



LITERATURE REVIEW: THE EFFECT OF CAPITAL INTENSITY AND COMPANY SIZE ON TAX AGGRESSIVENESS

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ABSTRACT

This study aims to examine and analyze the results of previous studies related to the effect of capital intensity and company size on tax aggressiveness in companies. Through data analysis sourced from 30 articles indexed by Sinta in the period 2020–2025. This study uses a Systematic Literature Review (SLR) approach. The results show that capital intensity has an effect on tax aggressiveness, where the higher the capital intensity, the lower the level of tax aggressiveness tends to be due to increased depreciation expenses that reduce taxable income. However, some studies find that capital intensity does not significantly affect tax aggressiveness because fixed assets are mainly used to support operational activities. On the other hand, company size generally has a positive effect on tax aggressiveness, as large companies have more adequate resources for tax planning, although some studies show different results.

INTRODUCTION

Indonesia is a developing country that is currently intensively implementing various development programs in various sectors, including infrastructure, human resource development, and other sectors, with the aim of improving national progress and community welfare. One important step in supporting the implementation of this development is to explore domestic funding sources, namely through tax revenue. Based on Law Number 28 of 2007 concerning the fourth amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures in Article 1 Paragraph 1, tax is a mandatory and compulsory payment by individuals or entities to the state in accordance with the law, without any direct compensation, which is used for the needs of the state and the welfare of the people. According to Mardiasmo (in Yoga and Dewi, 2021), tax is a contribution from the people to the state treasury based on the Constitution (which can be enforced) without receiving any direct services (consideration) that can be demonstrated and which is used to pay for public expenditures.

According to Hidayat and Fitria (Prasetyo & Wulandari, 2021), taxes are the main source of state revenue that serves to finance various government

activities. Therefore, the government strives to encourage companies and individuals to fulfill their tax obligations through various outreach activities. However, there are still a number of companies that are reluctant to pay taxes and even attempt to reduce their tax burden through aggressive tax practices. Aggressive tax practices by companies are efforts made by companies to reduce their tax burden, either through legal or illegal means. In other words, these actions aim to reduce taxable income through tax planning, whether in accordance with regulations or in violation of them. This has led some companies to try to find methods to reduce their tax liability by using tax planning and determining the amount of tax payable (Lestari et al., 2023).

The phenomenon of tax aggressiveness is still a common problem in Indonesia. One case that attracted public attention was the alleged tax avoidance by PT Adaro Energy Tbk, as reported by Global Witness in 2019. The company was suspected of transferring profits to its subsidiary in Singapore, Coaltrade Services International, thereby reducing its tax burden in Indonesia. A similar case also occurred with PT British American Tobacco (BAT) through its subsidiary PT Bentoel Internasional Investama, as reported by the Tax Justice Network. BAT was suspected of diverting part of its income abroad through loan interest and royalty payments, resulting in potential tax losses for Indonesia. In addition, in 2020, PT Toyota Motor Manufacturing Indonesia (TMMIN) was also suspected of engaging in transfer pricing practices, namely by diverting part of its profits to countries with lower tax rates through transactions with affiliated companies abroad.

These various cases show that aggressive tax practices remain a challenge for the Indonesian taxation system. Therefore, it is important to explore factors that can influence the level of corporate tax aggressiveness, such as capital intensity and company size, in order to gain a deeper understanding of the behavior of corporate taxpayers in Indonesia.

There are several factors that often influence aggressive tax practices in companies, including capital intensity and company size. According to Nisadiyanti and Yuliandari (Aprilia, 2025), capital intensity is considered one of the factors that influence the level of tax aggressiveness because capital intensity describes the extent to which a company invests in fixed assets and inventories. Ownership of fixed assets provides benefits in the form of depreciation expenses that can reduce taxable income. Thus, the greater a company's investment in fixed assets, the higher the depreciation expenses incurred, thereby reducing taxable income and encouraging tax aggressiveness. Based on research by Utomo & Fitria (2020) and Kusuma (2022), capital intensity has a negative effect on tax aggressiveness. Then, according to (Ulfa & Kartika, 2022) and (Aprilia & Limajatini, 2025), Capital Intensity has no effect on Tax Aggressiveness.

Company size reflects the financial characteristics of an entity that can affect its value. Company size is usually measured by sales and total assets. Larger companies generally have advantages in terms of capital, making them better able to fund investments to increase profits. Based on research by (I. A.

Maulana, 2020) & (Aprilia & Limajatini, 2025), company size has no effect on tax aggressiveness. Meanwhile, according to (Yahya, 2022) & (Kusuma & Maryono, 2022), company size has a negative effect on tax aggressiveness.

The literature review on tax aggressiveness aims to build a comprehensive understanding of previous studies that discuss corporate behavior in managing their tax burden. This study examines concepts, theories, and previous research results relevant to factors that influence tax aggressiveness, such as capital intensity, company size, profitability, leverage, and institutional ownership.

Through this review, researchers can identify research trends, differences in findings, and methodologies used in analyzing tax aggressiveness. In addition, the literature review also serves to identify research gaps that have not been widely studied, which can then be used as a basis for formulating hypotheses and directions for further research. Thus, this review is expected to contribute to the development of knowledge in the field of taxation, particularly regarding tax aggressiveness practices among companies.

THEORITICAL REVIEW

Agency theory

The agency theory was first proposed by Jensen and Meckling (1976), explaining the contractual relationship between principals (owners or shareholders) and agents (managers) in managing a company. In this relationship, managers are given the authority to make decisions in the interests of the owners, but in practice, conflicts of interest (agency conflicts) often arise due to differences in objectives between the two parties. Company owners tend to want maximum profits in order to increase the value of the company, while managers have personal interests such as obtaining bonuses, compensation, or certain incentives. It is this difference in interests that can lead to opportunistic behavior by managers, including in terms of tax management.

In the context of tax aggressiveness, agency theory explains that managers may engage in aggressive tax planning to reduce the company's tax burden in order to increase after-tax profits. This can give a positive impression of the company's performance in the eyes of the owners, but on the other hand, it increases legal and reputational risks if the strategy violates tax regulations.

Tax Aggressiveness

According to (Karunia, 2021), tax aggressiveness is a strategy employed by companies to reduce their tax liabilities by exploiting loopholes in tax regulations that are still legally valid. This practice is commonly carried out by companies with the aim of reducing tax expenses and increasing after-tax profits. This phenomenon is one of the most common behaviors among companies in Indonesia, especially large companies that have sufficient resources and knowledge to carry out complex tax planning.

Capital Intensity

According to (Utomo & Fitria, 2020), capital intensity describes the extent to which a company invests in fixed assets such as land, buildings, machinery, and equipment used to support its operational activities. In other words, capital intensity shows the proportion of fixed assets to a company's total assets, which reflects the amount of funds invested in long-term tangible assets.

Companies with high capital intensity generally have large fixed assets and significant depreciation values. This condition can provide tax benefits because depreciation expenses can be used as a deduction from taxable income. Therefore, capital intensity is often associated with a company's tax management strategy, where the higher the investment in fixed assets, the greater the opportunity for the company to reduce its tax liability through the recognition of depreciation expenses.

Company Size

Company size is a classification of a company as large or small based on the amount of assets. Companies with large total assets generally have a stronger financial structure and a higher ability to generate profits compared to companies with relatively small assets (Prasetyo & Wulandari, 2021). The size of the assets indicates that the company has sufficient resources to run operations efficiently and bear greater business risks.

In the context of tax aggressiveness, company size can be a determining factor in the extent to which a company engages in aggressive tax planning. Large companies have more competent human resources, systems, and tax consultants to manage tax strategies to reduce tax burdens, but on the other hand, they also face stricter scrutiny from tax authorities and the public.

Conceptual Framework

Based on agency theory and prior studies, tax aggressiveness is influenced by firm characteristics, particularly capital intensity and company size. Capital intensity is related to the extent of a firm's investment in fixed assets, which generates depreciation expenses that can reduce taxable income. Meanwhile, company size reflects a firm's resource capacity in conducting tax planning. Therefore, capital intensity and company size are expected to influence the level of corporate tax aggressiveness

RESEARCH METHODS

This study employs a Systematic Literature Review (SLR) approach to analyze previous empirical studies related to capital intensity, company size, and tax aggressiveness. The SLR procedure was conducted following the PRISMA guidelines (Page et al., 2021) to ensure a systematic and transparent review process.

The literature search was carried out using Google Scholar by applying the keywords “capital intensity,” “company size,” and “tax aggressiveness.” The identification stage resulted in a number of relevant articles, which were then screened by eliminating duplicate and irrelevant studies. Furthermore, the eligibility stage was conducted by applying inclusion criteria, namely articles published between 2020 and 2025, indexed in Sinta 1–6, and empirically examining the relationship between capital intensity or company size and tax aggressiveness.

Based on this process, 30 articles were selected for qualitative analysis. The selected studies were classified and analyzed by grouping their findings according to the main variables, enabling the identification of research patterns, inconsistencies, and conclusions regarding the determinants of tax aggressiveness

RESEARCH RESULTS AND DISCUSSION

The results and discussion presented in this section are derived from the final set of articles selected through the systematic literature review process. Following the inclusion stage, a total of 30 relevant studies were qualitatively analyzed by categorizing their findings based on the main research variables, namely capital intensity and company size, in relation to tax aggressiveness.

The Influence of Capital Intensity on Tax Aggressiveness

Capital Intensity is seen as one of the factors that can influence the level of tax aggressiveness, as it shows the extent to which companies allocate their investments in fixed assets and inventories. Various studies reveal that there is a complex relationship between Capital Intensity and tax aggressiveness, with results that are not always consistent. Based on a literature review of the effect of capital intensity on tax aggressiveness, various results were found, showing variations in findings between studies. Several studies, such as that conducted by Hidayati et al. (2021), show that capital intensity has a positive effect on the effective tax rate. The higher the capital intensity, the higher the effective tax rate. A high effective tax rate indicates a low level of tax aggressiveness. In addition, research by Kusumawati & Kartika (2023) also supports this view, namely that capital intensity has a significant effect on tax aggressiveness.

However, not all studies agree with this view. Research conducted by Aini & Kartika (2020) states that Capital intensity has no effect on tax aggressiveness. This finding shows that companies with large fixed assets do indeed utilize these assets for operational and investment activities, not as a means of tax avoidance. In other words, the high proportion of fixed assets is not due to deliberate efforts to avoid taxes, but rather due to the operational needs of the company. Therefore, the size of fixed assets does not affect the level of tax avoidance carried out by companies.

Based on the qualitative synthesis of the selected studies from the SLR process, 12 out of 23 articles conclude that capital intensity affects tax

aggressiveness, while the remaining studies report no significant effect. These differing results indicate the need for further research to gain a deeper understanding of the factors that influence companies' decisions to engage in tax aggressiveness, particularly capital intensity.

The Effect of Company Size on Tax Aggressiveness

Company size can be defined as the degree of large or small of a business entity as measured by total equity, company value, or total assets or wealth owned. Company size is one of the factors considered to influence a company's tax aggressiveness. Various studies have found varying results between company size and tax aggressiveness. For example, research conducted by Prastyatini & Trivita (2023) states that company size has a positive influence on tax aggressiveness. These findings indicate that the larger the company size, the more likely its profits and assets are to increase. Large-scale companies are generally able to devise more effective taxation strategies because they are supported by competent and adequate human resources, which make it easier for companies to plan their own taxes and minimize the tax burden on the company. However, this study differs from the results of a study conducted by Prasetyo & Wulandari (2021), which states that company size has no significant effect on tax aggressiveness. Although large companies have sufficient resources to develop effective tax planning so that they can reduce the amount of tax payable, company size is not a major determining factor in the level of tax aggressiveness. This is because tax is still considered a burden that reduces profits, so that small, medium, and large companies tend to engage in tax aggressiveness in order to reduce this burden.

Based on the qualitative synthesis of the selected studies obtained through the systematic literature review process, 17 out of 20 articles indicate that company size has a significant effect on tax aggressiveness, while the remaining three studies report no significant relationship. From the results of this analysis, it can be concluded that company size affects tax aggressiveness.

By synthesizing findings from systematically selected studies, this review ensures that the conclusions drawn are grounded in a transparent and replicable literature review process.

CONCLUSION

Based on the results of the literature review, the influence of capital intensity and company size on tax aggressiveness shows varying results. Most studies conclude that capital intensity has an influence on tax aggressiveness, because the higher the capital intensity, the higher the effective tax rate. A high ETR value reflects that the company pays a large amount of tax compared to the profits it earns. Thus, the level of corporate tax aggressiveness tends to be low. This may occur because companies with high capital intensity usually have large fixed assets that are clearly monitored by the tax authorities, thus limiting their room for tax avoidance. However, some studies show that capital intensity

has no effect on tax aggressiveness, where companies with a large proportion of fixed assets tend to use these assets to support operational activities and investments, rather than as a means of tax avoidance. Similarly, company size generally has a positive effect on tax aggressiveness because the larger the company, the greater its profits and assets. Large companies generally have more competent human resources, enabling them to develop effective tax planning and reduce their tax burden.

However, this study emphasizes the importance of conducting further, more comprehensive research to thoroughly examine various other variables that could potentially influence tax aggressiveness practices besides capital intensity and company size. Factors that need attention in future research include profitability, sales growth, political connections, managerial ownership, company value, solvency ratio, audit quality, and sharia-based corporate social responsibility. By examining these variables, it is hoped that a more in-depth and comprehensive understanding of the dynamics and determinants of tax aggressiveness in various corporate contexts can be gained.

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