RELIGIOUSNESS AS A SHIELD IN CORPORATE TAX AVOIDANCE

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ABSTRACT

This study analyses the effect of asset structure, leverage, profitability, and sales growth on tax avoidance and uses religiosity as a moderating variable. The associative research focuses on 96 non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022, with 34 companies selected using purposive sampling, resulting in 170 observations. The data comprises secondary data, including financial reports and Sharia stock list information. Data analysis using multiple linear regression and moderated regression analysis (MRA). The testing stages start from descriptive statistics, classical assumption testing, and hypothesis testing to evaluate the relationship between variables and the moderating role of religiosity in tax avoidance. The results reveal that asset structure, leverage, and profitability do not affect tax avoidance, while sales growth has a negative effect. Religiosity also demonstrates a positive effect on tax avoidance. The moderation results show that religiosity weakens the effect of asset structure and profitability on tax avoidance but does not moderate the influence of leverage. Conversely, religiosity strengthens the effect of sales growth on tax avoidance. This study can complement existing theories, and religiosity can be a key factor for future research in generating various hypotheses. This research can also be a reference for companies and stakeholders when determining tax policies.

Keywords: asset structure, leverage, profitability, sales growth, religiosity.

INTRODUCTION

Indonesia has the largest Muslim population in the world, almost 87% of the total population. Most live on large islands such as Java, Sumatra, and Sulawesi. Islam spread in the 13th century by Arab, Gujarati, and Persian traders. Coastal Aceh led the spread of Islam. Local traditions influence Indonesian Islam, creating unique practices and cultures. NU and Muhammadiyah played an important role in developing Islam. Islamic education at religious schools led to rules and regulations aligning with Islamic teachings (Heriyadi and Iqbal 2022). Rules govern aspects of life, such as politics and economics; one is Sharia law (Zubaidah 2016). Sharia is defined as a system of Islamic law based on the Qur'an and Hadith (Zubaidah 2016). It governs Muslim life, including worship, social and economic interactions, criminal offences, and morality. Protecting five key aspects, religion, life, morality, family, and property, is key to achieving justice, prosperity, and social order. Methods used to establish law include *ijma'* (consensus), *qiyas* (analogy), and *maslahah mursalah* (public interest), though their implementation varies by country and community.

In the economy, Sharia law is an option for managing economic businesses. The business that is managed must avoid usury and avoid *gharar* and *maysir*. Usury in Islam means interest, which is considered *haram*. While *gharar* means excessive uncertainty, *maysir* means speculation (Zakariya 2018). All of these things are prohibited in Islam. Therefore, the Indonesian Sharia stock exchange was created, which allows investment without involving usury, gharar and maysir. Another factor that led to the establishment of the Indonesian stock exchange was Muslim investors' market needs and demands (Ahyar and Yasin 2023). Increased economic participation boosts state revenues and encourages the development of the Sharia industry. Examples of the impact of the development of the Sharia industry are the emergence of innovative financial products, increased stability and sustainability of financial markets, attracting Muslim investors to invest and increasing economic relations on an international scale that have Sharia financial markets. All of these will affect the economy and state revenues. Increased state revenue can be obtained from tax collection from personal and corporate taxpayers (Setyagustina et al. 2023).

Sharia companies carry out their business operational activities while adhering to Sharia principles. Sharia companies must avoid various prohibitions that contain elements of gharar (elements of uncertainty) and usury. One that can increase uncertainty is tax avoidance because it poses a risk to the business. Companies can exploit shortcomings in charge guidelines and arrangements to limit the taxation rate that will be kept to the state. However, it differs from Sharia companies, which have the principles of justice and transparency. Sharia prioritizes justice in all aspects of life, including paying taxes. The contribution of funds to public coffers through taxation is essential to societal well-being. Furthermore, the Sharia principle of transparency encourages disclosing economic activities and transactions. Avoiding taxes through unscrupulous means would be at odds with this principle (Visser 2013).

Sharia companies advocate complying with the legitimate authority and the laws of the country as long as those laws do not contradict the basic principles of Islam. Paying taxes is part of complying with the laws of the state. The state is considered to have the right to levy taxes to finance public services and infrastructure development that benefit society. Therefore, unauthorized avoidance of taxes may be considered a disregard for this obligation (Syarifuddin et al. 2020). Islamic companies are considered trustworthy in performing their obligations honestly, including tax obligations (Fidiana 2020). This trust includes integrity in reporting income and paying taxes. Honesty is one of the core values in Islam. Avoiding taxes by dishonest means goes against the value of honesty taught by Islam. Sharia principles strongly emphasize fairness, transparency, and honesty, all contrary to illegal tax avoidance (Nafis 2017). Instead, Sharia encourages legal and ethical tax planning as a form of prudent financial management and social responsibility. By complying with tax obligations, Muslims comply with the country's laws and carry out their mandate and social responsibility through Islamic teachings (Ihwanudin et al. 2022).

It is feasible for businesses to exploit loopholes in tax regulations to reduce the tax liability to the government (Onu et al. 2019). Numerous studies have focused on the relationships between tax avoidance and various factors. For instance, Anggriantari and Purwantini (2020) research indicated that an organization's asset structure positively affects its propensity to engage in tax avoidance. Conversely, Annisa et al. (2023); Agustiani et al. (2024) findings suggested that the asset structure of an organization has no bearing on its likelihood of engaging in tax avoidance. Similarly, Sriyono and Andesto (2022) research, which was conducted in collaboration with Shubita (2024b), indicated that an organization's profitability negatively impacts its proclivity to engage in tax avoidance. However, in contrast to this finding, Rahmayani, Hernita, and Riyadi (2023) research, conducted in collaboration with Mulyati et al. (2019) indicated that an organization's profitability positively affects its propensity to engage in tax avoidance.

In Fauzan, Ayu, and Nurharjanti (2019); Darsani and Sukartha (2021); Sriyono and Andesto (2022) research, it was found that leverage positively affects tax avoidance. However, no such effect was observed in research by Cahyati et al. (2023); Nabil et al., (2024). Similarly, while Dewinta and Setiawan (2016) research indicated that sales growth positively affects tax avoidance, Sriyono and Andesto (2022); Musyafa'ah, Budiman, and Delima (2023) found no such effect. In light of the aforementioned inconsistencies, this study aims to re-measure the results of previous studies and contextualize them within the framework of companies listed on the Indonesian Sharia Exchange. This study aims to ascertain whether Sharia-compliant companies with high religiosity have effectively implemented Sharia principles to prevent tax avoidance. This study contributes to our knowledge of this phenomenon, particularly given that research into the moral value of religiosity needs to be improved despite much research on tax avoidance. This study is novel regarding the role of religiosity as a moderating variable of the factors studied. Furthermore, there needs to be more discourse regarding contextual approaches relating to religiosity and Sharia practices in firms, particularly in Muslim-majority countries such as Indonesia. Religiosity can play a dual role in tax compliance: as a moral control mechanism or a moral justification. Prior literature examining religiosity using transfer pricing variables has demonstrated a clear correlation with tax avoidance, as evidenced by Budiman and Bandi (2022). Consequently, the objective of this study is to propose a set of alternative variables to assess whether an entity's religiosity can influence the relationships between its asset structure, leverage, profitability, and sales growth, thereby acting as moderating variables on the phenomenon of tax avoidance.

LITERATURE REVIEW

Agency Theory

Agency theory was first advanced in Jensen and Meckling's (1976) exploration. Agency relationships are *"agency relationships as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent"*. With the extent of responsibility for part of the organization, administrators will generally act in private interests and not to boost the organization. The agency hypothesis arose when business exercises were not generally consistently overseen directly by the element proprietor, so the executives were given over to specialists. After that, the owner asks the auditor to determine whether the agent's financial reports are appropriate for the owner. The importance of agency theory has increased with the expansion of global capital markets (Itan et al. 2024). As a result, agents are increasingly expected to be financially responsible, as evidenced, among other things, by audited financial reports and budget realization reports.

Accounting Positive Theory (PAT)

Watts and Zimmerman (1990) wrote about positive accounting theory in The Accounting Review journal. Positive accounting makes sense of the reasons for accounting strategies that are an issue for organizations and gatherings keen on fiscal reports and foresees the results of bookkeeping arrangements to be picked under specific circumstances. Positive accounting is a clarification or thinking to experimentally exhibit the reality of bookkeeping proclamations or peculiarities as indicated by current realities. The reward plan speculation, the obligation arrangement speculation, and the political costs theory are the three profit the executive's speculations that positive accounting proposes. The theoretical framework of PAT rests on three foundational assumptions: the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis. The "bonus plan hypothesis" postulates that managerial remuneration based on financial performance will result in the selection of accounting policies designed to enhance net income to maximise bonus or incentive payments. In contrast, the debt covenant hypothesis directs attention towards companies that bear debt obligations. When a company is on the verge of violating debt covenants, managers frequently select accounting policies that enhance earnings to enhance those financial ratios (Osho and Ayorinde 2018). The political cost hypothesis posits that large companies or those under public scrutiny tend to suppress net income to avoid attention from regulators, the government, or the public (Kejriwal 2022). This is typically accomplished by selecting conservative accounting policies, such as the early recognition of costs or the avoidance of revenue recognition. This strategy is designed to mitigate the risk of higher taxes or regulatory intervention.

Theory of Planned Behavior (TPB)

The theory of planned behavior (TPB) is popularized by Ajzen (1991). This study elucidates the impact of social norms and religious adherence on the phenomenon of tax evasion. The TPB postulates that three foundational elements influence an individual's behavioral disposition: attitude toward the behavior in question, subjective norm, and perceived behavioral control (PBC). The term "attitude toward the behavior" denotes an individual's appraisal of action, whether positive or negative. In the TPB model, the subjective norm component represents the perceived social pressure exerted by the individual's social context. The construct of PBC encompasses an individual's perception of their capacity to regulate the behavior in question (Sniehotta, Presseau, and Araújo-Soares 2014). The three elements are interdependent and collectively contribute to the formation of an individual's intention to engage in a specific behavioral act. This intention, in turn, exerts an effect on the individual's actual actions. The TPB postulates that an individual's intentions are a direct indicator of subsequent behaviors, the influence of which is contingent upon attitudes towards those behaviors and perceptions of subjective norms reflecting beliefs regarding the approval of actions. The term "referents" denotes religious leaders and congregants whom individual participants may utilize as a point of comparison, seek counsel or guidance from, or otherwise consider to be a source of influence (Ajzen 2020). These psychological factors significantly influence an individual's actual tax compliance behavior (Agbetunde, Raimi, and Akinrinola 2022). Perceived behavioral control concerns self-efficacy and an individual's ability to influence their actions (Tjondro 2018; Ajzen 2020).

Tax Avoidance

Tax avoidance may be defined as using legally permitted strategies, including exploiting loopholes or weaknesses in tax regulations, by taxpayers to reduce their tax liabilities (Baerentzen 2022; Winarto and Nisa 2023). This practice is distinct from tax evasion, which is explicitly unlawful and entails contravening the law. Although legally sound, tax avoidance is often considered unethical, as it may contravene the underlying legislative intent and the fundamental principle of fairness within the tax system. Frequently, the objective of tax avoidance is to diminish the tax burden without significantly altering the taxpayer's underlying economic activities (Juliani and Finatariani 2023).

Principal strategies employed to avoid taxation include taxpayers frequently utilizing income splitting, income conversion, and tax liability postponement to reduce their overall tax obligations (Kenkre 2018). The income-splitting strategy entails transferring income to another entity or individual with a comparatively lower tax liability, frequently within family-owned businesses or trusts. In contrast, income conversion entails the transformation of taxable income into forms not subject to taxation, such as capital gains. Furthermore, taxpayers may defer tax payments by prioritizing deductible expenses over taxable income, thereby postponing their tax liability through designated mechanisms (Hassan et al. 2024).

A general anti-avoidance rule (GAAR) is a legislative instrument designed to address tax avoidance strategies not specifically addressed by other rules (Kenkre 2018). This regulation applies primarily to all transactions determined to aim at tax avoidance. This rule gives tax authorities the flexibility to assess whether a transaction contravenes the legislative intent. A company's strategic approach to taxation is commonly called "tax avoidance." This business practice carries inherent risks, including potential fines and adverse public opinion, should it be deemed to contravene legislative intent. The company will benefit from tax avoidance, but it can also reflect managers' personal interests by manipulating profits and providing investors, financial analysts, and other stakeholders with inaccurate information (Vitols 2023).

Religiosity

The religiosity theory examines how an individual's religious values, beliefs, and practices inform their attitudes, morals, and behaviors across various aspects of life (Mufida 2019). Religiosity can be classified into two dimensions: intra-religiosity and inter-religiosity (Nwosu 2020). Intra-religiosity emphasizes the relationship between the individual and the deity, or indeed the entity that the individual deifies, focusing on the religious duties the individual feels compelled to perform. Conversely, inter-religiosity pertains to social interactions, emphasizing how religious values facilitate cooperation, empathy, and concern for the broader community. These factors influence the individual's propensity to engage in prosocial behavior, the moral standards they espouse, and their adherence to the social norms that regulate human interactions, including compliance with the legal and civic requirements that govern the payment of taxes. Religiosity fosters positive behavior by instilling profound moral and social values (De Groot and Steg 2009). The inter-religious dimension exerts a more pronounced influence than the intra-religious dimension, thereby underscoring the role of religion in fostering compliant and responsible behavior (Agbetunde, Raimi, and Akinrinola 2022).

Asset Structure

Resource structure is the proportion between fixed resources and absolute resources. This asset structure is a crucial factor in the funding process because it is directly related to the business to boost profits. Assets generally refer to the resources a company uses to generate profits. Resource structure is a mix of a few organizational resources utilized in deciding the size of fixed and current resources (Wahyuni and Khoirudin 2020). Companies that invest most of their capital in fixed assets will prioritize utilizing permanent capital, including their own, to meet their capital requirements, with foreign capital serving as a complement. The link between the structure of assets and tax lies in how assets are used and reported and how they affect a company's tax liability. In addition, an asset structure with a high proportion of current assets eases tax payments due to better liquidity, while illiquid assets such as property can increase tax complexity despite the high value of the asset. With the right strategy, companies can optimize their asset structure to minimize their tax burden within the rules legally (Shi 2021).

Leverage

Leverage is a ratio that indicates a company's success handles its long-term responsibilities and financial risks (Hendayana et al. 2024). It also shows whether the assets owned are sufficient to meet its current liabilities. The capacity of a firm to control its debt is inversely proportional to the leverage ratio, whereas a smaller ratio indicates less control over debt. Companies can exchange the tax advantages of debt financing for the risk of bankruptcy, also known as the leveraged trade-off theory (Nebie and Cheng 2023). This theory explains how a firm's capital structure decisions impact tax liability, bankruptcy risk, and debt utilization. The debt ratio (DR), debt to asset ratio (DAR), debt to equity ratio (DER), and time interest earned ratio (TIE) are metrics that can be used to measure leverage (Kasmir 2016). This study will measure the debt a company owes to the equity it owns using the debt-to-equity ratio. The purpose of this ratio is to determine the amount of capital required, considering various forms of capital and their definition as collateral for existing debt (Knaisch 2024).

Profitability

The profitability ratio is a metric used to assess a company's capacity to generate profits within a specified time frame (Shubita et al. 2024). One of the financial statistics used to assess a business's ability to generate profits from its assets is profitability. In order to make an accurate assessment, investors may consider utilising this profitability ratio to evaluate the company's earnings. A higher profitability ratio indicates a business is more likely to be profitable. Conversely, a lower profitability value suggests the company is not profitable. Net profit margin (NPM), gross profit margin (GPM), return on assets (ROA), operating profit margin (OPM), and return on equity (ROE) are used to measure profitability (Hery 2016, 193). All profitability ratios apply to businesses and can be used. The ratios can be adapted to fit a company's needs. This research focuses on the return on assets ratio. The "return on assets" ratio indicates how well a business manages its assets. A higher ratio means more assets are being used to generate profits. A lower ratio means fewer assets are being used to generate profits.

Sales Growth

Growth ratios are included in estimating an organization's capacity to keep up with its monetary position in relation to the economy and its specific industry (Shubita 2024a). The growth ratio can only be calculated using data that covers a specific period. One of the uses of growth ratios is to estimate when expansion will occur. Some examples of growth ratios include earnings per share, dividends per share, net income growth, and sales growth. In this study, the sales growth ratio will be used. To track revenue growth, we use data from the last seven years. Sales growth is a tracking that clarifies the company's efforts to increase its sales (Kasmir 2016). High sales growth indicates that sales are increasing because the products or services sell well. Sales growth can also decrease depending on the company's condition or the emergence of new competitors in the same company field.

Hypothesis Development

Asset structure describes the level of fixed resources held by an organization. The company's fixed assets, particularly those with a depreciable value, permit the company to reduce its taxable profit by reporting depreciation expenses. In the context of agency theory, the potential for conflicts arises when there is a discrepancy between owners' and managers' interests. Whereas owners' objective may be to enhance the firm's value through tax avoidance strategies, managers are driven by alternative objectives, such as the retention of control or the improvement of their own remuneration. These divergent agendas could result in the implementation of relatively safe tax strategies. To mitigate conflicts, owners often implement monitoring mechanisms such as audits and performance-based incentives to maintain tax avoidance strategies within legal limits and ensure long-term benefits. Asset structure, if utilized appropriately, can be a strategic tool in tax management. However, if misused, it can magnify agency conflicts and pose legal risks to the firm. This suggests a positive correlation between the ratio of fixed assets to total assets and tax liability, with businesses with a higher proportion of fixed assets paying less taxes than those with a lower proportion of fixed assets. According to Anggriantari and Purwantini (2020) research, asset structure positively affects tax avoidance.

H_1 = Asset structure positively affects tax avoidance.

The concept of leverage affects tax avoidance through the mechanisms elucidated by agency theory and positive accounting theory. Agency theory posits that creditors who oversee highly leveraged firms tend to curtail aggressive tax avoidance practices, thereby reducing default risk and ensuring the firm's continued stability. Concurrently, positive accounting theory posits that debt covenants, pressures for transparency and reputational risk encourage those firms with high leverage ratios to curtail tax avoidance practices. Due to the strict monitoring of their financial activities by creditors and the authorities, companies with significant debt obligations tend to adopt a more conservative approach to taxation. According to Fauzan, Ayu, and Nurharjanti (2019); Hendayana et al. (2024) research, leverage positively affects tax avoidance.

H_2 = Leverage positively affects tax avoidance.

The positive accounting theory (PAT) framework offers a valuable lens through which to examine the nexus between the effective tax rate (ETR) and corporate profitability. The tenets of positive accounting theory assert that managerial accounting decisions are made by the self-interest of the decision-maker, including considerations related to bonuses and compensation. As profitability increases, the incentive to avoid taxes may diminish, as managers have already realized a substantial portion of the profits generated by the company's performance. Additionally, companies with high profitability are more likely to possess a favorable reputation and evade rigorous examination by tax authorities. Therefore, the correlation between the effective tax rate (ETR) and company profitability aligns with the fundamental premise of positive accounting theory (PAT), which posits that economic considerations primarily drive accounting decisions. Shubita (2024a) research states that profitability negatively affects tax avoidance.

H_3 = Profitability negatively affects tax avoidance.

Sales growth can increase incentives for tax avoidance, but this relationship is influenced by external factors such as regulation, transparency, and corporate culture. Fair tax regulations and strict enforcement can help reduce the risk of excessive tax avoidance. Agency theory helps explain how conflicts of interest between managers and owners can affect sales growth and tax avoidance. Solutions such as good governance, transparency, and balanced incentives can help reduce these conflicts and ensure that decisions support the company's long-term goals. Positive accounting theory (PAT) is relevant in understanding the relationship between sales growth and tax avoidance because it explains the motivations behind managers' accounting choices. Sales growth can encourage managers to choose accounting policies that increase reported income. At the same time, tax avoidance is often a tool to maximize firm value, but with the consideration of existing political and contractual risks. Dewinta and Setiawan (2016) research states that sales growth positively affects tax avoidance.

H_4 = Sales growth positively affects tax avoidance.

The impact of religiosity on tax avoidance can be better understood by employing the analytical lenses of agency and positive accounting theories. In the context of agency theory, the cultural norms of a company, including the level of religiosity among its managerial personnel, may significantly influence how conflicts of interest between proprietors and managers are addressed. Incorporating religious values into managerial practices is often associated with a reluctance to pursue tax avoidance strategies that could prove detrimental to the company or violate legal requirements. In positive accounting theory, religiosity functions as an instrument for moral constraint, impeding the proclivity of firms to exploit tax loopholes excessively and aggressively. This is consistent with the contract efficiency hypothesis, which suggests that a culture of legal compliance can be fostered without extensive external monitoring. However, religiosity can be lessened by the bonus plan hypothesis. This indicates that managers may engage in tax avoidance despite their religious beliefs if it financially benefits them. Thus, religiosity plays an important role in establishing the equilibrium between economic incentives, morality, and legal compliance.

H_5 = Religiosity negatively affects tax avoidance.

The influence of religiosity on the interconnection between asset structure and tax avoidance can be explained using a synthesis of two theories. Agency theory says conflicts between managers and owners over asset management are common. A significant asset base allows more tax evasion, e.g. through depreciation manipulation or asset allocation in low-tax jurisdictions. Religiosity can mitigate the inclination to exploit assets for tax avoidance. Such religiosity may also mitigate agency conflicts by encouraging transparent, stakeholder-serving actions. In positive accounting theory, economic incentives shape accounting policy selection, including those about tax avoidance. Complex asset structures enable firms to leverage tax incentives. Nevertheless, religiosity may act as a limiting factor, as embedded ethical values reduce the incentive for firms to leverage legal loopholes that are legally permissible but considered unethical. The bonus plan hypothesis of positive accounting theory suggests religiosity influences managerial behavior, with tax compliance taking precedence over profit enhancement. Religiosity reduces the link between asset structure and tax avoidance. Two main mechanisms produce this effect. It limits opportunism by agency theory. Secondly, ethical and compliant accounting policies are preferred, as postulated by positive accounting theory.

H_6 = Religiosity weakens the relationship asset structure on tax avoidance.

Religiosity may influence the relationship between leverage and tax avoidance by encouraging ethical conduct in business. Agency theory says that high levels of debt influence managers to reduce tax liabilities to improve cash flow and meet interest expenses. Religiosity helps managers avoid opportunism by emphasizing standards and accountability. Highly leveraged firms often use tax avoidance to reallocate resources toward interest payments. Religiosity deters tax avoidance, even when it benefits financially. The association between religiosity and the political cost hypothesis (PCH) posits that firms with religious values tend to avoid negative attention from regulators or the public. Religiosity balances economic and ethical pressures, weakening the link between leverage and tax avoidance.

H_7 = Religiosity weakens the relationship leverage on tax avoidance.

The impact of religious belief on the relationship between financial performance and the avoidance of taxation may be illuminated by the lenses of agency theory and positive accounting theory. These theoretical frameworks suggest that religiosity acts as a moderating influence on managerial behavior within an organizational context. Religiosity influences managerial behavior by providing a framework of ethical values instilled through religious teachings. These principles prevent opportunistic behavior and the exploitation of aggressive tax avoidance strategies. Following positive accounting theory, religiosity encourages corporations to prioritize tax compliance to maintain their reputation and mitigate the political and legal risks to which they are exposed; this aligns with the political cost hypothesis. Therefore, religiosity reduces firms' inclination to seek short-term economic gains through tax avoidance. Consequently, a more excellent equilibrium is achieved between pursuing financial objectives and fulfilling social responsibility.

H_8 = Religiosity strengthens the relationship profitability on tax avoidance.

The moderating effect of religiosity on the relationship between sales growth and tax avoidance is explained by agency theory and positive accounting theory, which suggest that religious beliefs encourage ethical values that limit the opportunistic behavior of managers. Agency theory posits that elevated sales growth can engender a conflict of interest wherein management may be inclined to exploit the supplementary resources generated by enhanced sales to pursue ambitious tax avoidance strategies to boost net income or remuneration. Furthermore, it serves as a moral imperative, prompting managers to prioritize tax compliance and refrain from actions that could harm the owners' interests or damage the company's reputation. The firm's ethical principles and long-term goals are upheld by managers who adhere to religious values such as justice, honesty, and social responsibility. In addition, the connection between sales development and tax evasion is shaped by religious conviction by considering potential political and reputational consequences from a positive accounting perspective. The political cost hypothesis posits that firms exhibiting high religiosity are more inclined to adhere to tax compliance norms to circumvent the negative implications of tax avoidance. Such negative implications may include legal sanctions or erosion of stakeholder trust. Notwithstanding the increased likelihood of being audited that accompanies increased sales growth, religiosity is a moderating factor, encouraging companies to prioritize compliance and integrity. Such organizations are inclined to display transparency and responsibility and to guarantee that their tax policies align with their espoused moral values.

H_9 = Religiosity weakens the relationship sales growth on tax avoidance.

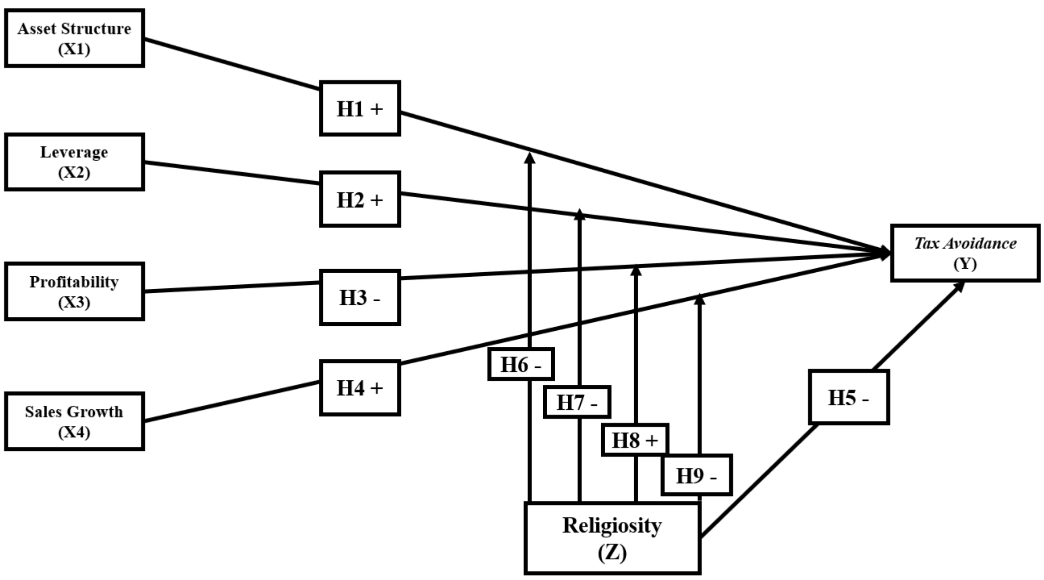

Figure 1 Research Model

METHOD

The present study employs the method of quantitative associative research. The assessment employs data from a non-repetitive region on the Indonesia Stock Exchange from 2018 to 2022. The population of this study is comprised of 96 non-cyclical sector businesses scheduled to be listed on the Indonesia Stock Exchange between 2018 and 2022. A purposive sampling strategy was employed for the examination. 34 organizations provided tests for this examination, with the criteria shown in Table 1. This research uses three variables, namely dependent variables (tax avoidance), independent variables (asset structure, leverage, profitability, sales growth), and moderating variables (religiosity) (see Table 2). Data analysis is conducted through descriptive statistics, classic assumption testing, and hypothesis testing to evaluate variable relationships and the moderating role of religiosity in tax avoidance using SPSS 26 statistical software.

Table 1 Sample Selection Criteria

No	Criteria	Not Compliant	Compliant
1	Non-cyclical sector companies listed on the IDX during the period 2018 -2022.		106
2	Non-cyclical sector companies with initial public offering (IPO) before 2018.	-31	75
3	Non-cyclical sector companies that have complete audited financial statements.	-6	69
4	Non-cyclical sector companies that have complete data according to research variables	-35	34
Number of Research Years			5
Number of Research Data (n)			170

Table 2 Variable Measurements

Variables	Measurements	Sources
Tax Avoidance	$\text{ETR} = \frac{\text{Current Tax Expense}}{\text{Income Before Tax}}$	Guat-Khim and Lian-Kee (2024)
Asset Structure	$\text{AST} = \frac{\text{Fixed Asset}}{\text{Total Asset}}$	Dewi and Fachrurrozie (2021)
Leverage	$\text{DER} = \frac{\text{Total Liability}}{\text{Total Equity}}$	Hendayana et al. (2024)
Profitability	$\text{ROA} = \frac{\text{Income After Tax}}{\text{Total Aset}}$	Shubita (2024a)
Sales Growth	$\text{SGR} = \frac{\text{Sales t - Sales t-1}}{\text{Sales t}}$	Sriyono and Andesto (2022)
Religiosity (RLG)	If the companies listed on Sharia list companies effect = 1 and if the companies not listed = 0	Budiman and Bandi (2022)

RESULTS AND DISCUSSIONS

Descriptive Statistical Results

The following are the statistical results explained by the researcher and described in the form of descriptive statistical analysis, presented in Table 3.

Table 3 Descriptive Statistical Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
AST	170	0.0139	0.7622	0.314201	0.1637501
DER	170	0.0979	0.8153	0.431725	0.2057247
ROA	170	0.0001	0.4666	0.096668	0.0814695
SGR	170	-0.4652	0.5040	0.091305	0.1524606
RLG	170	0	1	0.71	0.457

Source: secondary data (processed, 2024)

Table 2 shows the consequences of perception information examination as how much information contemplated, the base, most extreme, normal and standard deviation esteems that are different for every variable.

Classic Assumption Test Results

A regression model is said to be good if it meets the normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The following is presented in Table 4 to show a recapitulation of the results of the classical assumption test.

Table 4 Classic Assumption Test Results

Test Type			Significant		Information
		Model 1	**Model 2**	**Model 1**	**Model 2**
Normality test (*One Sample Kolmogorov)*		0.200	0.200	Normally Distributed	Normally Distributed
	Variables		***Tolerance***		**VIF**
		Model 1	**Model 2**	**Model 1**	**Model 2**
Multicollinearity Test	AST	0.905	0.553	1.105	1.807
	DER	0.640	0.506	1.561	1.978
	ROA	0.648	0.630	1.544	1.588
	SGR	0.917	0.916	1.090	1.091
	RLG	-	-	-	1.297
	CI*RLG	-	-	-	1.903
	DER*RLG	-	-	-	2.469
	ROA*RLG	-	-	-	1.841
	SGR*RLG	-	-	-	1.207
	Variables				***Sig.***
			Model 1		**Model 2**
Heteroscedasticity Test (Glejser)	AST		0.659		0.866
	DER		0.776		0.690
	ROA		0.272		0.704
	SGR		0.877		0.973
	RLG		-		0.632
	CI*RLG		-		0.595
	DER*RLG		-		0.942
	ROA*RLG		-		0.430
	SGR*RLG		-		0.676
Autocorrelation Test (*Durbin Watson*)					DL< DW < (4-DL)
		1.7721 < 2.045 < 2.2279		1.7721 < 2.063 < 2.2279	

Source: secondary data (processed, 2024)

Table 4 displays the Asymp Sig. of 0.200 (two-tailed). This worth is more prominent than the importance worth of 0.05 (0.200 > 0.05), so a normally distributed dependent variable is tax avoidance, asset structure, leverage, profitability, sales growth, and religiosity.

As illustrated in Table 4, the asset structure variable demonstrates a tolerance of 0.905 and a VIF of 1.105 within Model 1. In comparison, the leverage variable displays a tolerance of 0.640 and a VIF of 1.561 within the same model. Finally, the profitability variable exhibits a tolerance of 0.648 with a VIF of 1. The tolerance for sales growth is 0.917, while the variance inflation factor (VIF) is 1.090. These values demonstrate that multicollinearity is not a significant concern, as the resilience value is >0.10 and the VIF is <10.

As evidenced in Table 4, the asset structure variable displays a notable level of statistical significance, with a value of 0.659 (model 1) and 0.866 (model 2). Similarly, the leverage variable exhibits considerable statistical significance, with values of 0.776 (model 1) and 0.690 (model 2). The profitability variable also demonstrates a noteworthy degree of statistical significance, with a value of 0.272 (model 1) and 0.704 (model 2). The sales growth variable also exhibits a substantial level of statistical significance, with a value of 0.877 (model 1) and 0.973 (model 2). Finally, the religiosity variable also displays a notable level of statistical significance, with a value of 0.632 (model 2). Therefore, heteroscedasticity is not a concern, as the significance value is above 0.05.

As illustrated in Table 4, the durbin-watson value is 2.045. The D-U value obtained is 1.7721. The durbin–watson calculated value of 2.045 falls within the range defined by the dU and the 4-du values, precisely 1.7721 and 2.2279 (1.7721 < 2.045 < 2.2279) for model 1, with the durbin–watson value itself being 2.063. The resulting dU value is 1.7721. The durbin-watson calculated value of 2.045 is situated between the dU value and the 4 – du value, specifically between 1.7721 and 2.2279 (1.7721 is inferior to 2.063, which in turn is inferior to 2.2279) for Model 2. These results indicate that there are no issues with autocorrelation.

Hypothesis Test Results

Table 6 shows the coefficient value for asset structure 0.070, and sig. 0.200 > 0.05 indicates no effect on tax avoidance, thereby rejecting hypothesis H_1. The coefficient value for leverage is -0.015, and sig. 0.673 > 0.05 means no effect on tax avoidance, thereby rejecting hypothesis H_2. The coefficient value for profitability is 0.066, and sig. 0.307 > 0.05 indicates no effect on tax avoidance, thereby rejecting hypothesis H_3. Conversely, the coefficient value for sales growth is -0.095, sig. 0.013 < 0.05 means negatively and significantly affects tax avoidance, supporting hypothesis H_4. Furthermore, the coefficient value for religiosity is 0.066, sig. = 0.016 < 0.05 indicates a positive and significant effect on tax avoidance, thereby rejecting hypothesis H_5. About moderating effects, the coefficient value for asset structure*religiosity is -0.117, sig. 0.046 < 0.05 means religiosity weakens the relationship asset structure on tax avoidance, thereby supporting hypothesis H_6. The coefficient value for leverage*religiosity is 0.042, sig. 0.319 > 0.05 means religiosity cannot moderate the relationship leverage on tax avoidance, thereby rejecting hypothesis H_7. The coefficient value for profitability*religiosity -0.414, sig. 0.001 < 0.05, this means religiosity weakens the relationship profitability on tax avoidance, rejecting hypothesis H_8. The coefficient value for sales growth*religiosity 0.101, sig. 0.030 < 0.05, this means religiosity strengthens the relationship between sales growth and tax avoidance, thereby rejecting hypothesis H_9.

Table 7 Hypothesis Test Results

Hypothesis	Coefficient	t-value	Sig.
H_1: AST → ETR	0.070	1.290	0.200
H_2: DER → ETR	-0.015	-0.422	0.673
H_3: ROA → ETR	0.066	1.026	0.307
H_4: SGR → ETR	-0.095	-2.534	0.013
H_5: RLG → ETR	0.066	2.447	0.016
H_6: AST*RLG → ETR	-0.117	-2.015	0.046
H_7: DER*RLG → ETR	0.042	1.002	0.319
H_8: ROA*RLG → ETR	-0.414	-3.478	0.001
H_9: SGR*RLG → ETR	0.101	2.198	0.030

Source: secondary data (processed, 2024)

The Effect of Asset Structure on Tax Avoidance

The Asset Structure has been found not to affect tax avoidance. Although the asset structure, particularly the proportion of fixed assets, appears to impose constraints on the potential for tax avoidance due to its fixed nature, the study demonstrates that this is not effect. Tax avoidance relates to corporate policies, managerial decisions, and financial strategies to reduce tax liabilities legally. This finding is aligned with the principles of agency theory, which posits that managers may prioritize their interests over those of shareholders. In the context of tax avoidance, managers may pursue opportunities that could result in a reduced tax burden. However, the intrinsic nature of fixed assets might be a limiting factor in such behaviour. Furthermore, the theory of positive accounting provides corroboration for this proposition, indicating that managers are inclined to exercise discretion in their accounting choices, including tax strategies, to enhance their utility. Nevertheless, the inflexible nature of fixed assets may restrict the extent to which such strategic alternatives can be pursued. Asset structure reflects a firm's resource allocation rather than its tax strategy. Therefore, despite its limited impact, asset structure is not a major variable influencing a firm's tax avoidance decisions. This result is corroborated by the findings of Annisa et al. (2023); Agustiani et al. (2024) research, which indicate that asset structure has no impact on tax avoidance.

The Effect of Leverage on Tax Avoidance

The Debt-to-Equity Ratio (DER) has not affected tax avoidance. This can happen for various reasons related to company characteristics, tax regulations, and management preferences. Agency theory posits that managers, as agents, may have divergent interests from owners or principals. While managers may be inclined to enhance leverage to reduce the tax burden through interest deductibility, stringent tax regulations constrain their capacity for manoeuvre. Furthermore, financing decisions are frequently influenced by operational and financial considerations, such as the necessity for capital and cost-effective management, rather than by considerations related to taxation. TAP also supports this perspective by underscoring that managers make accounting decisions, including those about financial structure, to maximize their utility. Nevertheless, in the context of debt-equity ratio (DER), the tax advantages associated with debt are frequently constrained by regulatory limitations, curtailing the incentive to utilize DER as a tax avoidance instrument. Leverage does not always affect tax avoidance because its benefits can be offset or irrelevant in specific contexts. This effect highly depends on tax regulations, company characteristics, and the financial and tax strategies implemented. This result is corroborated by the findings of Darsani and Sukartha (2021); Sriyono and Andesto (2022) research, which indicate that leverage has no impact on tax avoidance.

The Effect of Profitability on Tax Avoidance

The profitability has not affected tax avoidance. Companies with high or low profitability both use tax avoidance strategies based on tax efficiency or internal policies rather than on the level of profit. Tax avoidance is often driven by corporate policy to minimize tax liabilities, regardless of how much profit is earned. While managerial agents may have incentives to avoid taxes, companies with high profitability are frequently subject to closer scrutiny by tax authorities. Such practices thus offer fewer avenues for exploiting aggressive tax avoidance strategies. Moreover, profitable companies typically possess the necessary resources to fulfil their tax obligations through conventional means. TAP also supports this view by underscoring that managers are guided by a self-serving motivation to make accounting decisions, including those pertaining to tax strategies, to enhance their personal utility. However, in the context of highly profitable firms, the risk of stricter scrutiny and the potential for a negative impact on corporate reputation may restrict the ability of managers to pursue aggressive tax avoidance strategies. The relationship between profitability and tax avoidance is not always linear. Many other factors significantly influence a company's decision to avoid taxes, so profitability is not always a directly influential variable. This result is corroborated by the findings of Mulyati et al. (2019); Sari, Wardani, and Lestari (2021) research, which indicate that profitability does not impact tax avoidance.

The Effect of Sales Growth on Tax Avoidance

Sales Growth has been found to have a negative effect on tax avoidance. While managers may be motivated to minimize their taxable obligations as agents, businesses with elevated sales volumes tend to be subjected to more rigorous examination by tax authorities. Such measures reduce the opportunity for tax avoidance practices that could be perceived as aggressive. Moreover, firms exhibiting elevated sales growth typically demonstrate more robust cash flow dynamics, enabling them to fulfil their tax responsibilities without compromising liquidity or operational flexibility. Furthermore, TAP corroborates this perspective by underscoring that managers make accounting decisions about tax strategy to maximize their personal utility. Nevertheless, in the context of high-sales growth firms, the risk of more rigorous examination and the potential adverse impact on the firm's reputation might constrain managers' flexibility in pursuing aggressive tax avoidance strategies. Companies experiencing increasing sales growth tend to reduce tax avoidance practices due to external pressures, increased tax-paying capacity, focus on business sustainability, and the need to maintain reputation. This result is corroborated by the findings Sriyono and Andesto (2022) research, which indicate that sales growth does not impact tax avoidance.

The Effect of Religiosity on Tax Avoidance

Evidence suggests a positive correlation between religiosity and the propensity to engage in tax avoidance strategies. Although it may be assumed that religiosity would discourage tax avoidance, research demonstrates that in certain circumstances, religiosity can provide a rationale for such behavior. The agency theory and the theory of planned behavior assist in elucidating the mechanism that underlies this phenomenon. Individuals with strong religious beliefs may justify their tax avoidance behavior based on the assumption that the funds saved can be used for more morally beneficial purposes in alignment with their religious teachings. Furthermore, the ethical perception of tax avoidance may also be shaped by the social norms within a religious community. Positive accounting theory views that the bonus plan hypothesis can show that managers engage in tax avoidance despite their religious beliefs if it benefits them financially. Thus, religiosity is important in balancing economic incentives, morality, and legal compliance. However, it is essential to consider that the impact of religiosity on tax avoidance is contingent upon many factors, including religious affiliation, level of religious comprehension, cultural environment, and prevailing tax policies. This result is corroborated by the findings Masri (2022) research, which indicate that religiosity has positive impact on tax avoidance.

The Role of Religiosity in Moderating Effect of Asset Structure on Tax Avoidance

The findings indicate that religiosity weakens the relationship between asset structure and tax avoidance. This can happen because the moral and ethical values adopted in a religious society tend to influence the behaviour of individuals and organizations. Religious values prioritizing ethical behaviour and transparency foster compliance with tax regulations among individuals and corporations. Agency theory posits that managers with religious convictions tend to prioritize social interests over personal gain. This finding is corroborated by positive accounting theory, which suggests that such managers make financial decisions more aligned with moral values. The theory of planned behaviour also indicates that social norms influenced by religious values shape individuals' attitudes toward taxes. Although the asset structure provides opportunities for tax avoidance, strong religiosity and moral and social pressure can reduce this tendency. Consequently, while there may be a tendency to exploit asset structure to minimize tax liabilities, the moderating effect of religiosity renders such strategies less attractive overall. Thus far, no studies have investigated the correlation between asset structure and tax avoidance.

The Role of Religiosity in Moderating Effect of Leverage on Tax Avoidance

The findings indicate that religiosity cannot moderate the relationship between leverage and tax avoidance. The choice to leverage debt in a company's financial structure is largely driven by economic and technical factors, such as the necessity of funding and the cost-effectiveness of such an approach. Religiosity is not a significant factor in this decision-making process. Debt financing is typically used for operational or investment purposes, and tax-deductible debt interest is already subject to rigorous regulatory restrictions, such as those about thin capitalization. Therefore, the capacity to leverage debt in a manner that circumvents taxation is constrained, even in the context of religiosity. Additionally, religiosity frequently fosters transparent and ethical conduct, which may mitigate the inclination to utilize debt for tax evasion manoeuvres. In a context of high religiosity, tax avoidance practices may be perceived as unethical, even when conducted in compliance with the law, such as using debt interest. In an environment where religiosity encourages firms to be more compliant with tax regulations, the influence of leverage on tax avoidance strategies may be reduced. Agency theory argues that the failure of religiosity to moderate the relationship between leverage and tax avoidance may be due to the inability of religiosity to alter managers' economic incentives, serve as an effective monitoring mechanism, and overcome financial pressures or information asymmetries. A literature review reveals no studies investigating the relationship between leverage and tax avoidance.

The Role of Religiosity in Moderating Effect of Profitability on Tax Avoidance

The findings indicate that religiosity weakens the relationship between profitability and tax avoidance. This happens because religiosity's ethical and moral values tend to encourage more transparent and rule-abiding behaviour. In a religious environment, individuals or organizations are more likely to avoid behaviours that are considered unethical, including tax evasion. They see tax evasion as violating social justice or a moral obligation to contribute to society. In religious communities, there is social pressure to act following moral norms. Companies operating in these environments may face greater reputational risks if they engage in tax avoidance, even if they have high profitability. Religiosity can act as an internal control mechanism limiting unethical business behaviour, including tax avoidance. In other words, religious values create moral barriers that moderate the relationship between profitability and tax avoidance. Agency theory views religiosity as a control mechanism that weakens the tendency of agents to exploit corporate profitability through tax avoidance. This is because religiosity strengthens ethical norms, reduces conflicts of interest, increases transparency, and encourages agents to follow moral and social values that the principal and society value. Positive accounting theory sees religiosity as a social factor that moderates the opportunistic behaviour of agents and firms. Strong moral and social norms in religious environments create pressure to avoid unethical practices, such as tax avoidance, even though high profitability provides an economic incentive. Thus, religiosity weakens the relationship between profitability and tax avoidance through its effects on political costs, contract efficiency, and accounting policy preferences. TPB views that although high profitability provides opportunities for tax avoidance, religiosity leads individuals or managers to avoid such actions due to the influence of stronger moral values, ethics, and social norms. A literature review reveals no studies investigating the relationship between profitability and tax avoidance.

The Role of Religiosity in Moderating Effect of Sales Growth on Tax Avoidance

The findings indicate that religiosity strengthens the relationship between sales growth and tax avoidance. This is because religiosity-related values can provide a moral foundation for the exploitation of legal opportunities in tax avoidance, particularly when sales growth increases a firm's capacity to contribute to social or religious activities. In an environment where religion is prominent, firms that experience an increase in sales may feel compelled to allocate a larger proportion of their resources towards causes perceived as more "worthy" in accordance with religious values. This may include charitable donations or faith-based community projects. To this end, firms may legally employ tax avoidance strategies to reduce their tax liabilities. Additionally, substantial sales growth frequently coincides with an uptick in profits, affording firms greater resources to implement intricate yet legally permissible tax planning strategies. In a religious context, these strategies may be perceived not as transgressions against established norms but as more prudent and responsible forms of resource management. The reinforcement of this mindset can be attributed, at least in part, to the influence of religiosity, which emphasizes the importance of utilizing accumulated wealth for purposes deemed noble, thereby strengthening the positive correlation between sales growth and tax avoidance. Agency theory highlights the complex dynamics between sales growth, tax avoidance, and religiosity. A conflict of interest may arise if agents focus more on tax avoidance to increase profits or sales while principals seek tax compliance. If the religiosity of agents or principals emphasizes ethical values and social responsibility, it may reduce the tendency to tax avoidance and strengthen stricter scrutiny of legitimate business practices. A literature review reveals no studies investigating the relationship between sales growth and tax avoidance.

CONCLUSIONS

A company's structure asset, leverage, and profitability do not affect tax avoidance. The results show a negative link between sales growth and tax compliance. However, religiosity has a positive effect on tax avoidance. The moderation results show that religiosity weakens the effect of asset structure and profitability on tax avoidance but does not moderate the influence of leverage. Religiosity strengthens the effect of sales growth on tax avoidance. This study contributes to the existing literature on the role of religiosity as a moderating variable in the relationship between corporate financial factors and tax avoidance. It supports agency and positive accounting theories. These results can inform the supervisory activities of tax regulators. At the same time, the formulation of tax policies could be informed by incorporating moral considerations, such as incentives based on religiosity. It is crucial to acknowledge that the conclusions of this research are constrained to the domain of primary consumer goods companies listed on the Indonesia Stock Exchange between 2018 and 2022. Therefore, the findings may not apply to other industries. Moreover, the assessment of religiosity is contingent upon affiliation with the Indonesian Sharia Stock Index, which may partially represent the degree of religiosity. Thus, future research should expand the sector covered and the period studied to increase the generalizability of the results. Furthermore, it would be advantageous to construct a more comprehensive religiosity assessment, incorporating elements such as corporate culture and the extent of Sharia compliance, to yield a more precise representation of the influence of religiosity on tax avoidance.

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