



## The Effect Of Liquidity On Tax Avoidance With Capital Structure As An Intervening Variable In Islamic Commercial Banks In Indonesia In 2019-2023

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**Abstract:** This study aims to determine the effect of liquidity on tax avoidance through capital structure as an intervening variable with the object of research being banking companies listed on the Indonesia Stock Exchange (IDX) gallery. The independent variable studied is liquidity by the Loan to Deposit Ratio (LDR). The independent variable studied is Tax Avoidance represented by the Effective Tax Rate (ETR), and the intervening variable studied is Capital Structure represented by the Debt Equity Ratio (DER). The population studied is all banking companies listed on the Indonesia Stock Exchange (IDX) gallery for the period 2019-2023. The type of research used is a quantitative method. The sampling technique uses a purposive sampling technique and takes 10 banking companies that meet the requirements for research. This study uses PLS (Partial Least Square) using the SmartPLS application version 4.0. The research results obtained show that 1) Liquidity has a significant effect on tax avoidance, 2) Liquidity has a significant effect on capital structure, 3) capital structure has a positive effect on tax avoidance, 4) liquidity is able to significantly influence tax avoidance through capital structure.

**Keywords:** Liquidity, Capital Structure, Tax Avoidance, Banking Companies

### INTRODUCTION

In the context of global economic competition and the growth of the Islamic banking sector in Indonesia, liquidity has become one of the most important factors affecting the stability and productivity of banks. Adequate liquidity provides management with flexibility in financial management, including tax avoidance strategies. It not only helps banks meet short-term obligations, but even if tax avoidance is permitted, such practices can negatively affect the reputation of Islamic banks, which are expected to uphold ethical principles. Moreover, capital structure, particularly interest rate levels, can influence the relationship between tax avoidance and liquidity. Banks with higher leverage tend to have external stakeholders who pay closer attention, reducing managerial capacity to engage in tax avoidance practices. Consequently, one of the emerging issues is how tax avoidance is influenced by liquidity (Modal et al., 2012; Oktavia et al., 2020; Rossa et al., 2023).



Liquidity refers to a bank's ability to meet its short-term obligations quickly without experiencing significant losses. This capacity allows banks to handle near-term liabilities efficiently. In finance, liquidity is defined as the ease with which assets can be converted into cash to meet payment demands or obligations that are approaching maturity. Customer trust in the bank and the overall financial health of the institution are reflected in effective liquidity management. In Islamic commercial banks, liquidity is not only about the ability to repay debt; it must also comply with Sharia principles, which prohibit the use of interest (riba). How Islamic banks manage their liquidity while maintaining Sharia compliance and addressing challenges in tax avoidance represents a new development in the Islamic banking industry (Modal et al., 2012).

Tax avoidance refers to the actions or approaches taken by individuals or companies to legally reduce their tax obligations by utilizing provisions or loopholes in tax regulations. This differs from illegal tax evasion, which involves fraud or law-breaking. Tax avoidance often involves careful tax planning, such as utilizing available deductions, structuring finances efficiently, or leveraging incentives regulated under tax laws. Its objective is to reduce the amount of tax payable without violating applicable laws. Tax avoidance is one aspect of tax planning aimed at minimizing the amount of tax paid (Oktavia et al., 2020).

Capital structure refers to the combination of debt and equity chosen by a company to finance its assets and operational activities. It reflects how a company funds expansion and daily operations, as well as influencing financial risk levels and potential investment returns. Maintaining a balanced capital structure can affect the cost of capital and the overall financial strategy of a company. Capital structure plays a crucial role in enhancing company efficiency and performance, as reflected in annual financial reports that show the comparison between long-term liabilities and equity (Rossa et al., 2023).

By using capital structure as an intervening variable in Islamic commercial banks in Indonesia, this study aims to examine how liquidity affects tax avoidance. To analyze the interactions among liquidity, tax avoidance, and capital structure, a quantitative approach is applied. This study uses panel data that combines time-series and cross-sectional data. The data will be sourced from annual financial statements of Islamic commercial banks registered with the Financial Services Authority (OJK) and related official publications. Through this analysis, it is



expected that the direct effect of liquidity on tax avoidance, as well as the moderating role of capital structure, can be identified (Modal et al., 2012; Oktavia et al., 2020; Rossa et al., 2023).

By testing capital structure as an intervening variable, this study seeks to assess the impact of liquidity on tax avoidance in Islamic commercial banks listed on the Indonesia Stock Exchange. A quantitative approach with regression analysis will be conducted to measure the direct relationships among liquidity, tax avoidance, and capital structure. Data will be collected from financial statements and governance-related publications of the Islamic banks under study (Modal et al., 2012; Oktavia et al., 2020; Rossa et al., 2023).

Based on the background above, the research questions are as follows: (1) Does liquidity affect tax avoidance in Islamic banking companies listed on the Indonesia Stock Exchange during 2019–2023? (2) Does liquidity affect capital structure in Islamic banking companies listed on the Indonesia Stock Exchange during 2019–2023? (3) Does capital structure affect tax avoidance in Islamic banking companies listed on the Indonesia Stock Exchange during 2019–2023? (4) Does liquidity affect tax avoidance through capital structure in Islamic banking companies listed on the Indonesia Stock Exchange during 2019–2023?

Accordingly, the research objectives are as follows: (1) To examine and analyze the effect of liquidity on tax avoidance. (2) To examine and analyze the effect of liquidity on capital structure. (3) To examine and analyze the effect of capital structure on tax avoidance. (4) To examine and analyze the effect of liquidity on tax avoidance through capital structure (Modal et al., 2012; Oktavia et al., 2020; Rossa et al., 2023).

## **METHOD**

The research design represents the research process, encompassing the relationships among variables, data collection methodology, and data analysis for subsequent steps (Subaida & Sari, 2024). This study employs a quantitative approach, which is a research method that combines numerical data and statistical analysis to test hypotheses and examine relationships among variables. There are three types of variables used in this study: independent variables, dependent variables, and intervening variables. The independent variable analyzed in this research is liquidity, while the dependent variable examined is tax avoidance. The intervening variable is capital structure. The independent variable, liquidity, is represented by the Loan to Deposit Ratio (LDR),



the dependent variable, tax avoidance, is represented by the Effective Tax Rate (ETR), and the intervening variable, capital structure, is represented by the Debt to Equity Ratio (DER).

## RESULTS AND DISCUSSION

### Results

Table Header	Table R-square Value	
	R Square	R square Adjusted
<i>Tax Avoidance</i>	0.237	0.222
<i>Capital Structure</i>	0.232	0.200

**Tabel 1.** R-Square Values

Table 1 shows that the R-Square value for tax avoidance is 0.237, indicating that liquidity explains 23.7% of the variance in tax avoidance, while the remaining 76.3% is accounted for by other variables not examined in this study. Meanwhile, the R-Square value for capital structure is 0.232, meaning that liquidity and tax avoidance together explain 23.2% of the variance in capital structure, with the remaining 76.8% influenced by factors outside the scope of this research.

	Table Hypothesis Test Values				
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Liquidity -> Tax avoidance	0.345	0.354	0.145	2.386	<b>0.017</b>
Liquidity -> Capital Structure	0.487	0.473	0.117	4.160	<b>0.000</b>
Capital Structure -> Tax avoidance	-0.544	-0.536	0.159	3.419	<b>0.001</b>

**Table 2.** Nilai Uji Hipotesis

	Table Indirect Effect Value				
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Liquidity -> Tax avoidance -> Capital Structure	-0.265	-0.263	0.120	2.203	<b>0.028</b>

**Table 3.** Nilai Indirect Effect



Based on the results of the hypothesis testing presented in Table 3, several important conclusions can be drawn as follows:

### **Impact of Liquidity on Tax Avoidance**

The Loan to Deposit Ratio (LDR), a measure of liquidity, indicates a strong relationship with tax avoidance. The t-statistic value of 2.386, which is higher than the critical value of 1.96 ( $2.386 > 1.96$ ), supports this relationship. Furthermore, the significance of this result is confirmed by a p-value of 0.017, which is less than 0.05 ( $0.017 < 0.05$ ). Therefore, it can be concluded that liquidity has a significant effect on tax avoidance.

### **Impact of Liquidity on Capital Structure**

The Effective Tax Rate (ETR), which serves as a proxy for liquidity, also has a substantial effect on capital structure. This conclusion is supported by a t-statistic value of 4.160, which is significantly greater than the critical value of 1.96 ( $4.160 > 1.96$ ), and a p-value of 0.000, which is less than 0.05 ( $0.000 < 0.05$ ). Thus, liquidity significantly affects capital structure.

### **Impact of Capital Structure on Tax Avoidance**

The study shows that capital structure, measured by the Debt to Equity Ratio (DER), has a strong effect on tax avoidance. This is evidenced by a p-value of 0.001, which is below 0.05 ( $0.001 < 0.05$ ), and a t-statistic of 3.419, which exceeds 1.96 ( $3.419 > 1.96$ ). These findings support the notion that capital structure significantly influences tax avoidance.

### **Mediating Effect of Capital Structure**

Another element mediating the relationship between liquidity and tax avoidance is capital structure. Capital structure mediates the effect of liquidity on tax avoidance, as indicated by a t-statistic of 2.203, which is greater than 1.96 ( $2.203 > 1.96$ ), and a p-value of 0.028, which is less than 0.05 ( $0.028 < 0.05$ ). Therefore, it is suggested that capital structure mediates the relationship between liquidity and tax avoidance. The hypothesis testing results confirm that capital structure acts as a significant mediating variable, and both liquidity and capital structure have substantial effects on corporate strategies related to tax avoidance.

## **CONCLUSION**

This study indicates that liquidity has a significant effect on tax avoidance in Islamic Commercial Banks in Indonesia during the period 2019–2023. Higher liquidity tends to reduce tax



avoidance practices because banks are able to meet their financial obligations without seeking ways to minimize taxes. In addition, capital structure was also found to have a significant impact on tax avoidance, where banks with a higher proportion of debt are more likely to engage in tax avoidance to reduce interest burdens. However, the study also found that capital structure acts as an intervening variable mediating the relationship between liquidity and tax avoidance, although the mediation effect is not particularly strong. Therefore, liquidity is more dominant in influencing tax avoidance compared to capital structure. Overall, this study provides evidence that effective liquidity management can help Islamic commercial banks minimize tax avoidance practices and maintain financial stability in accordance with Sharia principles.

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