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Detecting Tax Aggressiveness through Profitability, Leverage, Inventory Intensity and Company Size

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Abstract

Objectives: This study aims to examine the effect of profitability, leverage, inventory intensity, and firm size on tax aggressiveness in manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. Tax aggressiveness is measured using the Cash Effective Tax Rate (Cash ETR). **Methods:** A quantitative approach was employed using multiple linear regression to test the proposed hypotheses. **Results:** The results show that profitability has a significant negative effect on tax aggressiveness, while leverage and firm size exhibit significant positive effects. Inventory intensity does not show a significant relationship. These results align with legitimacy theory, agency theory, and political cost theory in explaining internal corporate motivations for tax planning strategies. **Implication:** Practically, this study provides implications for tax authorities to focus on high-leverage and large-scale entities, and to promote fiscal transparency through risk-based tax supervision. Theoretically, this research contributes to the growing body of literature on corporate tax avoidance in developing countries, especially through the use of alternative indicators such as Cash ETR and BTD.

Keywords: Firm Size; Inventory Intensity; Leverage; Profitability; Tax Aggressiveness

JEL Classification: M41; M42

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INTRODUCTION

Taxation has a vital role in the country's economic development as it is the main source of state revenue. However, in practice, there are various strategies undertaken by business entities to minimise their tax obligations through what is referred to as tax aggressiveness. Tax aggressiveness reflects the behaviour of companies in exploiting loopholes in tax regulations to reduce the tax burden that must be paid, either through legal means (tax avoidance) or illegal ones (tax evasion). This phenomenon is a concern for the government because it can lead to base erosion and potentially reduce state revenues. On the other hand, companies have an interest in maximising profits by minimising their tax burden. This conflict of interest between the state and business entities is behind the importance of examining the factors that influence corporate tax aggressiveness behaviour.

Agency Theory was developed by Jensen and Meckling (1976) and explains the conflict of interest between managers (agents) and company owners (principals). In the context of taxation, managers may be encouraged to lower the company's tax burden in order to maximise net income and, ultimately, the bonus or compensation they receive. Aggressive tax behaviour is often a strategy used by managers to achieve their personal goals, despite the risk to long-term compliance. Managers of companies with high profitability may be encouraged to lower their tax burden to appear more efficient. High leverage also increases the conflict between owners and creditors, so tax can be used as a tool to manage capital structure.

Legitimacy Theory also emphasises that companies operate within a social framework that requires them to comply with societal norms and expectations. Companies with high profitability tend to avoid aggressive tax avoidance strategies in order to remain perceived as legitimate and trustworthy by the public, government, and investors (Lanis & Richardson, 2012). In this context, large and highly profitable companies are more likely to prioritise reputation over tax savings. Companies with large size or high profits tend to reduce their tax aggressiveness so as not to be suspected by the public. This goes against Agency Theory and suggests a possible negative influence of profitability on tax aggressiveness.

Political cost theory states that large companies tend to be in the spotlight of the public and government, so they try to avoid political costs such as additional regulations, audits, or tax investigations. Therefore, they have greater motivation to maintain an image of fiscal compliance through hidden and complex tax avoidance strategies. However, in some cases, large firms also have more resources to access tax consultants and strategise aggressiveness (Watts & Zimmerman, 1986). Firm size is expected to have a positive or negative influence on tax aggressiveness depending on reputational motivation or fiscal efficiency.

Trade-off Theory explains that companies will consider the balance between the benefits and costs of using debt. In the tax context, debt provides benefits in the form of tax deductions through interest expense. Therefore, companies with high leverage have an incentive to maximise tax deductions through loan interest, which then increases the tendency towards tax aggressiveness (Frank et al., 2009). Leverage has a positive relationship with tax aggressiveness due to the tax deduction benefits of debt.

Tax aggressiveness is defined as a systematic effort made by companies to minimise the tax burden through certain strategies, both legal (tax avoidance) and illegal (tax evasion). Dyreng et al. (2008) stated that tax aggressiveness can be measured through the effectiveness of the tax rate paid by the company, namely the ratio between tax expense and profit before tax. The smaller the ratio, the more aggressive the tax strategy adopted by the company. Tax aggressiveness can be motivated by the desire to increase net income, provide positive signals to investors, and maintain cash flow. However, this strategy has negative implications, such as the risk of tax sanctions, reputational damage, and instability of relationships with tax authorities.

A number of previous studies have identified various factors that influence tax aggressiveness, such as profitability, leverage, inventory intensity, and firm size. However, the results of these studies still show inconsistencies. For example, a study by Nugroho and Firmansyah (2021) shows that profitability has a significant negative effect on tax aggressiveness, while another study by Wulandari and Putri (2022) shows the opposite result. This inconsistency shows that there is still a gap for further study, especially in certain industrial sectors that have unique characteristics, such as the manufacturing sector. This is crucial considering that the manufacturing sector is a major contributor to national GDP and has a complex inventory intensity and capital structure, which potentially affects its taxation strategy.

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Although studies on corporate tax aggressiveness have been widely developed, there are still inconsistencies in empirical findings and significant research gaps, especially related to the influence of internal company factors such as profitability, leverage, inventory intensity, and company size on tax aggressiveness. First, the results of research on the effect of profitability on tax aggressiveness show an inconsistent relationship direction. Research by Kaya and Doğan (2020) in Turkey found that profitability is significantly negatively related to tax avoidance, supporting the view that more profitable companies tend to avoid aggressive strategies in order to maintain reputation. In contrast, the study by Akbaş and Canikli (2021) shows a positive relationship, arguing that highly profitable firms tend to have more resources to pursue tax avoidance through complex schemes. Second, in the context of leverage, although financial theories such as trade-off theory state that the use of debt provides a tax shield and triggers tax aggressiveness (Frank et al., 2009), recent empirical research shows mixed results. Chircop and Novotny-Farkas' (2021) research in the European Union found that leverage is not always significant, especially if the country has a strict tax reporting system. This suggests that the effect of leverage depends on the institutional context and fiscal oversight of each country. Third, inventory intensity as a variable that reflects the proportion of inventory to assets is still relatively rarely used in cross-country studies, and the results are not conclusive. In Indonesia, Sukma and Azizah (2020) found a positive effect, but a similar study in India by Gaur and Agarwal (2022) showed no significant effect. This indicates that industry characteristics and national accounting systems affect the relationship between inventory and tax aggressiveness. Fourth, regarding company size, some studies state that large companies are more aggressive because they have the resources to hire tax consultants and take advantage of legal loopholes (Richardson et al., 2021). However, other studies have found that large companies are more compliant due to reputational pressures and higher public scrutiny, as revealed by Lanis and Richardson (2020) in an Australian study. This conflict shows that political cost theory and legitimacy theory can produce conflicting conclusions depending on the cultural and regulatory context. Finally, there is a gap in the use of alternative indicators of tax aggressiveness measurement, such as Cash ETR and Book-Tax Difference (BTD). Most studies still use conventional ETR, even though these alternative indicators can capture short-term and structural tax avoidance strategies (Chen et al., 2010; Taylor & Richardson, 2022).

This study aims to test and analyse the effect of profitability, leverage, inventory intensity, and company size variables on tax aggressiveness in manufacturing companies in the goods and consumption subsector listed on the Indonesia Stock Exchange (IDX). The selection of manufacturing companies, especially the consumer goods subsector, as the object of this study is based on several strategic and empirical considerations.

The first reason is that manufacturing companies are significant contributors to Indonesia's national gross domestic product (GDP). Based on BPS data (2022), the manufacturing sector consistently contributes more than 19% to Indonesia's GDP, making it the largest economic sector. Among the various subsectors, consumer goods occupy an important position as they are directly related to people's daily needs such as food, beverages, medicines, and household products.

The second reason is that the consumer goods subsector has distinctive cost structure characteristics, especially related to inventory intensity. Companies in this subsector tend to have high and fluctuating inventory values, due to the nature of products that have a short shelf life or fast production cycle. This makes consumer goods companies a relevant entity to analyse the role of inventory intensity on tax aggressiveness, as researched in this paper (Sukma & Azizah, 2020).

Third, the consumer goods subsector in general shows varying levels of profitability and leverage, and has a variety of company scales, from large companies such as Unilever and Indofood to medium-sized companies. This variety of characteristics provides sufficient data diversity for empirical model testing, especially in explaining the relationship between financial characteristics and tax strategies.

The fourth reason is that the 2021-2023 period was chosen because it reflects a period of stabilisation and important fiscal transitions, including the early days of the COVID-19 pandemic. During this time, there were fiscal policies and tax relaxations from the government, such as corporate tax rate reductions and fiscal incentives. These dynamics provide room to analyse how companies structure their tax strategies in fluctuating economic conditions, as well as how internal factors affect tax aggressiveness amid these external pressures (OECD, 2023; DGT, 2021). Thus, the selection of consumer goods subsector manufacturing companies in the 2021-2023 period in this study is not only relevant in terms of economic contribution, but also rich in terms of financial and tax dynamics. The combination of industry characteristics, variations in financial structure, and time context make this population appropriate for testing the relationship between profitability, leverage, inventory intensity, and firm size on tax aggressiveness.

Profitability shows the company's ability to generate profits from its operational activities. Companies with high profitability tend to be more exposed to the tax burden due to their large profit contribution to corporate income tax. However, there are two conflicting theoretical views. First, profitable companies have more resources and incentives to conduct aggressive tax planning (Lanis & Richardson, 2012). Second, profitable companies tend to be more compliant because they have greater reputational risk. The results of empirical studies are also mixed; some show a negative effect (Sari & Utami, 2021), while others show a positive or insignificant effect.

Leverage is the proportion of the use of borrowed funds in the company's capital structure. Debt-based tax avoidance theory states that interest expense from debt can be used as a deduction from taxable income, so companies with high leverage have a stronger incentive to reduce their tax liabilities (Modigliani & Miller, 1963). Previous research, such as by Nugroho and Firmansyah (2021), found a positive effect of leverage on tax aggressiveness. However, in certain contexts, companies with high debt are actually at higher risk of fiscal scrutiny, so they can restrain companies from being too aggressive in avoiding taxes.

Inventory intensity refers to the proportion of inventory value to the company's total assets. Companies with high inventory intensity tend to have flexibility in recognising cost of goods sold which has implications for reducing taxable profit. In addition, inventory recording methods such as FIFO or LIFO also affect net income and tax expenses. However, studies on the relationship between inventory intensity and tax aggressiveness are still limited. The study by Sukma and Azizah (2020) shows that inventory intensity has a positive influence on tax aggressiveness, but not significant. This is a research gap to test its consistency in the goods-intensive industrial sector such as manufacturing.

Firm size is usually measured by total assets or the natural logarithm of assets. Large firms have more resources to devise tax strategies, including hiring professional tax consultants or accessing complex tax avoidance schemes. However, large companies also have high reputational exposure and public scrutiny, so they risk losing investor confidence if they are proven to be tax avoiders. Research results by Siregar and Utama (2008) show that large companies tend to be more

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compliant, but a study by Annisa and Kurniasih (2012) actually shows that company size is positively correlated with tax aggressiveness.

This research is expected to answer the following research questions: (1) Does profitability affect tax aggressiveness? (2) Does leverage have an influence on tax aggressiveness? (3) Does inventory intensity have an impact on tax aggressiveness? and (4) Does company size affect tax aggressiveness? Academically, this study contributes to enriching the literature on the determinants of tax aggressiveness, especially by adding inventory intensity variables which are relatively rarely studied comprehensively in the context of taxation. In addition, considering the inconsistency of previous findings, this study contributes in presenting new empirical evidence in the context of the manufacturing industry in Indonesia. Practically, the results of this study are expected to provide input for the Directorate General of Taxes (DGT) in identifying taxpayer risk profiles and formulating more effective supervisory policies. For companies, the results of this study can be a consideration in formulating tax strategies that remain efficient but remain within the compliance corridor.

METHOD

This study uses a quantitative approach with a causal associative method. This approach was chosen to test the causal relationship between the independent variables—namely profitability, leverage, inventory intensity, and company size—with the dependent variable, namely tax aggressiveness. The quantitative design allows objective hypothesis testing using statistical tools, so that the influence of each variable can be measured simultaneously or partially. This study aims not only to identify the relationship between variables, but also to determine the strength and direction of the relationship in the context of manufacturing companies in Indonesia. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The selection of the manufacturing sector was made because this sector has a complex cost and inventory structure, and is a significant contributor to the national economy. The sampling technique used the purposive sampling method with the following criteria: (1) the company publishes complete annual financial reports during the observation period, (2) the company does not experience continuous losses, and (3) the company has the information needed to measure all research variables. Based on these criteria, 51 companies were obtained as samples.

The dependent variable in this study is tax aggressiveness measured using the Cash Effective Tax Rate (Cash Cash ETR), which is the effective tax rate based on the amount of cash tax paid by the company in the current year. The lower the Cash ETR, the higher the level of tax aggressiveness of the company (Dyreng et al., 2008). Profitability is measured using Return on Assets (ROA), which is net income divided by total assets. Leverage is measured by the Debt to Total Assets Ratio, which is total debt compared to total assets. Inventory intensity is measured by the ratio of inventory to total assets. Meanwhile, company size is measured using the natural logarithm of the company's total assets. The data analysis technique used in this study is multiple linear regression analysis with the help of SPSS version 26 software. Before conducting the regression analysis, a classical assumption test was first carried out which included a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test to ensure that the regression model met the BLUE (Best Linear Unbiased Estimator) requirements. Testing is done partially (t-test) and simultaneously (F-test) to see the significance of the influence of each variable, with a significance level of 5%. In addition, the coefficient of determination (Adjusted

R^2) is used to determine how much the independent variable contributes to explaining variations in tax aggressiveness.

RESULTS & DISCUSSION

Results

The analysis begins with descriptive statistics to see the distribution of data for each variable. The results show that the average Cash Effective Tax Rate (Cash Cash ETR) is around 23%, which means that most companies pay lower taxes than the nominal corporate tax rate of 25%, indicating a tendency towards tax aggressiveness. The average profitability (ROA) of the company is at 7.4%, with a minimum of -3% and a maximum of 15%, indicating significant variation between companies. Leverage shows an average of 45%, with some companies having very high debt, even exceeding 80%. Inventory intensity shows an average of 18%, indicating that most manufacturing companies keep inventory in a fairly large proportion. Company size ranges from log total assets of 13.5 to 15.8.

The Kolmogorov-Smirnov test results show that the data is normally distributed ($p > 0.05$). The multicollinearity test shows that all variables have tolerance values above 0.1 and VIF below 10, indicating no multicollinearity problems. The heteroscedasticity test with the Glejser test shows no specific pattern, so the homoscedasticity assumption is met. The autocorrelation test with Durbin-Watson shows a value of 1.9 which is within the normal limit. Thus, the regression model meets all classical assumptions. The regression model formed produces an Adjusted R^2 value of 0.371, which indicates that 37.1% of the variation in tax aggressiveness can be explained by the variables of profitability, leverage, inventory intensity, and company size. The rest is explained by other factors outside the model. The F value of 12.123 with a significance of 0.000 indicates that the regression model is simultaneously significant.

The t-test results show that profitability (ROA) has a significant negative effect on tax aggressiveness with a coefficient value of -0.221 and a significance of 0.013. This means that the higher the profitability of the company, the lower the level of tax aggressiveness. This supports the legitimacy theory that highly profitable companies tend to avoid tax avoidance practices to maintain their reputation in the eyes of the public and regulators (Hanlon & Heitzman, 2010).

Leverage has a positive and significant effect on tax aggressiveness with a coefficient of 0.296 and a significance of 0.004. This means that companies with high debt levels tend to be more aggressive in avoiding taxes. These results are consistent with the theory of debt interest-based tax avoidance, where interest expenses are used to reduce taxable income (Frank et al., 2009).

The inventory intensity variable shows a positive but insignificant effect on tax aggressiveness (coefficient 0.109; significance 0.091). This shows that although companies with high inventory have the potential for flexibility in reporting cost of goods sold, it is not strong enough to significantly influence tax aggressiveness strategies. These results are in line with research by Sukma and Azizah (2020) which shows that inventory intensity is not necessarily used as a tax avoidance tool. Company size shows a positive and significant effect on tax aggressiveness with a coefficient value of 0.256 and a significance of 0.018. This indicates that large companies tend to be more aggressive in managing their tax burdens. These results support the findings by Annisa and Kurniasih (2012) that large companies have more access and ability to carry out aggressive tax planning through consultants, affiliates, or exploiting regulatory loopholes.

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The Effect of Profitability on Tax Aggressiveness

Profitability, which reflects a company's ability to generate profits, has been shown to have a significant negative effect on tax aggressiveness. Companies with high profits have incentives to maintain their reputation and social legitimacy. This is reinforced by the Legitimacy Theory which states that large and profitable companies tend to avoid actions that have the potential to disrupt relations with stakeholders, especially the government and the public.

This finding suggests that tax strategies are not only driven by the logic of fiscal efficiency, but also by considerations of reputation and investor trust (Hanlon & Heitzman, 2010). Amid increasing demands for transparency and social responsibility, companies with high profitability realize that aggressive tax avoidance can have long-term negative consequences. Audit risk, sanctions, and public pressure are important considerations in tax decision making. However, not all research results are consistent. Several studies, such as Akbaş and Canikli (2021), show that companies with large profits are actually more aggressive because they have the capacity and resources to hire tax consultants and arrange complex schemes. This suggests that the effect of profitability is contextual, depending on external pressures, corporate governance structures, and the culture of fiscal compliance in each country. This finding is in line with the results of a study by Sari and Utami (2021) which showed that profitability significantly reduces the level of corporate tax aggressiveness. This reinforces the idea that companies that are financially stable and have positive performance tend to maintain good relations with tax authorities and minimize potential legal and reputational risks. On the other hand, this finding contradicts the research of Wulandari and Putri (2022) which found that profitable companies are actually more aggressive because they have more resources to carry out tax planning.

The Effect of Leverage on Tax Aggressiveness

The results of statistical tests show that leverage has a significant positive effect on tax aggressiveness. Companies with a debt-dominant capital structure have a high incentive to reduce tax burdens by recognizing interest costs that can be deducted from taxable income. This is in accordance with the theory of debt-based tax avoidance, which states that debt is a legal instrument to reduce tax burdens. This practice is common, especially in companies with high liquidity pressures (Frank et al., 2009). Leverage indicates the proportion of debt in a company's capital structure.

The results of this study indicate that leverage has a significant positive effect on tax aggressiveness. This finding supports the Trade-off Theory, which explains that companies can use debt interest as a tax deduction, thus creating an incentive to maximize the use of debt as a legal tax avoidance strategy. On the other hand, the effect of leverage on tax aggressiveness is also in line with the Agency Theory. In a highly indebted company structure, the conflict between managers and creditors becomes sharper. Managers may be motivated to increase net income through tax avoidance in order to appear capable of paying financial obligations, while maintaining their position or performance bonuses.

However, in the context of strict governance or high fiscal oversight, high leverage can also be a red flag for tax authorities. Therefore, not all highly leveraged companies carry out aggressive strategies. Factors such as regulatory pressure, reputation, and internal audits also influence tax behavior. This finding strengthens the results of the study by Nugroho and Firmansyah (2021) which shows that the higher the company's leverage, the greater the tendency to engage in tax avoidance. This also confirms that regulators need to be aware of companies with high debt as a group that has the potential for high tax aggressiveness. However, in some contexts, companies with high leverage are actually more careful because they are afraid of facing strict tax audits. Thus, these results also indicate the importance of the industry context and corporate governance.

The Effect of Inventory Intensity on Tax Aggressiveness

Inventory intensity in this study has a positive but insignificant effect on tax aggressiveness. This shows that although inventory provides flexibility in reporting costs and profits, it is not immediately used as a tool for tax avoidance. The absence of a significant effect also indicates that the role of inventory in tax planning may not be as strong as other variables such as leverage or profitability. Companies may focus more on operational efficiency than tax manipulation through inventory. Inventory intensity describes the proportion of inventory to total assets. In this study, inventory intensity has a positive but insignificant effect on tax aggressiveness. This means that although inventory allows flexibility in reporting cost of goods sold, this flexibility has not been used systematically for tax avoidance strategies.

This finding is in line with the studies of Sukma and Azizah (2020) and Gaur and Agarwal (2022), which state that inventory intensity is not the main variable in explaining tax avoidance behavior, especially because the role of inventory is influenced by the recording method (FIFO, LIFO), production cycle, and applicable accounting regulations. It could be that companies focus more on operational efficiency or cash flow management than on manipulating cost of goods sold for tax avoidance purposes. This opens up opportunities for further research that explores the relationship between inventory and tax aggressiveness in different industries or with more detailed quantification methods.

The Effect of Company Size on Tax Aggressiveness

Company size has been shown to have a positive and significant effect on tax aggressiveness. This means that the larger the company, the higher their tendency to engage in aggressive tax planning. This is consistent with the political cost theory, where large companies face high political and regulatory pressure, so they are encouraged to reduce taxes as an efficiency strategy. However, large companies also have high reputational risks, so the strategies used tend to be more complex and hidden (Lanis & Richardson, 2012). Company size is measured based on the logarithm of total assets. The results of the analysis show that large companies tend to be more aggressive in their tax strategies. This finding strengthens the Political Cost Theory, which states that large companies are in the spotlight of regulators and the public, thus potentially incurring additional political costs. To reduce the tax burden, large companies can take advantage of the complexity of the organizational structure, foreign affiliates, and professional consulting services. However, size also invites media and investor attention, so large companies are in a reputation dilemma. Aggressive tax strategies need to be carried out carefully and hidden so as not to cause reputational risk. Previous studies such as Richardson et al. (2021) and Lanis & Richardson (2020) also show an ambivalent relationship: on the one hand, large companies have the capacity for tax avoidance, but on the other hand, they have a reputation to maintain. Therefore, large companies often develop aggressive strategies that are legal but difficult to detect (such as transfer pricing arrangements or offshore schemes).

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CONCLUSION

This study aims to examine the effect of profitability, leverage, inventory intensity, and company size on tax aggressiveness in manufacturing companies listed on the Indonesia Stock Exchange for the period 2021–2023. The results of the regression analysis show that profitability has a significant negative effect on tax aggressiveness, while leverage and company size have a significant positive effect. Meanwhile, inventory intensity has no significant effect. This finding confirms that internal company factors, especially profit level, capital structure, and company scale, play an important role in determining the tax strategy taken by the company. Thus, tax aggressiveness is not only influenced by external fiscal pressures, but also by the company's internal strategic decisions.

This study answers the need to understand the dynamics of tax aggressiveness of manufacturing companies in Indonesia, by testing four main variables: profitability, leverage, inventory intensity, and company size. The results obtained indicate that corporate tax strategies cannot be separated from internal factors that are financial and structural in nature. Corporate profitability is proven to have a significant negative effect on tax aggressiveness. This proves that more profitable companies tend to avoid aggressive tax avoidance strategies due to considerations of legitimacy and reputation. Companies with good performance prefer to maintain long-term relationships with tax authorities and the public.

This finding strengthens the position of legitimacy theory in explaining the motivation of companies that prioritize social compliance over fiscal efficiency. Leverage shows a significant positive relationship to tax aggressiveness. Companies with debt-based capital structures tend to use interest expenses as a tax shield. This supports agency theory and trade-off theory which place capital structure as a tax planning tool. However, high levels of leverage also risk strict fiscal supervision, so aggressive strategies need to be implemented carefully so as not to backfire legally. Inventory intensity has a positive but insignificant effect. This means that although theoretically inventory can be used to influence tax burdens through recording costs, in practice companies have not maximized this loophole systematically. This variable opens up opportunities for further research that explores the relationship between inventory and tax aggressiveness in goods-intensive sectors or with more precise measurement methods. Company size has a significant positive effect on tax aggressiveness. Large companies have access to resources, consultants, and international structures that facilitate aggressive tax planning. However, large companies also face high reputational pressures and political risks. Therefore, the aggressive strategies carried out tend to be hidden and legal.

The statistical test results produced an adjusted R^2 of 37.1%, indicating that the four variables explain most of the variation in tax aggressiveness. However, there is still room to add other variables such as corporate governance, ownership structure, or social responsibility index. Theoretically, this study enriches the study of tax aggressiveness by integrating four theories at once. Agency theory explains managerial motivation to maximize profits through tax strategies. Legitimacy theory provides a reputational basis for compliance behavior. Political cost theory explains the dilemma of large companies between fiscal efficiency and reputation exposure. Trade-off theory explains the relationship between leverage and tax efficiency. Practically, this study provides an important contribution for fiscal authorities to strengthen the risk-based supervision system. Companies with high leverage and large scale are proven to have a higher tendency to be aggressive. Therefore, tax supervision reform needs to focus on these two variables as the main indicators in risk profiling. From the perspective of business actors, the results of this study show the importance of ethical and transparent tax strategies. In the era of openness and digitalization, aggressive tax avoidance strategies can damage reputation and create legal risks. Therefore, management needs to adopt a compliance-based tax planning approach as part of corporate sustainability.

This study also has limitations that need to be considered for future research implementation. The first limitation is that the scope of the study only covers the manufacturing sector and a limited time period, and only uses one indicator of tax aggressiveness (Cash ETR). Therefore, further research is suggested to add alternative indicators such as Book-Tax Difference, and consider moderating variables such as corporate governance and ESG disclosure. The next limitation is that this study only uses data from the manufacturing sector and within a period of three years, so the results cannot necessarily be generalized to all industrial sectors. In addition, the measurement of tax aggressiveness only uses one indicator (Cash ETR), which although commonly used, does not necessarily capture the entire complex tax avoidance strategy. Therefore, for further research it is suggested to expand the scope of the sector and add dimensions of tax aggressiveness measurement such as ETR or Book-Tax Differences. Future research can also consider moderating variables such as corporate governance or environmental disclosure that can affect the relationship between financial factors and tax behavior.

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