

Examining the Influence of Liquidity on Tax Avoidance: The Role of Capital Structure in Indonesian Sharia Banks (2019-2023)

Romansyah Sahabuddin^{1*}, Hery Maulana Arif², Alya Fadiyah Dwi Putri³,
Shabrina Nurfadhilah Irwan⁴, Safira AINU Nadira Sofyan⁵

¹⁻⁵Department of Management, State University of Makassar

Author's correspondence: [*romansyah@unm.ac.id](mailto:romansyah@unm.ac.id)

Abstract

This research investigates the effect of liquidity on tax avoidance, considering capital structure as an intervening variable, with a focus on banking companies listed on the Indonesia Stock Exchange (IDX). The independent variable analyzed is liquidity, measured by the Loan to Deposit Ratio (LDR), while tax avoidance serves as the dependent variable, represented by the Effective Tax Rate (ETR). The capital structure, acting as the intervening variable, is assessed using the Debt to Equity Ratio (DER). The study population comprises all banking companies listed on the IDX during the period from 2019 to 2023. A quantitative approach is utilized, employing purposive sampling to select 10 banking companies that satisfy the relevant criteria for the study. Data analysis is performed using Partial Least Squares (PLS) through the SmartPLS version 4.0 software. The findings indicate that: 1) Liquidity has a significant effect on tax avoidance; 2) Liquidity significantly influences capital structure; 3) Capital structure positively affects tax avoidance; and 4) Liquidity significantly impacts tax avoidance through capital structure.

Keywords: Liquidity, Capital structure, Tax avoidance, banking companies.

INTRODUCTION

In the global economic competition and the growth of the Islamic banking sector in Indonesia, liquidity is one of the most important factors that affect the stability and productivity of banks. Adequate liquidity provides flexibility to management in managing finances, including in *tax avoidance* strategies. Not only does it help banks in meeting short-term needs. Even if *Tax avoidance* is allowed, this practice can have a negative impact on the reputation of Islamic banks which are expected to uphold ethical principles. In addition, the structure of capital, especially interest rates, can affect the relationship between *tax avoidance* and liquidity. Banks with larger leverage structures tend to have more attentive external stakeholders, which reduces the managerial capacity to practice *tax avoidance*. As a result, one of the issues that arises is how *tax avoidance* is affected by liquidity.

Liquidity in a financial context is the ease with which assets can be converted into cash to meet impending payment requests or obligations. Customer confidence in the bank and the bank's financial health is reflected in effective liquidity management. Liquidity in Islamic commercial banks is not only about the ability to pay debts; Liquidity must also be guaranteed in accordance with sharia rules, which prohibit the use of interest (*riba*). The way Islamic banks handle their

liquidity while upholding sharia compliance and overcoming the difficulties of *Tax avoidance* is a new development in the Islamic banking industry.

Tax avoidance often involves careful tax planning, such as using available tax deductions, managing financial structures efficiently, or taking advantage of tax incentives regulated by tax regulations. The goal is to reduce the tax liability that must be paid without violating the law. "Tax Avoidance" is a term used to describe legal actions to save taxes under existing laws that are used to reduce tax liability.

In this study, capital structure is used as an intervening variable to analyze the influence of liquidity on tax avoidance in Islamic commercial banks in Indonesia. To see how liquidity, *tax avoidance* and capital structure interact, a quantitative approach with a comparative causal method is used. Through this method, it is hoped that it can be identified how liquidity affects *tax avoidance* directly, as well as the role of capital structure in mediating the relationship. Data will be taken from financial statements and publications related to governance from Islamic banks that are the object of research.

Based on the background stated above, the formulation of the problem in this study is: (1) How does liquidity affect *tax avoidance* in Islamic banking companies in Indonesia in 2019-2023?; (2) How does liquidity affect the capital structure of Islamic banking companies in Indonesia in 2019-2023?; (3) How does the capital structure affect *tax avoidance* in Islamic banking companies in Indonesia in 2019-2023?; (4) How much does liquidity affect *tax avoidance* through capital structure in Islamic banking companies in Indonesia in 2019-2023?

Based on the background and formulation of the problems that have been described, the objectives of this study are: (1) To test and understand the influence of liquidity on tax avoidance; (2) To analyze the impact of liquidity on the capital structure; (3) To test and analyze the relationship between capital structure and tax avoidance; (4) To test the effect of liquidity on tax avoidance by considering the structure of capital as an intermediary.

LITERATURE REVIEW

Liquidity

According to Gultom, "The Effect of Profitability, Leverage, and Liquidity on Tax Avoidance." the ability of a company to fulfill its short-term obligations in a timely manner by comparing current assets with short-term liabilities is called liquidity. Liquidity ratios are often referred to as "short-term debt" because they describe the extent to which an organization can either pay off its short-term debt by evaluating the value of its assets compared to its short-term liabilities. The liquidity ratio indicates how well an organization can pay its short-term debt. Based on the liquidity theory from the previous two studies, it can be concluded that liquidity is the ability of an organization to utilize current assets effectively

to meet short-term obligations. Be timely and reflect the organization's financial position in meeting its short-term obligations. According to (Zafira & Suman, 2023) the bank's financing strategy, LDR (*Loan to property ratio*) is used as an indicator of the liquidity variable.

Tax avoidance

Tax avoidance hampers tax collection, resulting in a decline in state revenue (Gultom, 2021). In a company, tax avoidance aims to reduce taxable profits through tax planning strategies, which can be done legally (tax avoidance) or unlawfully (tax evasion). (Albasitha & Dinda, 2024) Based on the definitions of the two theories, it can be concluded that tax avoidance is an attempt by taxpayers to use loopholes or legal ambiguities to minimize or eliminate their tax obligations legally and compliantly.

This practice is legal and does not violate the law, but it can still reduce state cash revenues. According to (Sulaeman, 2021) stating the ETR (Effective Tax Rate) as an indicator of the Tax Avoidance variable.

Capital Structure

Capital structure is an important factor in increasing the productivity and efficiency of a company. The ratio between long-term debt and equity, as reflected in a company's annual financial statements at the end of the year period, is known as the capital structure (Rossa et al., 2023). The comparison of the capital use of term loans is known as the capital structure. It includes short-term liabilities with fixed characteristics, long-term liabilities, as well as capital that includes preferred shares and common shares (Oktaviana et al., 2020). The ratio of long-term debt to equity, as reported in the company's financial statements, plays an important role in improving the company's productivity and efficiency. According to (Inayah, 2022) the state, capital structure refers to the ratio between long-term debt and equities so that DER (*Debt to Equity*) is used as an indicator of capital structure.

Conceptual Restructuring

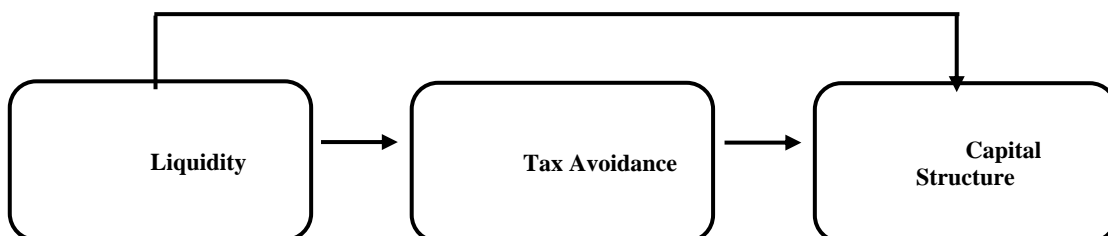


Figure 1
Conceptual Framework

In the figure above, Tax Avoidance, Liquidity, and Capital Structure are interrelated. If a company uses Tax Avoidance as a strategy to minimize the tax burden through various legal loopholes, this can be motivated by high or low liquidity. If a company uses Tax Avoidance, this can affect its capital structure, namely the ratio of equity to liquidity. The arrow that returns from capital structure to liquidity indicates the existence of a reciprocal relationship, where changes in capital structure can again affect the company's liquidity.

Research Hypothesis:

H1: *Liquidity significantly affects Tax avoidance.*

H2: *Liquidity significantly affects the Capital structure.*

H3: *Capital structure significantly affects tax avoidance.*

H4: *Liquidity significantly affects against tax avoidance through capital structure.*

METHOD

Research Design

The research methodology applied in this study is a qualitative comparative model combined with quantitative methods, where hypotheses and relationships between variables are analyzed using numerical data and statistical techniques. In this study, liquidity functions as an independent variable, while taxes act as a dependent variable, and capital structure functions as a mediating variable. *The loan-to-deposit ratio (LDR)* is used to measure liquidity, *the effective tax rate (ETR)* is used to measure *tax avoidance*, and *the debt to equity ratio (DER)* is used to measure the capital structure.

Population and Sample

The purposive sampling method was applied in this study, where samples were selected based on factors relevant to the research objectives, rather than randomly. The researchers analyzed the annual financial statements of Islamic banks from 2019 to 2023 after determining the institutions listed on the Indonesia Stock Exchange (IDX). Ten Islamic banks that met the criteria for an adequate study sample were identified by the screening findings.

Table 1. Table Format

No.	Code Company	Company Name
1.	BRIS	PT. Bank Syariah Tbk.
2.	BNGA	PT. Bank CIMB Niaga Tbk.
3.	BBMI	PT. Bank Muamalat Indonesia Tbk.
4.	BNII	PT. Bank Maybank Indonesia Tbk.
5.	BBTN	PT. Bank Tabungan Negara Syariah Tbk.
6.	BTPS	PT. Bank BTPN Syariah Tbk.
7.	BUS	PT. Bank Aceh Syariah
8.	BRK	PT. Bank Riau Kepri Syariah
9.	PNBS	PT. Panin Dubai Syariah Tbk.
10.	BNLI	PT. Bank Permata Syariah Tbk.

Data Collection Techniques

The data for this study was obtained from the financial statements of banks listed on the Indonesia Stock Exchange during the period 2019 to 2023 by applying the purposive sampling method.

Data Analysis Techniques

In this study, Partial Least Squares (PLS) software was used with an internal model analysis technique, which consisted of looking at the R-square value and t-statistical significance on the relationship between the Bootstrapping algorithm - the path coefficient. This analysis takes into account the higher t-statistical value of the t-table and its significance (t-table at a significance level of 5% = 1.96).

DISCUSSION RESULTS

Table 2. R-Square Value

Table Head	Table R-square value R Square	R square Adjusted
<i>Tax avoidance</i>	0.237	0.222
Capital Structure	0.232	0.200

Table 2 shows the R-Square value for *Tax avoidance* of 0.237, which shows that liquidity has the ability to explain the *Tax avoidance* variable with a percentage of 23.7%. Meanwhile, the R-Square value for capital structure is 0.232, which shows that liquidity and *tax avoidance* variables have the ability to explain capital structure variables with a percentage of 23.2%.

Table 3. Hypothesis Test Value

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

Table 4. Indirect Effect Value

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

From the results of the hypothesis testing presented in Table 3, it can be concluded that several important things are as follows:

Impact of Liquidity on *Tax avoidance*

The loan to deposit ratio (LDR), which serves as an indicator of liquidity, shows a strong correlation between *tax avoidance* and liquidity. The t-statistical value of 2.386, which is higher than the significant criterion of 1.96 ($2.386 > 1.96$),

proves this. In addition, a p-value of 0.017, which is less than 0.05 ($0.017 < 0.05$), supports a significant level. From these results, we can conclude that liquidity has an impact on *tax avoidance*.

The Effect of Liquidity on Capital Structure

The capital structure is significantly influenced by *the effective tax rate (ETR)*. There is evidence to support that liquidity plays an important role in influencing capital structure. A t-statistical value of 4.160 far exceeded the critical threshold of 1.96, and a p-value of 0.000 indicates a smaller significance level than 0.05.

The Effect of Capital Structure on Tax Avoidance

The results of this study are in line with the theory that the capital structure, measured through *the Debt to Equity Ratio (DER)*, has a significant effect on tax avoidance. A p-value of 0.001, which is smaller than 0.05 ($0.001 < 0.05$), as well as a t-statistical value of 3.419, which is greater than the critical limit of 1.96 ($3.419 > 1.96$), support this conclusion. This study reinforces the conclusion that capital structure significantly affects tax avoidance.

The Effect of Capital Structure Mediation

One of the elements that acts as a mediator in the relationship between *tax avoidance* and liquidity is the capital structure. The possibility of capital structure mediating the influence of liquidity on *tax avoidance* is shown by a p-value of 0.028 which is below 0.05 ($0.028 < 0.05$), and a calculated t-value of 2.203 which is greater than the critical value of 1.96 ($2.203 > 1.96$). Therefore, it can be said that capital structure mediates the relationship between *tax avoidance* and liquidity.

The findings of this hypothesis test support the idea that capital structure plays a large mediating role. These findings show that the company's *tax avoidance strategy* is significantly influenced by capital structure and liquidity.

Liquidity impact on *tax avoidance* in Islamic banking companies listed on the Indonesia Stock Exchange in 2019-2023

The first hypothesis was accepted because an analysis conducted between 2019 and 2023 showed that the liquidity of banking businesses listed on the Indonesia Stock Exchange significantly affected individuals' efforts to avoid taxes. Companies that have strong liquidity typically have greater resources for tax preparation, such as lowering their official tax burden. Businesses with strong liquidity are better able to manage cash flow and take advantage of tax breaks. On the other hand, businesses with limited liquidity are usually more concerned

with maintaining their financial stability and may not be able to implement *tax avoidance* tactics. Companies that have strong liquidity can also hire tax consultants who are better at seeing opportunities to avoid taxes. This is contrary to previous research conducted by (Febrilyantri, 2022) which stated that the validity of *Tax avoidance* is not affected by liquidity variables.

Impact on liquidity on capital structure in Islamic banking companies listed on the Indonesia Stock Exchange in 2019-2023

The findings of the second hypothesis test show that, from 2019 to 2023, banks listed on the Indonesia Stock Exchange will experience a major impact on their capital structure due to liquidity. Thus, the second hypothesis proved to be correct. An important factor in determining the capital structure of Islamic banks is liquidity. Islamic banks can easily meet short-term obligations without relying too much on external loans when liquidity is high. This helps banks maintain a balance between the use of internal capital and debt, as well as avoid dependence on interest-based financing, in accordance with sharia principles. Conversely, low liquidity can encourage banks to look for additional sources of financing to maintain operations, which can ultimately affect the capital structure by increasing the portion of debt or external capital. This is different from previous research conducted by Cahyani and Nyale, "The Effect of Asset Structure and Liquidity on Capital Structure with Company Size as a Moderating Variable." which indicated the negative influence of liquidity on the capital structure.

Impact of capital structure on *tax avoidance* in Islamic banking companies listed on the Indonesia Stock Exchange in 2019-2023

The third hypothesis has been tested and accepted because the results of the study reveal that capital structure significantly affects *Ta avoidance* in banking companies listed on the Indonesia Stock Exchange during the period 2019 to 2023. In Islamic banking companies, capital structure is the main factor in determining *tax avoidance* tactics. Islamic banks whose capital structures have a larger proportion of debt may have an incentive to avoid taxes by reducing the interest expense which is often seen as a tax deduction cost. However, because Islamic banks operate on the principle of no interest, *the Tax avoidance strategy is more complex and must be in accordance with sharia rules. Islamic banks that have a more equity-based capital structure may be more limited in using conventional tax avoidance schemes*, so their strategies focus more on tax efficiency in accordance with sharia values. All of this is related to previous research conducted by Albasitha and Dinda, "Public Accountants, Good Corporate Governance Towards Tax Avoidance In Manufacturing Companies Listed In The Lq-45 Index On The Indonesia Stock Exchange." which indicated that modality structure has a positive and significant effect on *tax avoidance*.

The effect of liquidity on *tax avoidance* through capital structure in Islamic banking companies listed on the Indonesia stock exchange in 2019-2023.

After evaluating the fourth hypothesis, the findings show that, in banking businesses listed on the Indonesia Stock Exchange between 2019 and 2023, liquidity significantly affects *tax avoidance* through capital structure. Thus, the fourth hypothesis was declared accepted. In Islamic banking companies, liquidity has a significant effect on *tax avoidance* through capital structure. High liquidity allows Islamic banks to have greater flexibility in managing their cash flow and capital structure, such as reducing dependence on interest-based debt, which is contrary to sharia principles. With a more stable and sharia-compliant capital structure, companies can focus more on effective and legal tax planning, including avoiding excessive tax burdens. Conversely, low liquidity may force banks to seek additional financing, which may have an impact on increasing debt and reduce flexibility in implementing *tax avoidance* strategies. This is different from the study conducted by Devi and Arinta (2021)" those who said that the relationship between *tax avoidance* and liquidity cannot be strengthened by the capital structure.

CONCLUSION

This analysis shows that the efforts of Islamic commercial banks in Indonesia to avoid taxes from 2019 to 2023 were significantly affected by liquidity. Banks with higher liquidity tend to reduce *tax avoidance* practices, as they are able to meet their financial obligations without needing to find ways to minimize taxes. Capital structure also affects *tax avoidance*, where banks with a larger portion of debt are more likely to be involved in tax avoidance to reduce interest expenses. Although the capital structure acts as a mediating variable between liquidity and *tax avoidance*, the influence of this mediation is not very significant, so liquidity remains the more dominant factor. There are other aspects that can affect *tax avoidance* techniques in Islamic commercial banks, in addition to liquidity and capital structure. One of them is bank size, which is also referred to as company size, where larger banks can use more sophisticated *tax avoidance* schemes due to larger resources. Profitability is also a factor, as larger banks may be more inclined to avoid taxes in order to maintain their profit margins. Compliance with sharia principles is also important because Islamic commercial banks must adhere to Islamic financial principles that emphasize fairness, transparency, and honesty. As a result, they are unable to practice *tax avoidance*. Overall, the study shows that a combination of liquidity management and capital structure, as well as additional variables such as bank size, profits, governance, and sharia compliance, influence banks' decisions to take *tax avoidance measures*.

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