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Tax Compliance Strategies in Indonesian Public Companies: A Comparative Analysis of State Tax Law and Islamic Business Law

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Abstract

Taxes are the primary source of state revenue and play a vital role in financing national development in Indonesia. Under the self-assessment tax system, corporate tax compliance remains a major challenge, as companies often employ legal tax planning strategies to reduce their tax burden. This issue is significant not only from the perspective of state tax law but also within Islamic business law, which emphasizes justice, transparency, and ethical responsibility in economic activities. This study aims to analyze tax compliance strategies in Indonesian public companies through a comparative perspective of state tax law and Islamic business law by examining the influence of Fixed Asset Intensity, Debt-to-Equity Ratio (DER), and Current Ratio (CR) on tax avoidance, with Company Size as a moderating variable. Using a quantitative approach, this study analyzes secondary data from 29 companies listed on the Indonesia Stock Exchange during 2020–2024. The findings show that Fixed Asset Intensity significantly reduces the Effective Tax Rate (ETR), while DER and CR significantly increase ETR. Company Size strengthens the relationship between Fixed Asset Intensity and ETR but weakens the effects of DER and CR. The novelty of this study lies in integrating legal and ethical perspectives by comparing state tax law and Islamic business law in understanding corporate tax compliance. These findings provide important implications for policymakers, tax regulators, and corporate governance in promoting a fairer and more accountable taxation system.

Keywords: Tax Compliance; Tax Avoidance; State Tax Law; Islamic Business Law; Effective Tax Rate

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Introduction

Taxes are the primary source of state revenue and play a vital role in financing national development in Indonesia. Based on the 2024 State Revenue and Expenditure Budget (APBN), Indonesia's total state revenue reached IDR 3,005.1 trillion, of which IDR 2,409.9 trillion (around 80%) came from taxation (Terjaga & Menter, 2025). This demonstrates that tax revenue is the backbone of public spending, infrastructure development, and economic sustainability. (Ahmad et al., 2025; Kamasa et al., 2025; Maryantika & Wijaya, 2022). However, despite its strategic role, corporate tax compliance remains a serious challenge under Indonesia's self-assessment system. This system grants taxpayers autonomy in calculating, paying, and reporting taxes, but it also creates opportunities for tax avoidance through legal loopholes (Fujitani et al., 2025; Rehan et al., 2023).. Such practices reduce the effectiveness of tax collection and weaken the state's fiscal capacity, making tax compliance an urgent issue for both regulators and society (Tang et al., 2025).

From the literature perspective, tax compliance and tax avoidance have been widely discussed from various angles. *First*, studies on asset structure show that high Fixed Asset Intensity allows companies to utilize depreciation expenses to reduce taxable income (Asalam, 2022; Astuti & Trisakti, 2023). *Second*, studies on capital structure indicate that a high Debt-to-Equity Ratio (DER) provides opportunities for tax savings through interest deductions under thin-capitalization schemes (Dewantara, 2025; (Parasian, 2025a). Third, studies on liquidity management reveal that companies with strong Current Ratios (CR) have greater flexibility in managing short-term obligations, including tax planning strategies (Nurfadillah et al., 2023; Firmansyah et al., 2023). Although these studies provide important insights, their findings remain inconsistent. Some studies conclude that leverage increases tax avoidance, while others find the opposite (Bruns et al., 2025; Kleber et al., 2025). Moreover, most previous studies focus only on financial and accounting dimensions, with limited discussion on legal and ethical perspectives, especially from Islamic business law. This creates a research gap that needs further exploration.

This study aims to analyze the influence of Fixed Asset Intensity, Debt-to-Equity Ratio (DER), and Current Ratio (CR) on tax avoidance in Indonesian public companies, with Company Size as a moderating variable (Ali et al., 2025; Chen et al., 2025; Qin, 2025). This study addresses the existing gap by integrating the perspective of state tax law and Islamic business law. The novelty of this research lies in its comparative legal analysis, which examines tax compliance not only as a financial strategy but also as a legal and ethical issue. In Islamic business law, tax-related behavior can be assessed through the principles of *maqāṣid al-sharīʻah*, justice (*ʻadl*), and public welfare (*maṣlaḥah*), offering a broader framework for evaluating tax compliance practices.

The theoretical foundation of this study is based on Agency Theory and *Maqāṣid al-Sharīʻah* Theory. Agency Theory explains that managers may engage in tax avoidance to maximize shareholders' wealth by reducing tax burdens, even if such actions create conflicts with state interests. Meanwhile, *Maqāṣid al-Sharīʻah* emphasizes that economic activities should prioritize justice, transparency, and collective welfare.

Tax compliance is an obligation of citizens at the expense of finances, for the benefit of the community, and involves legal regulations regulating social norms on obedient behaviour to pay taxes. (Bruns et al., 2025; Kleber et al., 2025). Tax compliance is a key concern in Indonesia's tax system. Companies often employ fiscal efficiency strategies such as tax avoidance to reduce their tax burden. This perspective helps in identifying tax evasion, thereby supporting efficient, effective, fair, obedient, and compliant law enforcement in the tax system. (Tang et al., 2025). The tax system in Indonesia, including the self-assessment system, has the risk of tax evasion because it relies on the honesty of business actors' taxpayers in calculating, paying, and reporting taxes owed. The self-assessment system is carried out by corporate taxpayers by planning taxes (tax planning), which can be used to take advantage of loopholes in regulations in tax avoidance (tax avoidance).

However, in practice, many business entities implement fiscal efficiency strategies, including tax avoidance, that take advantage of loopholes in tax regulations legally to reduce the tax burden. Tax avoidance is not a managerial diversion but a risky investment activity. Although there is potential for profitability for shareholders, the realization of this potential by reducing the tax burden through managerial action takes advantage of the gap in tax provisions, which is in line with the interests of shareholders. (Ali et al., 2025; Chen et al., 2025; Qin, 2025).

This phenomenon is reflected in the tax payment of Telecommunication Companies, such as in 2023, PT Telekomunikasi Indonesia amounted to IDR 8.796 trillion, down by IDR 1.161 trillion, and in 2024, tax payments amounted to IDR 7.635 trillion. This is because it indicates the practice of tax avoidance carried out by some corporate taxpayers in the telecommunications sector. (Terjaga & Menter, 2025). This is similar in relation to the trade, services, and investment sectors, which include retail, distribution, and investment services companies. Companies in this sector generally have high transaction intensity, diverse capital structures, and complex liquidity management strategies. Liquidity management strategies using alternatives, namely choosing to hold relatively large preventive cash reserves to reduce the potential adverse effects of stock liquidity, have a positive liquidity-cash relationship. (Fujitani et al., 2025; Rehan et al., 2023).

These characteristics open up a wide space for companies to carry out tax avoidance, for example, through depreciation cost arrangements, utilization of interest-bearing debt, and short-term liquidity management. Companies leverage interest expenses for tax avoidance, and how interest deduction restrictions affect tax aggressiveness use interest costs to reduce taxes, and look at the effects of interest deduction restrictions. Loan interest payments are used for tax avoidance. (Parasian, 2025a) .

These differences indicate that the tax management strategy in each company can vary greatly, and open up space for tax avoidance practices that are legal but have an impact on state tax revenue. Therefore, this study is important to analyse the influence of variables such as Fixed Asset Intensity**,** Debt to Equity Ratio (DER), and Current Ratio (CR) on Tax Avoidance, especially in telecommunications sub-sector companies that have a large contribution to the national economy. The intensity of fixed assets can affect the amount of the company's depreciation expense, which ultimately has an impact on the reduction of taxable profits. Network infrastructure, towers, and communication devices are the main components that contribute to the depreciation burden in the telecommunications sector. Companies with high fixed asset intensity tend to have a greater tax avoidance rate. (Asalam, 2022; Astuti & Trisakti, 2023) The greater the proportion of fixed assets to total assets, the higher the tendency of companies to avoid taxes through depreciation expenses.

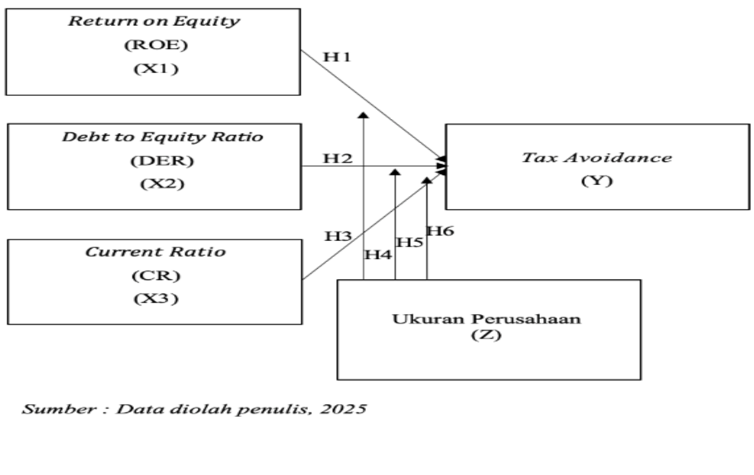
The Debt-to-Equity Ratio (DER) has a significant influence on a company's decision to avoid taxes, describes the proportion of debt to its own capital, and debt generates interest expense that can be deducted from taxable income. Interest restriction and DER ratio ("thin-capitalization rules") have an effect on the Company's tax avoidance. (Dewantara, 2025). The higher the DER, the greater the chance for companies to carry out tax avoidance. Companies with a high DER ratio are more likely to use interest expenses as a tool to reduce their tax burden.

Meanwhile, the Current Ratio (CR) plays a role in influencing a company's tax avoidance strategy and shows a company's ability to meet its short-term obligations. High liquidity allows companies to be more flexible in managing tax expenses, including tax avoidance (Nurfadillah et.al., 2023). Companies with high liquidity are more active in utilizing tax avoidance strategies. Service companies that have a high CR tend to have broader manoeuvres in formulating tax policies that lead to tax avoidance (Firmansyah et.al., 2023).

Company size as a moderation variable in this study can strengthen or weaken the relationship between fixed asset intensity, DER, and CR to tax avoidance. Large companies generally have greater resources, better information systems, and access to a wider range of legal experts and tax consultants, allowing them to undertake more complex tax planning **(**Anjani et.al., 2023). Company size moderates the relationship between Debt-to-Equity Ratio (DER) and Current Ratio (CR) to tax avoidance significantly (Wijayanti et.al., 2021).

This research is important because it provides a deeper understanding of the factors that affect Tax Avoidance in companies, especially through the influence of Fixed Asset Intensity, Debt to debt-to-equity ratio (DER), and Current Ratio (CR). Tax avoidance practices are a crucial issue in corporate governance because they can have an impact on the transparency of financial reporting, the effectiveness of tax policies, and the stability of state revenues.

This research offers novelty through the development of a more comprehensive analysis model by including fixed asset intensity, DER, and current ratio, as well as the use of company size as a moderation variable to see how company characteristics affect tax avoidance levels. In addition, the research focuses on telecommunications sub-sector companies, making a new empirical contribution, as the sector has a unique asset, funding, and liquidity structure that results in more relevant findings for regulators, companies, and investors.



Sumber : Data diolah penulis, 2025

Based on this background, this study aims to examine **the Effect of Fixed Asset Intensity, *Debt to Equity* Ratio (DER), and *Current Ratio* (CR) on *Tax Avoidance* with Company Size as a Moderation Variable (Empirical Study on Telecommunication Sector Companies and Trade, Services, and Investment Sectors Listed on the IDX in 2020–2024)".** The conceptual framework of this study is illustrated in Figure 1. Based on the research framework, the hypothesis could be formalized as follows:

H1: Fixed Asset Intensity has a significant effect on Tax Avoidance of telecommunications sector companies, as well as the trade, services, and investment sectors

H2: Debt-to-Equity Ratio (DER) has a significant effect on Tax Avoidance in telecommunications sector companies, as well as the trade, services, and investment sectors

H3 Current Ratio (CR) has a significant effect on Tax Avoidance in companies in the telecommunications sector, as well as the trade, services, and investment sectors

H4: Company size significantly moderates the effect of Fixed Asset Intensity on Tax Avoidance in telecommunications sector companies, as well as trade, services, and investment sectors

H5: Company size significantly moderates the effect of Debt-to-Equity Ratio (DER) on Tax Avoidance in telecommunications sector companies, as well as trade, services, and investment sectors

H6: Company size significantly moderates the influence of Current Ratio (CR) on Tax Avoidance in telecommunications sector companies, as well as trade, services, and investment sectors

Research Method

Research design in this study uses a quantitative approach with a causal method to analyse the influence of independent variables on tax avoidance with company size as a moderating variable. The research population includes 137 telecommunications sector companies

(sub-sectors J311, J312, J321) as well as trade, services, and investment sectors listed on the IDX for the 2020–2024 period, with a total of 684 financial statements. The sampling technique used is *purposive sampling* with certain criteria (companies are listed on the IDX, publish complete reports, have positive profits, and use Rupiah). The selection resulted in 29 companies with 145 financial statements as samples.

The following *purposive sampling* results are shown in Table 1:

Table 1: Research Purposive Sampling Process

No	Research Sample Criteria	Total
1.	Companies listed on the Indonesia Stock Exchange (IDX) in the telecommunications sub-sector and manufacturing companies in the trade, services, and investment sectors during the 2020–2024 period	137

2.	The Company did not publish its full annual financial statements during the 2020-2024 research period.	(29)
3.	Companies with negative profit levels during the 2020-2024 research period.	(78)
4.	Companies that present financial statements in currencies other than the rupiah	(1)
	Sample Company	**29**

Source: Processed by the Author, 2025

Operationalization of Variables and Instruments

The research variables are operationalized as follows: Tax Avoidance is measured by the Effective Tax Rate (ETR); Fixed Asset Intensity by the ratio of net fixed assets to total assets; DER by total debt to equity; CR by current assets relative to current liabilities; and Company Size by the natural log of total assets.

Data Analysis

Data analysis was carried out through descriptive statistics**,** classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity), and multiple linear regression with moderation. Hypothesis testing uses a t-test to measure the significance of the partial influence of each variable, and a determination coefficient test (Adjusted R^2) to see the magnitude of the contribution of independent variables to tax avoidance.

Results and Discussion

Results

This study employs three independent variables, namely Fixed Asset Intensity, Debt-to-Equity Ratio (DER), and Current Ratio (CR), to examine their influence on corporate tax compliance. The dependent variable in this study is Tax Compliance, proxied by the Effective Tax Rate (ETR), while Company Size serves as the moderating variable. The sample consists of 29 public companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, resulting in 145 observations of financial statement data. The data were analyzed using SPSS version 29. The descriptive statistical results are presented in Table 1:

Table 2: Descriptive Statistics Table

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Intensitas Aset Tetap	145	1.81	78.13	31.52	21.305
Debt to Equity Ratio (DER)	145	8.76	515.34	108.949	96.648
Current Ratio (CR)	145	.18	8.17	1.700	1.192
Tax Avoidance	145	.03	89.35	18.629	8.987
Company Size	145	5.36	13.55	9.340	2.592
Valid N (listwise)	145				

Source: Processed by the Author, 2025

Based on the descriptive statistical analysis, the average value of Fixed Asset Intensity is 31.52, with a standard deviation of 21.305. This indicates that, on average, the sampled public companies allocate approximately 31.52% of their total assets to fixed assets. The relatively high standard deviation reflects considerable variation in asset composition among firms. This finding is important because higher fixed asset intensity may increase depreciation expenses, which can be used as a tax planning mechanism to reduce taxable income. This result supports the study's finding that Fixed Asset Intensity significantly reduces the Effective Tax Rate (ETR), indicating a stronger tendency toward tax avoidance strategies.

The Debt-to-Equity Ratio (DER) shows an average value of 108.949 with a standard deviation of 96.648, indicating that, on average, corporate liabilities exceed shareholders' equity. This reflects a relatively high dependence on debt financing among Indonesian public companies. The empirical findings reveal that DER has a significant positive effect on ETR, suggesting that firms with higher leverage tend to demonstrate greater tax compliance. This result indicates that debt financing, although often associated with tax shields through interest deductibility, may also increase external monitoring and financial discipline, leading to more transparent tax reporting.

The Current Ratio (CR) has an average value of 1.700 with a standard deviation of 1.192, indicating that companies generally possess sufficient liquidity to meet their short-term obligations. This liquidity position reflects a relatively healthy financial condition among the sampled firms. The regression results show that CR significantly increases ETR, implying that firms with stronger liquidity are more capable of fulfilling their tax obligations. This finding suggests that liquidity strength positively contributes to tax compliance, as companies with adequate cash flow are less likely to engage in aggressive tax avoidance practices.

For the dependent variable, Effective Tax Rate (ETR), the average value is 18.629, with a standard deviation of 8.987. This indicates that, on average, companies pay effective taxes amounting to 18.63% of their pre-tax income. The variation in ETR across firms demonstrates differing tax compliance strategies, which may reflect differences in asset structures, leverage, and liquidity management. Since ETR serves as the proxy for tax compliance in this study, a lower ETR may indicate a higher level of tax avoidance, while a higher ETR reflects stronger tax compliance behavior.

Finally, the descriptive analysis of Company Size, measured by the natural logarithm of total assets, shows an average value of 9.340 with a standard deviation of 2.592. This suggests substantial variation in firm size across the sample. The moderating analysis indicates that Company Size strengthens the negative relationship between Fixed Asset Intensity and ETR, meaning that larger firms tend to utilize fixed assets more effectively as part of tax planning strategies. Conversely, Company Size weakens the positive effects of DER and CR on ETR, suggesting that larger firms may adopt more sophisticated tax strategies that reduce the influence of leverage and liquidity on tax compliance. Overall, these findings demonstrate that tax compliance strategies in Indonesian public companies are strongly influenced by financial characteristics and firm scale. From the perspective of state tax law, these strategies remain legally permissible as long as they comply with tax regulations. However, from the perspective of Islamic business law, such strategies must also be assessed based on ethical principles such as justice ('adl), transparency, and public welfare (maṣlaḥah), ensuring that tax compliance contributes not only to legal certainty but also to broader social responsibility.

Discussion

Analysis of The Multiple Linear Regression

This study was conducted using multiple linear regression analysis, where the magnitude of the regression coefficient value can be seen in Table 1 as follows:

Table 3: Hypothesis Test Results

Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.250	.221		14.702	<.001
	Fixed Asset Intensity	-.501	.064	-1.467	-7.788	<.001
	Debt to Equity Ratio (DER)	.200	.055	1.243	3.615	<.001
	Current Ratio (CR)	3.256	.418	1.952	7.791	<.001
	Intensitas Aset Fixed*Company Size	.168	.023	1.535	7.424	<.001
	Debt to Equity Ratio (DER)*Company Size	-.049	.018	-.920	-2.687	.008
	Current Ratio (CR)*Company Size	-.978	.137	-1.999	-7.158	<.001

a. Dependent Variable: Tax Avoidance

Source: Processed by the Author, 2025

Based on the results of the multiple linear regression test in Table 3 above, the following regression model is obtained.

ETR= 3.250–0.501 X1 + 0.200 X2 + 3.256 X3 + 0.168 X1*Z – 0.049 X2*Z – 0.978 X3*Z+e

Fixed Asset Intensity (X1) significant negative effect on tax avoidance (β = -0,501; t = -7,788; sig < 0,001). This means that the higher the proportion of fixed assets, the lower the ETR because depreciation expense reduces taxable profits. These results are consistent with This means that the higher the proportion of fixed assets, the lower the ETR because depreciation expense reduces taxable profits. (Li et al., 2025).

Debt to Equity Ratio (DER) (X2) has a significant positive effect on tax avoidance. (β = 0,200; t = 3,615; sig < 0,001). High DER actually increases ETR due to the existence of interest expense limitation rules that make the tax shield not optimal. A high DER does not automatically result in tax avoidance or low ERR, especially in a strict regulatory environment in limits the interest on debt that can be deducted. Therefore, the company cannot use the entire interest expense as a deductible expense. So that the expected tax shield" from debt becomes less than optimal. This is in line with (Mahardika, 2022; Parasian, 2025b)

Current Ratio (CR) (X3) had a significant positive effect on tax avoidance (β = 3.256; t = 7.791; sig < 0.001). High liquidity makes companies more compliant in paying taxes, so that ETR increases. While liquidity is relatively low (CR is small), companies tend to have stronger incentives to save cash flow, including by reducing cash taxes paid through tax avoidance, so that ETR/Cash ETR falls. Tax avoidance is measured by a decrease in cash-effective tax rates, and the effect is stronger on more financially constrained companies.

Access to funding can reduce financial constraints and is related to a decrease in tax avoidance that supports the high CR/strong liquidity side, then higher tax compliance (ETR increases) (Athira & Ramesh, 2023; Christy, 2024)

The interaction of X1Z (Fixed Asset Intensity*Company Size) had a significant positive effect (β = 0.168; t = 7.424; sig < 0.001). The size of the company reinforces the influence of fixed assets on ETR, as large companies are more scrutinized by regulators.

This explains that the size of the firm reinforces the influence of fixed asset intensity on ETRs, so that in larger companies, changes in fixed asset intensity are followed by higher ETRs (stronger tax compliance/lower tax avoidance).

Theoretically, these findings are consistent with a political cost perspective: large companies face closer public and regulatory attention, so management tends to avoid tax strategies that are considered aggressive or reputationally risky, ultimately pushing ETRs higher. (Katz & Jung, 2023).

The X2Z interaction (DER*Company Size) had a significant negative effect (β = -0.049;
t = -2.687; sig = 0.008). Large companies weaken the influence of DER on ETRs due to the flexibility of capital structure and better access to tax planning. Large companies tend to have the resources to invest in tax planning by using professional tax services or auditor-provided tax services, so the reduction of the ETR is not heavily dependent on the DER; they can manage the tax burden through other channels than leveraging. (Parasian, 2025b).

The X3Z interaction (CR*Company Size) had a significant negative effect (β = -0.978; t = -7.158; sig < 0.001). The size of the company weakens the influence of the CR on the ETR because large companies have more complex tax planning. This research shows that when companies face financial constraints, they tend to do more tax avoidance, which is measured as a decrease in cash-effective tax rates. This means that variables related to the availability of funds are indeed relevant to cash taxes, but in large companies, tax planning channels can replace the role of pure liquidity (Kim, 2022). Firm size does act as a moderator on the relationship of certain financial determinants to tax avoidance, even though the context of the variables is not always CR, the mechanism of resource and planning capacity in large firms

Partial Hypothesis Test (t-test)

Based on Table 2, the following is an explanation of the results of the partial hypothesis test
(t-test) based on Decision t tabel=1,656; α=0,05

Table 3: Hypothesis Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.250	.221		14.702	<.001
	Intensitas Aset Tetap	-.501	.064	-1.467	-7.788	<.001
	Debt to Equity Ratio (DER)	.200	.055	1.243	3.615	<.001
	Current Ratio (CR)	3.256	.418	1.952	7.791	<.001
	Intensitas Aset Tetap*Ukuran Perusahaan	.168	.023	1.535	7.424	<.001
	Debt to Equity Ratio (DER)*Ukuran Perusahaan	-.049	.018	-.920	-2.687	.008
	Current Ratio (CR)*Ukuran Perusahaan	-.978	.137	-1.999	-7.158	<.001

a. Dependent Variable: Tax Avoidance

Source: Processed by the Author, 2025

The Effect of Fixed Asset Intensity on Tax Avoidance (H1)

Fixed Asset Intensity Variable $\beta = -0{,}501$; $t = -7{,}788 < -1{,}656$; sig $< 0{,}001$ negative significant. This means that the proportion of fixed assets is higher, so the ETR decreases (an indication of tax avoidance increase). In the telecommunications sector (tower/large network assets), the strong depreciation suppresses taxable profits; in PJI, assets remain relatively lower, so that the effect remains negative but more moderate. Telecommunications, as a "capital-intensive" industry, discusses network investment and links fiscal/tax policy to investment dynamics. This is suitable for the context of "large tower/network assets". In theory, reputational and supervisory pressures limit aggressiveness, but the shrinkage effect remains dominant. (Katz & Jung, 2023).

The Effect of Debt-to-Equity Ratio (DER) on Tax Avoidance (H2)

The Debt-to-Equity Ratio (DER) variable obtained $\beta = 0.200$; $t = 3.615 > 1.656$; GIS < 0.001 is a significant positive. That is, the DER increases, then the ETR increases (the interest tax shield is not optimal due to interest restriction rules). In the telecommunications sector, many infrastructure debts are subject to interest restrictions. In the PJI sector, the expansion of debt-based retail/services increases risk and ETR. In theory, the rules limit the manoeuvres of the agent; A high DER is a risk signal, so that the space for tax planning through debt is reduced. A higher DER increases the generally deductible interest expense, so that taxable profits fall and ETR decreases (an indication of increased tax avoidance/tax aggressiveness). In line with that, Indonesia's *thin-cap* reform study defined tax aggressiveness as the extent to which companies "use interest expense to shield income from tax" and found that companies with higher debt ratios tended to be more aggressive, while limiting debt tax benefits reduced aggressiveness. (Arief et al., 2024; Dewantara, 2025; Putri et al., 2024)

The Effect of *Current Ratio* (CR) on Tax Avoidance (H3)

The Current Ratio (CR) variable obtained $\beta = 3.256$; $t = 7.791 > 1.656$; sig < 0.001, significantly positive. This means that high liquidity means higher ETR (stronger tax compliance). In the telecommunications sector, cash flow is stable, and compliance is high. In the PJI sector, liquidity supports **working** capital so that the priority of paying taxes increases. In theory, managers reduce agency conflicts; High CR is a signal of health and compliance. These findings are consistent with the financial constraints literature, which shows that when companies face liquidity pressures/funding constraints, telecommunications companies lead to increased tax avoidance in cash savings, which is reflected in lower cash-effective tax rates; this effect is stronger in more financially constrained companies. Cross-company evidence suggests that conditions that increase funding pressures and limitations encourage companies to be more aggressive in reducing tax burdens, reflected in declining cash effective tax rates, especially in more financially constrained companies. (Haque et al., 2023). A high CR can be seen as an indicator of the ability to meet short-term obligations and the availability of cash/assets currently, resulting in less incentive to reduce tax payments through avoidance strategies, and management prefers compliance to reduce the risk of audits, sanctions, and reputational costs.

The Effect of Company Size on Fixed Asset Intensity on Tax Avoidance (H4)

The company size variable moderates the Fixed Asset Intensity gained $\beta = 0{,}168$. $t = 7{,}424 > 1{,}656$; sig $< 0{,}001$ Strengthening influence. This means that larger companies make the effect of fixed assets on ETRs stronger (supervision and reputation). In the sector, Telecommunications (massive fixed assets), is also seen in the large-scale PJI sector (warehouses/outlets). High fixed asset intensity increases the depreciation burden, which is generally recognized as a deduction of taxable profit, thus potentially lowering ETR (an indication of higher tax avoidance/tax aggressiveness). However, the size of the company can moderate the relationship through political costs and oversight mechanisms: larger companies tend to be in the public/regulatory spotlight and have stronger control and governance systems, so they are more cautious in risky tax strategies and tend to maintain compliance. (Hendayana et al., 2024).

The Effect of Company Size on Moderating the Debt-to-Equity Ratio (DER) on Tax Avoidance (H5)

The company size variable moderated the Debt to Equity Ratio (DER), obtaining $\beta = -0.049$; $t = -2.687 < -1.656$; sig = 0.008, weakening the influence. This means that in large companies, impact of DER on ETR is smaller (access to financing and tax planning is wider).

In the telecommunications sector and large PJIs, they have complex funding instruments so that they do not depend on interest tax shields. Telecommunication companies and PJI have resources, tax planning strategies, and broader financing instruments, so that the effect of DER in encouraging tax avoidance can be stronger. (Wang & Wilson, 2021).

The Effect of Company Size on Moderating the Current Ratio (CR) on Tax Avoidance (H6)

The company size variable moderated Current Ratio (CR) obtained $\beta = -0.978$; $t = -7.158 < -1.656$; sig < 0.001, weakening the influence. This means that in large companies, the effect of CR on ETR decreases (liquidity is managed through more careful tax planning). In the sector: telecommunications and large PJIs leverage complex tax governance & strategies; high liquidity is more of a compliance signal than a tool of tax aggressiveness. Firm size plays a role in strengthening/weakening the influence of certain financial variables on tax avoidance. (Rahayu, 2022; Widyastuti et al., n.d.).

Coefficient of Determination Test (Adjusted R^2)

The determination coefficient is used to find out how far the model is able to explain the variation of dependent variables. The following are the results of determination coefficient test:

Table 4: Determination Coefficient Test Results (Adjusted *R2*)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.744[a]	.553	.534	.48284	2.049

a. Predictors: (Constant), Current Ratio (CR)*Company Size, Fixed Asset Intensity*Company Size, Debt to Equity Ratio (DER)*Company Size, Fixed Asset Intensity, Current Ratio (CR), Debt to Equity Ratio (DER)
b. Dependent Variable: Tax Avoidance

Source: Processed by the Author, 2025

Based on the results of the determination coefficient test presented in Table 3, an Adjusted R^2 value of 0.534 was obtained, which means that independent variables, namely Fixed Asset Intensity, Debt to Equity Ratio (DER), Current Ratio (CR), and their interaction with Company Size, were able to explain the variation in Tax Avoidance changes 53.4%, while the remaining 46.6% is explained by other variables outside the research model that are not disclosed in the model in this study, including profitability (ROA), because the level of profit affects the company's incentives to carry out tax planning, inventory intensity and other asset structures that involve differences in fiscal recognition; Corporate governance such as the proportion of independent board of commissioners, audit committees, and quality auditors who play a role in controlling tax aggressiveness; as well as corporate social responsibility (CSR) and reputational pressures that can restrain tax avoidance practices. Additionally, company growth, corporate risk, financial distress, ownership structure, tax incentives, and sectoral regulations all have the potential to impact the tax avoidance rate. External factors, such as macroeconomic conditions, tax policies, and the intensity of tax authoritis supervision, also explain the variation in tax avoidance behaviour.

Comparative Analysis: State Tax Law vs Islamic Business Law

This study concludes that tax compliance strategies in Indonesian public companies are significantly influenced by financial characteristics, particularly Fixed Asset Intensity, the findings of this study indicate that tax compliance strategies employed by Indonesian public companies can be understood through two complementary yet distinct perspectives: state tax law and Islamic business law. This comparative analysis is essential because corporate tax behavior is not merely a legal matter but also an ethical issue that affects broader socio-economic justice.

From the perspective of Indonesian state tax law, corporate tax planning strategies such as the optimization of fixed asset depreciation, debt financing structures, and liquidity management are generally considered legally permissible as long as they comply with existing tax regulations. Under the self-assessment system, taxpayers are granted the authority to calculate, pay, and report their own tax obligations. This system inherently provides room for legal tax planning, allowing companies to minimize tax liabilities without violating statutory provisions.

The empirical finding that Fixed Asset Intensity significantly reduces the Effective Tax Rate (ETR) reflects the use of depreciation mechanisms as part of legitimate tax planning. Likewise, debt financing reflected in the Debt-to-Equity Ratio (DER) may generate interest expenses that are deductible under tax regulations, thereby influencing taxable income. In this sense, tax avoidance remains distinguishable from tax evasion: the former operates within legal boundaries, while the latter constitutes an unlawful act.

However, although legally accepted, aggressive tax planning may create tensions with the broader objectives of tax law, namely ensuring equitable state revenue collection and supporting national development. Therefore, legality alone does not necessarily guarantee substantive fairness.

In contrast to the positivist orientation of state tax law, Islamic business law evaluates tax compliance not only based on legal permissibility but also on ethical legitimacy. In Islamic economic thought, financial conduct must align with moral values such as honesty (*ṣidq*), trustworthiness (*amānah*), justice (‘*adl*), and public benefit (*maṣlaḥah*). These principles require economic actors to fulfill obligations in a manner that supports collective welfare.

From this perspective, strategies aimed solely at minimizing tax burdens—even if legally valid—may be ethically problematic if they undermine the social function of taxation. Taxes can be understood as a modern form of collective obligation that contributes to public welfare, infrastructure, and social justice. Therefore, excessive tax avoidance may conflict with the Islamic objective of preserving social balance and public interest.

The use of debt as a tax shield, for example, may be legally justified but should be assessed carefully in Islamic business ethics, particularly when it leads to financial exploitation or excessive risk. Similarly, asset optimization for tax reduction must be balanced with the intention of maintaining fairness and avoiding harm to society.

The comparative findings highlight three core principles that distinguish the two legal frameworks: justice, transparency, and public welfare. Justice *(‘adl*) in state tax law is primarily procedural, emphasizing compliance with formal legal provisions. In Islamic business law, however, justice is both procedural and substantive, meaning that compliance must also reflect fairness in its outcomes for society.

Transparency in state tax law focuses on accurate reporting and disclosure obligations. Under Islamic principles, transparency extends further into moral accountability, requiring sincerity and honesty in financial decision-making. This broader concept of transparency discourages manipulative practices that exploit legal loopholes.

Public welfare (*maṣlaḥah*) serves as the ultimate objective in Islamic business law, whereas in state tax law it functions as an indirect consequence of tax collection. This difference suggests that Islamic business law provides a more value-oriented framework for evaluating corporate tax compliance.

Thus, this comparative analysis demonstrates that while Indonesian tax law legitimizes tax planning within statutory boundaries, Islamic business law introduces a moral framework that evaluates whether such practices contribute to justice, transparency, and the welfare of society. Integrating these two perspectives offers a more comprehensive understanding of corporate tax compliance, bridging legal certainty with ethical responsibility.

Conclusion

This study concludes that tax compliance strategies in Indonesian public companies are significantly influenced by financial characteristics, particularly Fixed Asset Intensity, Debt-to-Equity Ratio (DER), and Current Ratio (CR), with Company Size playing an important moderating role. The findings reveal that Fixed Asset Intensity has a significant negative effect on the Effective Tax Rate (ETR), indicating that companies with higher fixed assets tend to utilize depreciation mechanisms as part of tax planning strategies. In contrast, DER and CR have significant positive effects on ETR, suggesting that debt financing structures and strong liquidity conditions can contribute to higher tax compliance.

The moderating role of Company Size shows that larger firms tend to have more complex tax planning strategies, strengthening the relationship between Fixed Asset Intensity and tax avoidance while weakening the influence of DER and CR. From the perspective of state tax law, these strategies are generally considered legitimate as long as they remain within legal boundaries. However, from the perspective of Islamic business law, tax compliance must not only be measured by legality but also by ethical principles such as justice (*'adl*), transparency, and public welfare (*maṣlaḥah*). Therefore, this study contributes by integrating legal and ethical dimensions into the discussion of corporate tax compliance.

This study is limited to publicly listed companies in selected sectors during the 2020–2024 period and relies solely on quantitative secondary data, which may not fully capture the ethical and managerial motivations behind corporate tax behavior. Future research is recommended to expand the scope of industrial sectors, use a longer observation period, and incorporate qualitative or mixed-method approaches to provide a more comprehensive understanding of corporate tax compliance from both legal and ethical perspectives.

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