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IMPACT OF PROFITABILITY, LEVERAGE, AND TAX BURDEN ON TAX AVOIDANCE IN ISLAMIC BANKS

ABSTRACT

This research explores how financial performance metrics and fiscal discipline shape tax avoidance behavior in Indonesia's Islamic Commercial Banks during the 2020–2022 period. Specifically, it evaluates the influence of Return on Assets (ROA), Leverage, and Tax Expense on tax planning practices. Although tax avoidance is legally permitted, it may reduce state revenue and trigger ethical dilemmas, especially within Sharia-compliant institutions. Employing a quantitative design, the study applies multiple linear regression to 96 quarterly financial observations from eight Islamic banks. The dependent variable, tax avoidance, is measured by the Cash Effective Tax Rate (CETR), while ROA, Leverage, and Tax Expense serve as independent variables. The results reveal that Leverage has a significant positive effect on tax avoidance, implying that higher debt levels in Islamic banks correspond to greater use of tax minimization strategies — likely due to the deductible nature of debt. Conversely, ROA and Tax Expense do not significantly impact tax avoidance, suggesting that profitability and tax burden play a limited role in shaping such behavior. The model accounts for only 8% of the variance in tax avoidance, implying the influence of other unexplored factors. This study is the first to integrate conventional financial metrics with Islamic ethical frameworks in examining tax avoidance behavior in Indonesian Islamic banks. The findings contribute to theory development by confirming that leverage remains a critical determinant of tax avoidance even within Sharia-compliant structures. This theoretical advancement underscores the need for tailored regulatory oversight in Islamic finance. Policymakers and regulators are advised to reassess how capital structure interacts with fiscal compliance in Islamic institutions. Future studies are encouraged to include additional variables such as governance, institutional size, and liquidity to enrich explanatory power. Overall, this research advances academic discourse by aligning tax responsibility with ethical accountability in Islamic banking.

Keywords: tax avoidance, Islamic banks, return on assets, leverage, tax expense, financial performance

JEL Classification: G21, H26, M41, G32

INTRODUCTION

Taxation serves as a vital source of state revenue, supporting public services, infrastructure, and national development (Baffour Gyau et al., 2024; Fitriya & Bawono, 2023; Minarni et al., 2023). However, a persistent gap exists between the government's interest in maximizing tax income and the corporate tendency to minimize tax liabilities to preserve profit. This tension has fueled widespread interest in tax avoidance practices — legal strategies used by companies to reduce their tax burden within the bounds of existing laws.

In the context of Islamic Commercial Banks, tax behavior warrants special attention. These institutions are expected to uphold not only financial efficiency but also ethical principles rooted in Sharia law. Nevertheless, like other corporate entities, Islamic banks operate under performance pressures, capital structure demands, and regulatory obligations that may incentivize tax minimization strategies. This paradox raises an important question: to what extent do financial performance indicators and tax-related costs influence tax avoidance practices in Islamic banks?

This study focuses on three key financial variables — Return on Assets (ROA), Leverage, and Tax Expense—and their relationship with tax avoidance, as measured by the Cash Effective Tax Rate (CETR) (Paramita et al., 2023; Shahfira & Hasanuh, 2021). While ROA reflects profitability, Leverage captures the extent of debt financing, and Tax Expense directly represents fiscal obligations. Investigating how these variables impact tax avoidance will provide insights into the fiscal behavior of Islamic banks and the implications for regulators and policymakers.

Given the increasing relevance of ethical finance and tax transparency, particularly in institutions guided by religious principles, understanding the drivers of tax avoidance in Islamic banks is both timely and necessary. This study contributes to the literature by examining tax avoidance through a focused empirical lens, addressing an underexplored sector with unique operational values.

LITERATURE REVIEW

Research on corporate tax avoidance has developed significantly in recent years, with increasing attention to the interplay between financial performance, capital structure, and fiscal behavior. However, most existing literature has focused on conventional corporations, thereby leaving both theoretical and empirical gaps in the context of Islamic financial institutions, particularly Islamic Commercial Banks. Tax avoidance has become an important topic in cross-national academic discourse due to its impact on state revenue, corporate ethics, and public trust. Extensive international research — such as those by (Desai & Dharmapala, 2005; Hanlon & Heitzman, 2010; Slemrod, 2004) — demonstrates that companies avoid taxes not only as a cost-saving strategy but also as a function of financial structure, incentive systems, and regulatory environments. Nonetheless, the majority of these studies have concentrated on conventional financial institutions in the West, creating a significant empirical and theoretical gap within Islamic finance. Prior studies, such as those conducted by Desai and (Desai & Dharmapala, 2005; Lou et al., 2025), have shown that financial incentives and structural characteristics — such as profitability and leverage — can shape corporate tax strategies. Generally, these studies affirm that highly leveraged companies are more likely to engage in tax avoidance due to the tax-deductibility of interest payments, while highly profitable firms demonstrate more varied patterns depending on risk tolerance and reputational concerns.

Return on Assets (ROA) is often regarded as an indicator of financial health and profitability. Studies by (Desai & Dharmapala, 2005; Handayani et al., 2021) suggest that more profitable firms may be more aggressive in avoiding taxes due to larger taxable income. In contrast, (Kusuma & Maryono, 2022; Triyanti et al., 2020) report no significant relationship between ROA and tax avoidance, indicating globally mixed findings. These inconsistencies suggest that profitability may interact with tax behavior in ways that are highly sensitive to industry norms, corporate ethical values, and national tax systems. Although the relationship between ROA and tax avoidance is well-documented in conventional contexts, findings remain inconsistent. (Andalenta & Ismawati, 2022) confirm a significant effect of ROA on tax avoidance in listed banks, whereas (Taji & Palupi, 2024) report the opposite, highlighting the influence of contextual variables. These contradictions indicate an unresolved theoretical tension in interpreting the role of profitability in tax behavior, particularly in value-driven institutions such as Islamic banks. Based on the literature review and theoretical considerations, the following hypothesis is proposed:

- **H1:** Return on Assets (ROA) has a significant negative effect on tax avoidance.

Leverage is widely recognized as a strong predictor of tax avoidance due to the tax-shield effect of interest expenses (Lou et al., 2025). Studies in both developed and emerging countries (E Janros & Prima, 2018) confirm this positive relationship. However, in Islamic banking — where interest-based debt is prohibited and replaced with alternative financing structures — the relevance of traditional leverage theory remains debated. This underscores the importance of adapting Western financial theories to Islamic finance systems. Similarly, while leverage consistently shows a positive relationship with tax avoidance, the literature rarely explores how this relationship functions in Sharia-compliant settings, where debt instruments are differently structured and interest is prohibited. This raises a fundamental conceptual question: can traditional leverage ratios explain tax behavior in Islamic finance, or are modifications needed to reflect the architecture of Sharia-compliant finance? Based on the literature review and theoretical considerations, the following hypothesis is proposed:

- **H2:** Leverage has a significant positive effect on tax avoidance.

Tax expense is logically related to tax avoidance, but empirical findings remain ambiguous. Some studies suggest that higher tax liabilities encourage tax avoidance efforts, while others — such as (Cendani & Sofianty, 2022) — find no significant effect. These inconsistencies may arise from differences in the treatment of current and deferred taxes, both across jurisdictions and between conventional and Islamic banks. Another underexplored dimension is the role of tax expense. Although several studies link high tax burdens to increased tax avoidance behavior, empirical support remains limited. Most studies do not distinguish between current and deferred tax, which may behave differently in

practice and under varying regulatory standards. This ambiguity weakens generalizability and limits the applicability of findings to Islamic banks, whose taxation mechanisms may interact differently with Shariah governance and legal frameworks. Based on the literature review and theoretical considerations, the following hypothesis is proposed:

- **H3:** Tax Expense has a significant positive effect on tax avoidance.

Most existing studies also fail to consider the ethical dimension of tax behavior in institutions bound by religious and moral principles. Islamic banks are expected to demonstrate ethical integrity not only in financing and investment but also in fiscal responsibility. (Iqbal & Mirakhor, 2011) emphasize that Islamic banking promotes risk-sharing, transparency, and accountability, which in theory should reduce tax avoidance. However, empirical testing in this sector remains scarce.

Although earlier literature acknowledges the predictive power of ROA, leverage, and tax expense in explaining tax avoidance behavior, few investigations have applied these variables specifically to Islamic banks — particularly those operating in emerging economies. Furthermore, the incorporation of Shariah-based ethical considerations into models of tax-related decision-making remains underexplored. This gap gains urgency amid the rapid global proliferation of Islamic financial institutions and their growing influence in domestic financial systems.

AIMS AND OBJECTIVES

The distinctiveness of this research stems from its empirical analysis of Return on Assets (ROA), leverage, and tax expense within the institutional setting of Islamic Commercial Banks in Indonesia. This work fills a void in existing scholarship by combining conventional financial indicators with Islamic ethical finance principles, thereby offering a deeper understanding of how contemporary Islamic banks navigate the dual objective of profit generation and tax adherence. As such, the study contributes not only to theoretical advancement but also provides actionable insights for policymakers, academics, and professionals within the Islamic finance domain.

This research centers on Indonesia, a country with the largest Muslim population globally and one of the leading markets for Islamic finance growth. The focus on Indonesia's Islamic banking sector is both timely and justified, considering the sector's expanding role and the limited scholarly attention it has received. Indonesia's dual banking model, combined with its specific tax administration practices and evolving Shariah compliance infrastructure, offers a fertile ground for examining tax behavior that diverges from Western-centric financial assumptions. In addition to prior findings, several international studies provide comparative insights into tax behavior and financial structuring in different economic contexts. For example, (Onikiienko et al., 2021) emphasized the importance of prior credit assessment in long-term SME financing with non-standard cash flows, highlighting how project viability influences fiscal discipline. Similarly, (Polishchuk et al., 2020) analyzed SMEs' debt financing behavior across the European Union in the context of macroeconomic shocks, showing that capital structure decisions under economic uncertainty may lead to more aggressive tax strategies. (Zolkover et al., 2024) examined the implications of green taxation on sustainable growth, proposing that the evolving nature of tax policy in environmentally conscious economies could affect firms' fiscal responses, including avoidance behavior. Meanwhile, (Kozupatryi et al., 2012) reviewed the taxation systems for sole proprietors in Ukraine, illustrating how simplified tax regimes influence the extent of tax planning in transitional economies. These studies offer valuable geographic and contextual diversity, allowing a richer interpretation of how fiscal policy, leverage, and profitability intersect with tax avoidance not only in conventional systems but also within ethical or emerging-market frameworks such as Islamic banking. By investigating this underrepresented area and situating the analysis within a Shariah-governed financial environment, this study aims to broaden the current discourse on tax avoidance. It seeks to enrich the academic conversation while also informing regulatory strategies and managerial practices within both conventional and Islamic financial institutions.

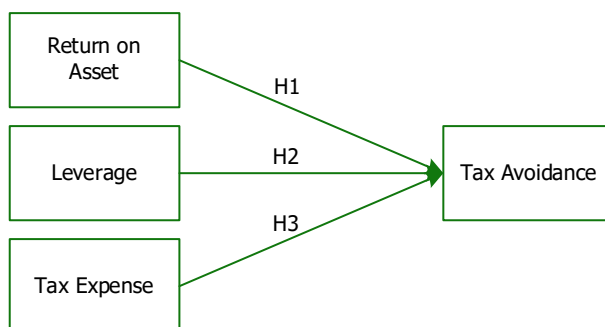


Figure 1. Framework Research. (Source: Adapted from (Hanlon & Heitzman, 2010), modified based on the Islamic finance framework)

METHODS

Given that this research involves numerical datasets and relies on statistical analysis, a quantitative methodology is adopted to explore the research problem. The approach is grounded in positivist epistemology, which prioritizes empirical evidence and value-free observations. The analysis applies structured, numerical examination of defined populations or sample units using standardized tools to evaluate hypotheses regarding the impact of financial metrics on tax avoidance practices. The study utilizes secondary data extracted from the quarterly financial statements of Islamic Commercial Banks (ICBs) for the fiscal years 2020 to 2022, all of which were retrieved from the official platform of the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan/OJK). These financial documents consistently reported detailed and standardized figures on financial performance, capital ratios, and tax components, offering a reliable foundation for empirical testing. This investigation centers on four principal variables, with specific attention to the independent predictors. To ensure robust and relevant sampling, the study employed a purposive sampling technique guided by several inclusion criteria, namely: The institution must be categorized as an Islamic Commercial Bank and officially listed in the OJK registry during the 2020–2022 timeframe. It must have published complete and audited quarterly financial statements for the entire observation period without omission. The financial records must include measurable indicators such as Return on Assets (ROA), Debt-to-Equity Ratio (DER), and detailed tax expense data, including both current and deferred tax components. Applying these criteria, eight Islamic Commercial Banks qualified for inclusion in the study, generating a dataset comprising 96 total observations. The banks included in the sample are as follows: (list of banks would follow here).

Table 1. Operational Definition of Variables. (Source Literature Review, 2024)

Variables	Operational Definition	Formula	Scale
Tax Avoidance (Y)	Cash Effective Tax Rate (CETR) is calculated by dividing the amount of tax paid in cash by the company's income before taxes. The cash tax figure is based on the total tax expenses recorded, while pre-tax income is sourced from the earnings before tax reported in the company's financial statements (Hanlon & Heitzman, 2010). One method to measure tax avoidance is the Cash Effective Tax Rate (CETR), calculated as follows:	$CETR = \frac{\text{Cash Tax Paid}}{\text{Pre-tax Income}}$	Ratio
Return on Asset (X1)	Net income represents the company's residual earnings after deducting all production-related costs. This figure is influenced by both gross profit and operational cash flow. When operational efficiency improves—typically shown by a reduced cost of goods sold (COGS) in proportion to revenue—the company's Return on Assets (ROA) tends to increase accordingly (Miao et al., 2023). The calculation for ROA is as follows:	$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}}$	Ratio
Leverage (X2)	Leverage reflects the degree to which a business utilizes debt in its capital structure to support operations. The assumption is that the income generated from these operations will exceed the associated fixed obligations, ultimately leading to greater returns for shareholders (Parahita & Tjahjono, 2025). Leverage can be calculated using the following formula:	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$	Ratio
Tax Expense (X3)	Deferred tax expense occurs due to timing differences between reported accounting income and taxable income (Fitri & Machdar, 2023). This study defines deferred tax expense as the portion resulting from those temporary discrepancies. When the reported tax expense falls below the current payable tax, a deferred tax benefit is recognized instead. The method for calculating this deferred amount is presented in the following formula.	$\text{Tax Expense} = \frac{\text{Deferred tax expense of company } i \text{ in year } t}{\text{Total assets at the end of year } t - 1}$	Ratio

To examine the proposed hypotheses, this study employed a multiple linear regression technique using SPSS software version 25. Before carrying out the regression analysis, a series of classical assumption tests — namely tests for normal distribution, multicollinearity, heteroskedasticity, and autocorrelation — were conducted to confirm that the model met necessary diagnostic criteria. Each independent variable's statistical relevance was evaluated at a 5% significance threshold ($\alpha = 0.05$). Additionally, the model's explanatory power and overall fit were measured using the coefficient of determination (R^2) and the F-test. This analytical procedure was designed to systematically assess how financial performance indicators influence tax avoidance practices in institutions operating under Sharia principles, thereby generating empirical findings to validate or challenge the study's hypotheses.

Model 1:

$$Y_{CETR} = \alpha + \beta_1 ROA_{it} + \beta_2 DAR_{it} + \beta_3 TE_{it} + \epsilon$$

where *ETR_{it}* - Cash Effective Tax Rate; *α* - Constant; *β₁, β₂, β₃, β₄* - Independent variable regression coefficient; *ROA* - Return on Assets; *DAR* - Debt to Asset Ratio; *TE* -Tax Expense; *i* - Company; *t* - Time; *ε* - error.

RESULTS

Descriptive analysis is conducted to provide an overview of the general characteristics of each variable used in this study. The descriptive statistics presented include the minimum value, maximum value, mean, and standard deviation. There are four main variables analyzed, namely Return on Assets (ROA), Leverage, Tax Burden, and Tax Avoidance, with a total of 96 observations.

Table 2. Descriptive Statistic. (Source: SPSS 25 Output, 2024)

	N	Min	Max	Mean	Std. Deviation
Return on Asset	96	-0.82	2.43	0.4774	0.52150
Leverage	96	-0.45	-0.08	-0.1672	0.09403
Tax Burden	96	7.70	14.04	10.7413	1.53902
Tax Avoidance	96	-1.66	-1.11	-1.4270	0.11069
Valid N (Listwise)	96				

The Return on Assets (ROA) indicator represents how effectively a company utilizes its assets to generate earnings. Throughout the study period, the minimum recorded ROA was -0.82, indicating that certain companies experienced operational losses. On the opposite end, a maximum value of 2.43 reflects that some firms achieved outstanding levels of profitability. The average ROA was 0.4774, implying that, on average, the sampled companies generated returns equivalent to 47.74% of their total assets. In addition, the standard deviation of 0.52150 reveals substantial diversity in profitability outcomes across firms in the dataset.

The leverage ratio indicates the extent to which firms depend on external debt to finance their assets. In this dataset, leverage ranged between -0.45 and -0.08, with an average of -0.1672 and a standard deviation of 0.09403. The presence of negative values may suggest that a logarithmic transformation or other rescaling methods were applied. Although negative, the relatively small average implies that debt usage is not excessive. Moreover, the limited standard deviation shows that most firms exhibited similar debt structures, with only minor variation.

The tax burden describes the portion of corporate resources allocated to fulfill tax liabilities. The values observed fluctuate between 7.70 and 14.04, with a mean of 10.7413 and a standard deviation of 1.53902. These results indicate that companies, on average, faced a considerable but manageable level of tax responsibility. The moderate spread in the data suggests variability in tax obligations, possibly influenced by differences in firm profitability, strategic tax management, or entitlement to fiscal incentives.

The tax avoidance measure reflects firms' efforts to legally reduce their tax expenses. The observed figures range from -1.66 to -1.11, with a mean value of -1.4270 and a standard deviation of 0.11069. These uniformly negative scores suggest that most firms consistently adopt tax minimization strategies, albeit to varying degrees. The relatively small spread implies uniformity in avoidance behavior across the sample.

Conducting a normality test is essential before running regression analysis, as it verifies whether the model's residuals are normally distributed. This assumption is fundamental for the validity of statistical tests such as t-tests and F-tests in classical regression. Confirming that residuals follow a normal distribution ensures that the statistical inferences derived from the model are robust and reliable.

Table 3. One-Sample Kolmogorov-Smirnov Test. (Source: SPSS 25 Output, 2024)

	N	Normal Parameters ^a		Most Extreme Differences			Test Statistic	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Unstandardized Residual	96	0.0000000	0.10368459	0.095	0.095	-0.089	0.095	.200c,d

In this study, the assessment of residual normality was conducted using the One-Sample Kolmogorov–Smirnov test, which was applied to the unstandardized residual values derived from the regression model. The analysis produced several important statistical indicators. The mean of the residuals was precisely 0.0000000, suggesting a symmetrical distribution around the central value of zero — an outcome that aligns with the basic premise of classical linear regression models. Furthermore, the standard deviation was calculated at 1.0368459, indicating the level of dispersion of the residuals from the mean.

The test also revealed that the maximum absolute difference reached 0.095, with the largest positive deviation being 0.095, and the largest negative deviation recorded at -0.089. The Kolmogorov–Smirnov Z-statistic stood at 0.095, while the two-tailed significance value was 0.200. Since the significance level is greater than the conventional threshold of 0.05, it can be concluded that the distribution of residuals does not significantly diverge from normality. As a result, the assumption of normally distributed errors in the regression model is upheld.

With the assumption of normality confirmed, the residuals can be considered appropriate for subsequent inferential analyses, such as hypothesis testing and interpretation of regression coefficients, without concern for distortion due to non-normal error distribution.

In addition to normality testing, the study also examined the potential presence of multicollinearity to verify that the independent variables do not exhibit high intercorrelations. Multicollinearity can compromise the stability of coefficient estimates and reduce the accuracy of statistical conclusions. To identify such issues, this research employed two standard diagnostic tools: Tolerance and the Variance Inflation Factor (VIF). In this context, Tax Avoidance serves as the dependent variable, while the predictors include Return on Assets (ROA), Leverage, and Tax Burden. The outcomes of the multicollinearity diagnostics are discussed in detail in the following section.

Table 4. Tolerance and the Variance Inflation Factor (VIF) Test. (Source: SPSS 25 Output, 2024)

	Tolerance	VIF
Return on Asset	0.658	1.519
Leverage	0.800	1.251
Tax Burden	0.557	1.795

Tolerance indicates how much an independent variable remains unaffected by linear prediction from other explanatory variables within the regression framework. A value below 0.10 is commonly interpreted as a warning sign for potential multicollinearity. On the other hand, the Variance Inflation Factor (VIF) assesses how much the presence of inter-variable correlations inflates the standard errors of the regression coefficients. A VIF score above 10 typically signals a serious multicollinearity issue.

In the context of this study, all tolerance values were comfortably above the 0.10 threshold, with the lowest being 0.557. Similarly, the VIF values remained well below the commonly accepted limit of 10, specifically ranging from 1.251 to 1.795. Based on these results, it can be concluded that the regression model is free from multicollinearity. Each independent variable satisfies the standard requirements, with tolerance and VIF values falling within acceptable boundaries, thus supporting the reliability of the coefficient estimates and allowing for more accurate interpretation.

As for the assessment of heteroskedasticity, the objective is to verify whether the variance of the residuals remains consistent across all observations — a condition known as homoskedasticity. Ideally, in a well-defined regression model, residuals should be uniformly spread. Any significant fluctuation in their dispersion suggests the existence of heteroskedasticity, which could impair the precision of coefficient estimates and weaken the validity of statistical inferences. The Glejser test is one commonly applied method to detect such variance inconsistencies. This test involves regressing the absolute values of the residuals against the predictor variables. If any of these variables exhibit a statistically significant relationship ($p < 0.05$) with the absolute residuals, it serves as evidence that heteroskedasticity is present in the model.

Table 5. Glejser Test. (Source: SPSS 25 Output, 2024)

	Sig. (p-value)
Return on Asset	0.118
Leverage	0.302
Tax Burden	0.260

Based on the results of the Glejser test, all significance values are greater than 0.05, indicating that none of the independent variables exhibit a statistically meaningful influence on the absolute value of the residuals. This outcome confirms that the regression model does not exhibit heteroskedasticity. In other words, the variance of the residuals remains consistent across all levels of the independent variables, thereby satisfying the assumption of homoskedasticity. As a result, the model can be considered dependable for producing unbiased and efficient estimations, aligning with the classical linear regression principle of Best Linear Unbiased Estimators (BLUE).

In addition, an F-test was employed to assess the joint effect of the independent variables on the dependent variable. The obtained F-value of 3.297 with a significance level of 0.025 — lower than the critical value of 0.05 — demonstrates that the three explanatory variables collectively influence the probability of tax avoidance. Meanwhile, the R-squared coefficient indicates how much of the variation in the dependent variable can be explained by the combined variation in the predictor variables used in the model.

Table 6. Correlation and Determination Coefficients Test. (Source: SPSS 25 Output, 2024)

Statistic	Value
R	0.350
R ²	0.123
Adjusted R ²	0.080

The analysis yields a correlation coefficient (R) of 0.350, signifying a positive yet modest relationship between the predictor variables and the extent of tax avoidance. The determination coefficient (R²) stands at 0.123, implying that the model can account for approximately 12.3% of the variation in tax avoidance behavior based on Return on Assets, Leverage, and Tax Burden. The remaining 87.7% of the variation is presumably shaped by other unmeasured influences, such as firm scale, managerial discretion, audit quality, or industry-specific factors.

When analyzed separately using the t-statistic, only the Leverage variable presents a statistically significant contribution to explaining tax avoidance. In contrast, Return on Assets and Tax Burden do not exhibit any notable individual effects. However, the F-test reveals that the three variables, when evaluated together, collectively have a statistically significant impact on tax avoidance behavior.

In terms of model explanatory capacity, the regression accounts for just over 10% of the observed variation, indicating that several other determinants—potentially outside the scope of this study — may play an essential role. The application of the t-test in this context serves to assess whether each independent variable exerts a unique influence on the dependent variable.

This empirical assessment is specifically framed within the context of Indonesia’s Islamic banking sector, where institutions must comply not only with national tax regulations but also with Shariah-based ethical and operational standards.

Table 7. Descriptive Statistic. (Source: SPSS 25 Output, 2024)

Variable	Koefisien (B)	t-statistic	Sig. (p-value)	Conclusion
Return on Asset	-0.024	0.783	0.437	Not Significant
Leverage	0.337	2.150	0.035	Significant
Tax Burden	0.009	0.825	0.412	Not Significant

The multiple regression analysis yielded the following model:

$$CETR = -1,461 - 0,024ROA + 0,337Leverage + 0,009Tax\ Burden$$

Return on Assets (ROA)

The findings indicate that the regression coefficient for Return on Assets is negative (-0.024) and lacks statistical significance, as shown by a p-value of 0.437. This implies that a bank's level of profitability does not significantly influence its engagement in tax avoidance activities.

Context of Indonesian Regulation:

In the Islamic banking landscape in Indonesia, ROA is a metric of how efficiently banks utilize assets under Islamic finance contracts like Mudharabah, Musyarakah, and Murabahah. While it might be assumed that more profitable institutions are more likely to reduce tax liabilities, this pattern does not appear in the results. A plausible explanation is that Islamic banks are subject to Law No. 36 of 2008 on Income Tax, which applies consistently across all business contracts, including Sharia-based ones. Additionally, the application of Sharia-compliant accounting standards (PSAK Syariah) and accrual-based reporting systems reinforces transparency and limits the extent to which financial results can be adjusted by managerial discretion.

Leverage

The regression analysis shows that the coefficient for leverage is 0.337, with a significance level of 0.035, confirming that leverage has a positive and statistically significant impact on tax avoidance behavior.

Context of Indonesian Regulation:

In Islamic financial institutions, leverage is commonly derived from third-party fund sources (DPK) that are distributed through profit-sharing or sale-based Sharia contracts. Although these banks do not rely on conventional interest-bearing instruments, their funding structure can still be assessed using leverage indicators. Minister of Finance Regulation No. 169/PMK.010/2015 — which governs the deductibility of interest expenses under thin capitalization rules — is technically applicable, even though it is more frequently enforced in conventional banks. Furthermore, tax management in Islamic banks may occur through mechanisms such as delayed recognition of Murabahah income or strategic income allocation, which could indirectly shape taxable income without violating Sharia principles.

Tax Burden

The regression output for tax burden yields a positive coefficient of 0.009, but with a p-value of 0.412, indicating that its influence on tax avoidance is not statistically significant in the case of the banks studied.

Context of Indonesian Regulation:

This result may be attributed to the robust tax governance framework applied to banks in Indonesia. Islamic banks, which fall under the classification of major taxpayers, are mandated to submit detailed and transparent annual tax returns (SPT) and are closely monitored by the Directorate General of Taxes (DJP). Additionally, the relatively small disparity between the effective tax rate and the official statutory rate across the banking sector suggests high levels of tax compliance. From an internal governance perspective, the Sharia Supervisory Board (SSB) serves a critical ethical function by ensuring that financial behavior—including decisions related to taxation — remains within the bounds of Islamic ethics, emphasizing truthfulness (Shiddiq) and integrity (Amanah).

Conclusion of Partial Test within Regulatory and Ethical Context

The analysis confirms that leverage significantly influences tax avoidance, reinforcing the notion that capital structure decisions — especially the use of debt — remain instrumental in shaping tax strategies, even within institutions governed by Islamic finance principles. On the other hand, ROA and tax burden do not significantly impact tax avoidance, implying that profitability and nominal tax obligations are not primary motivators for such behavior in this context. Overall, these findings underscore the combined influence of Indonesia's fiscal regulations and Islamic governance standards in curbing aggressive tax planning and promoting compliance across the Islamic banking industry.

This research analyzes the relationship between Return on Assets (ROA), Leverage, and Tax Burden in relation to tax avoidance tendencies among Islamic commercial banks in Indonesia. The empirical investigation utilized panel data regression techniques along with individual t-tests to assess the influence of these variables. The results show that Leverage is the only factor with a statistically significant correlation to tax avoidance, at a 5% significance level ($p = 0.035$), while ROA and Tax Burden do not exhibit any notable effect.

The significance of leverage implies that banks with higher debt proportions are more likely to pursue tax-saving initiatives, possibly to reduce tax obligations and maintain financial flexibility. This finding corresponds with the principles of agency

theory, which suggest that managers in debt-heavy firms are motivated to reduce expenses — including taxes — to maintain operational stability and fulfill financial commitments. Although Islamic banks are prohibited from engaging in interest-based lending due to Shariah regulations, their funding mechanisms — such as Mudarabah or Musyarakah — can economically reflect debt characteristics. Thus, the influence of leverage on tax strategies remains valid in Islamic financial environments.

In contrast, neither ROA nor Tax Burden was found to influence tax avoidance significantly. Although earlier studies often link higher profitability to more aggressive tax behaviors, this pattern does not seem to apply in the Islamic banking context. One explanation could be the presence of dual oversight systems in these banks — comprising both state regulators and Shariah supervisory entities. Notably, the Shariah Supervisory Board (SSB) plays a crucial role in ensuring that all financial practices, including tax matters, adhere to Islamic ethical standards such as Amanah (trust) and Shiddiq (honesty), limiting room for unethical discretion.

Furthermore, the non-significant effect of tax burden might reflect Indonesia's strict regulatory climate in the banking sector. Islamic banks, categorized among major taxpayers, are subject to comprehensive monitoring by the Directorate General of Taxes (DJP) and must follow the PSAK Shariah financial reporting standards. These institutional controls foster compliance and minimize opportunities for aggressive tax manipulation, which weakens any statistical link between the tax burden and avoidance behavior.

To conclude, this study reinforces the idea that leverage plays a vital role in shaping tax avoidance behavior, even in banking institutions bound by Islamic legal and moral codes. The findings also highlight how internal governance based on religious principles can moderate corporate behavior, particularly in tax-related decisions, through a blend of regulatory and ethical oversight.

DISCUSSION

The Return on Assets (ROA) variable, as a measure of profitability, does not have a significant effect on tax avoidance, as indicated by the significance value of 0.437 (> 0.05) and a t-value of -0.783. This suggests that the level of profit generated by Islamic banks is not a primary determinant in decision-making regarding tax avoidance. This result differs from the findings of (Alex & Mubarak, 2025; Astuti & Nafis, 2024; Rini et al., 2025), which indicate that more profitable firms tend to have a greater incentive to engage in tax avoidance. The difference may be explained by the unique characteristics of Islamic banks, which uphold Sharia principles, including transparency and legal compliance. These principles may prevent management from engaging in aggressive tax avoidance strategies. Furthermore, Islamic banks in Indonesia are subject to dual oversight — from the Financial Services Authority (OJK) and the Sharia Supervisory Board (DPS) — which plays a crucial role in minimizing ethical deviations, including tax avoidance practices.

Conversely, the leverage variable has a significant effect on tax avoidance among Islamic banks in Indonesia. This is evidenced by a significance value of 0.035, which is below the 0.05 threshold, and a t-value of 2.15. Therefore, it can be statistically concluded that the higher the leverage of an Islamic bank, the greater its tendency to engage in tax avoidance. This finding indicates that the bank's financing structure — especially debt-based financing — is a critical factor in the tax avoidance practices within the Islamic banking industry. In Islamic banks, leverage is typically reflected in the financing-to-equity ratio. Although Islamic banks do not operate under interest-based systems, financial efficiency pressures still exist, particularly in maintaining liquidity and profitability. When facing high levels of leverage, management may attempt to reduce operational expenses — including tax liabilities — through various avoidance strategies. This finding supports the Agency Theory, which posits that under external pressure (e.g., from fund owners or regulators), management tends to make decisions that serve their own interests, including minimizing tax obligations to preserve the bank's financial performance. This also reinforces the research findings of (Manja & Saleh, 2024), which demonstrate a positive relationship between leverage and tax avoidance practices in the financial sector.

Furthermore, the tax burden variable does not show a significant influence on tax avoidance, with a significance value of 0.412 and a t-value of 0.825. This suggests that while tax burden may be a consideration in a bank's financial planning, it is not a major factor driving tax avoidance behavior. In the context of Islamic banks in Indonesia, it is likely that tax burden is not used as a basis for strategic decision-making, as their financial practices tend to be conservative and guided by a higher standard of legal and religious compliance. This is consistent with the studies of (Fernanda et al., 2025; Nihayah & Oktaviani, 2022), which emphasize that the influence of tax burden on tax avoidance is highly contextual and depends on the regulatory structure and organizational values.

In conclusion, leverage is the only variable that significantly affects tax avoidance in Islamic banks in Indonesia. This finding suggests that within the framework of Sharia-compliant financial institutions, the financing structure is more relevant in explaining variations in tax avoidance behavior compared to profitability or the magnitude of the tax burden. This study provides a novel contribution to the limited body of research on tax avoidance in the Islamic banking sector. Most previous studies have focused on conventional banks or non-financial industries. Therefore, this study expands the scope of research by providing empirical evidence from a sector operating under Islamic principles. The practical implication of this finding is the need for regulators — such as OJK and the Directorate General of Taxes (DJP) — to pay greater attention to Islamic banks with high leverage ratios, as they are more likely to engage in tax avoidance. In addition, this finding highlights the importance of strengthening the role of the Sharia Supervisory Board in ensuring financial integrity and tax compliance in Islamic banking institutions.

CONCLUSIONS

This research explored how return on assets (ROA), leverage, and tax burden impact the practice of tax avoidance in Indonesian Islamic banks, which operate under the dual influence of national taxation policies and Shariah-based financial ethics. Through panel data analysis and individual t-tests, the study found that leverage significantly and positively affects tax avoidance, suggesting that institutions with greater financial liabilities are more inclined to reduce their tax obligations through structured financial strategies. Conversely, ROA and tax burden did not show statistically significant relationships with tax avoidance behavior.

These outcomes imply that neither profitability nor the nominal tax pressure acts as a primary trigger for tax avoidance in Islamic banking institutions, where robust Shariah oversight and adherence to fiscal regulations limit opportunities for aggressive tax planning. The results add value to the existing literature by reinforcing that capital structure — especially the use of debt financing — remains a central element in shaping tax-related decisions, even in systems that do not rely on conventional interest-bearing instruments. Moreover, this study emphasizes the critical role of ethical financial governance in influencing tax compliance behavior, as promoted by the principles of Islamic finance.

These findings provide practical implications for financial regulators, especially in monitoring capital structure decisions. The significant role of leverage in influencing tax avoidance behavior suggests that regulatory frameworks should be strengthened to oversee financing strategies, particularly in Sharia-compliant institutions. Given that leverage can function as a structural enabler for tax minimization, policies should consider debt-related compliance in both conventional and Islamic banking sectors.

Furthermore, this study holds relevance for the Islamic financial sector, tax authorities, and Sharia Supervisory Boards (SSB), as it highlights the intersection between ethical governance and tax responsibility. Ensuring alignment between Sharia principles and fiscal discipline could enhance institutional integrity and public trust in Islamic banks. The regulatory implications of these results are particularly salient for policymakers in Indonesia's dual banking system. As Islamic banks continue to grow, understanding how leverage influences tax behavior becomes critical. Tax authorities such as the Directorate General of Taxes (DJP), along with financial service regulators (OJK) and Sharia Supervisory Boards, must collaborate to create oversight mechanisms that discourage structurally embedded tax avoidance while preserving Sharia compliance. For future investigations, it is recommended to broaden the analytical model by incorporating factors such as audit quality, board oversight, and comparative analysis across countries with different financial systems to gain deeper insights into institutional tax practices.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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ВПЛИВ ПРИБУТКОВОСТІ, КРЕДИТНОГО ПЛЕЧА ТА ПОДАТКОВОГО НАВАНТАЖЕННЯ НА УХИЛЯННЯ ВІД СПЛАТИ ПОДАТКІВ В ІСЛАМСЬКИХ БАНКАХ

У цій роботі досліджено, як показники фінансової ефективності та фіскальна дисципліна формують поведінку ісламських комерційних банків Індонезії щодо ухиляння від сплати податків протягом 2020–2022 років. Дослідження зосереджене на оцінці ролі рентабельності активів (ROA), левєриджу та податкових витрат у впливі на практику податкового планування. Хоча ухиляння від сплати податків перебуває в межах закону, воно може зменшити державні податкові надходження та спровокувати етичні дилеми, особливо в установах, які керуються принципами шаріату. Було застосовано кількісний дизайн дослідження, який використовував кілька методів лінійної регресії на вторинних даних, отриманих із кварталних фінансових звітів восьми ісламських банків, що дало загалом 96 спостережень. Залежна змінна ухиляння від сплати податків функціонує за допомогою ефективною податковою ставки готівки (CETR), з ROA, левєриджем та податковими витратами як незалежними предикторами. Результати вказують на те, що левєридж має значний позитивний вплив на ухиляння від сплати податків, припускаючи, що ісламські банки з більшими борговими зобов'язаннями з більшою ймовірністю будуть брати участь у стратегіях зниження податків потенційно через переваги вирахування, пов'язані з борговими інструментами. На протипагу цьому, ROA та податкові витрати не продемонстрували статистично значущого впливу, що вказує на їхню обмежену роль у формуванні рішень щодо ухиляння від сплати податків у цьому контексті. Модель пояснює лише 8% дисперсії в поведінці ухиляння від сплати податків, указуючи на ймовірність того, що інші детермінанти, крім тих, що розглянуті в цьому дослідженні, можуть мати більшу пояснювальну силу. Результати підтверджують думку про те, що левєридж відіграє центральну роль у стратегіях мінімізації податків, навіть у банківських системах, які керуються ісламськими етичними кодексами. Цей висновок підкреслює необхідність для політиків і органів регулювання переглянути вплив фінансового структурування на результати оподаткування. Крім того, у зв'язку з обмеженням обсягом моделі, рекомендовано, щоб майбутні дослідження враховували додаткові змінні, такі як розмір установи, фінансова ліквідність і структура управління. У цілому, дослідження розширює академічне розуміння поведінки, пов'язаної з оподаткуванням, в ісламському банкінгу й заохочує постійний діалог щодо узгодження фінансових показників із податковою відповідальністю та етичною відповідальністю.

Ключові слова: ухиляння від сплати податків, ісламські банки, рентабельність активів, левєридж, податкові витрати, фінансові результати

JEL Класифікація: G21, H26, M41, G32