality Moderates the Relationship Between Leverage and Tax Avoidance

The regression results show that audit quality strengthens the positive relationship between leverage and tax avoidance, as evidenced by a β value of -0.037 and p = 0.033. The negative coefficient indicates that high-quality audits diminish the positive correlation between leverage and tax avoidance. Agency theory explains that organizations with significant debt have strong incentives to engage in tax avoidance. This is because of the high interest burden, so managers are required to save on taxes to keep the company's cash flow healthy. Auditors act as a supervisory mechanism to ensure that the company's tax avoidance strategies are carried out in accordance with regulations. Companies audited by the Big Four ensure that the company continues to comply with the rules and also ensure the credibility of the signal that the company is capable of managing financial risks.

Conclusion and Recommendation

Conclusion

This study aims to examine the effect of capital intensity, firm size, leverage, and audit quality on tax avoidance, as measured by effective tax rate (ETR) using multiple regression analysis. Testing is conducted on two models. The first model is used to analyze the direct effect and the second model combines moderation through interaction with audit quality. The results reveal that audit quality has a significant positive effect on tax avoidance. Firms with better audit oversight tend to be less likely to engage in tax avoidance. Capital intensity has an insignificant positive effect on tax avoidance. Based on agency theory, there is strict oversight from shareholders to maintain tax compliance or the company's fixed assets are used purely for operational activities rather than tax strategies. According to signaling theory, companies with high capital intensity may desire to demonstrate stability and long-term commitment to investors. In this case, they might prefer to comply with their tax obligations as a sign of trust to stakeholders, rather than take risks with tax avoidance strategies. Firm size has an insignificant effect on tax avoidance. According to agency theory, financial reporting practices in large companies are generally more transparent because they are subject to strict supervision by external auditors, regulators, and public scrutiny. This high level of supervision makes management more cautious and discourages aggressive tax avoidance practices. Signaling theory suggests that larger companies tend to be more careful in the signals they send to the market. They often refrain from engaging in excessively aggressive tax avoidance strategies in order to safeguard their reputation, uphold

investor confidence, and reduce the likelihood of legal complications or tax-related sanctions. Leverage has an insignificant effect on tax avoidance. In agency theory, highly leveraged firms may have pressure to meet their debt obligations, so managers focus more on cash flow management and debt repayment than tax avoidance strategies. According to signaling theory, companies do not use interest tax shields as the primary signal they send to the market. Instead, they tend to emphasize other signals, such as financial stability or tax compliance, to build investor and creditor confidence.

In the moderation model, audit quality weakens the positive relationship between capital intensity and tax avoidance. In agency theory, auditors act as a monitoring mechanism that can reduce information asymmetry and opportunistic behavior by managers by ensuring that the use of depreciation for tax reduction is done legally and transparently. In this case, auditors limit aggressive tax avoidance practices by companies. High-quality audits send a positive signal to the market that a company's tax practices are in compliance with regulations. Auditors ensure that asset depreciation does not involve manipulation or aggressive tax avoidance. Meanwhile, audit quality does not moderate the relationship between firm size and tax avoidance. This indicates that other factors, such as pressure from majority shareholders or tax authorities, are more dominant in controlling tax avoidance behavior. In other hands, audit quality does not have a significant enough influence to change the tax avoidance patterns inherent in large companies, because these external factors more strongly determine the direction of corporate tax policy. In signaling theory, this suggests that large companies do not use tax avoidance as their primary signal to the market. Instead, they emphasize other signals, such as revenue growth or strategic investments, to attract investors. However, audit quality strengthens the positive relationship between leverage and tax avoidance. In agency theory, high leverage indicates that managers must meet their interest payment obligations. This encourages managers to engage in tax avoidance practices to increase the company's cash flow through interest expenses. High audit quality ensures that the company's tax avoidance strategies are carried out in accordance with regulations. Based on signaling theory, a quality audit provides signals regarding financial reporting transparency and company compliance.

Recommendation

This study has several limitations. First, this study uses a single proxy for tax avoidance (ETR), which may not fully capture all dimensions of corporate tax behavior. Second, the sample is limited to firms in non-cyclical sectors, which may limit the generalizability of the findings.

Based on the results of this study, it is hoped that policy makers will tighten regulations and supervision of companies with certain characteristics, such as large

companies or those with high levels of leverage and capital intensity, to prevent potential tax avoidance. The Financial Services Authority (OJK) can mandate minimum audit standards for listed companies, particularly in sectors vulnerable to tax avoidance. Furthermore, management must balance tax optimization strategies with regulatory compliance to maintain the company's reputation. Governments, tax authorities, and regulators need to collaborate with companies and auditors to build a transparent and fair tax ecosystem.

Future research should examine how changes in tax regulations and enforcement practices influence the interaction between firm behavior and audit quality. Future research should also examine how tax regulations and enforcement practices influence the interaction between corporate behavior and audit quality.

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