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The Influence of *Digital Transformation, Incentives Executives*, And *Intellectual Capital* on *Tax Avoidance*: *Profitability* as a Moderator (Empirical Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2020-2024 Period)

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ABSTRACT: This study aims to analyze the influence of digital transformation, executive incentives, and intellectual capital on tax avoidance with profitability as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The approach used in this study is a quantitative method by utilizing secondary data obtained from the company's annual report. This study uses purposive sampling techniques in determining samples based on certain criteria so that 265 relevant data are obtained and in accordance with the research objectives. Data analysis was carried out using a panel data regression model to test the relationship between variables, as well as Moderated Regression Analysis (MRA) to test the moderation effect of profitability variables. The results of the study show that digital transformation does not have a significant effect on tax avoidance, which indicates that the implementation of digital transformation in companies does not affect tax avoidance practices. Executive incentives and intellectual capital have been proven to have a positive and significant effect on tax avoidance, which shows that increased incentives for executives and intellectual capital management can encourage companies' tendency to avoid taxes. Profitability moderates the relationship between digital transformation and executive incentives to tax avoidance, so that it can strengthen the influence of these two variables depending on the level of profitability of the company. Profitability does not moderate the influence of intellectual capital on tax avoidance, suggesting that the relationship between the two variables is direct.

KEYWORDS: Digital Transformation, Executive Incentives, Intellectual Capital, Profitability, Tax Avoidance.

1.INTRODUCTION

Taxes are the main source of state revenue which has an important role in financing development. Tax avoidance practices are still a challenge in optimizing tax revenue. Tax avoidance is a legal effort made by companies to minimize the tax burden by taking advantage of loopholes in tax regulations(Dewi & Noviari, 2017). This phenomenon occurs not only in Indonesia, but also globally, where a portion of the profits of multinational companies are reported in jurisdictions with low tax rates. This condition shows that companies have a tendency to develop efficient tax strategies, but have the potential to reduce their contribution to state revenue. In its development, digital transformation is an important factor that affects company operations, including in tax management (Zhang & She, 2024). Digital transformation is defined as the integration of digital technology into business activities to improve the efficiency and quality of decision-making. Several studies show that digital transformation can increase transparency and suppress tax avoidance practices. However, other research has found that digitalization can actually be leveraged to design more complex tax avoidance strategies (Hidayatulloh et al., 2024). Performance-based incentives can encourage management to increase profits through tax efficiency, thereby potentially improving tax avoidance practices (Nabila & Ramdani, 2022). On the other hand, intellectual capital as an intangible asset also plays a role in improving the efficiency and quality of company decision-making(Rahmi et al., 2024). Based on this phenomenon, this study aims to analyze the influence of digital transformation, executive incentives, and intellectual capital on tax avoidance with profitability as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. This study uses a quantitative approach with panel data regression analysis and Moderated Regression Analysis (MRA).

2.LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Agency Theory

Agency theory describes the relationship between the principal (the owner of the company) and the agent (manager) who is given the authority to manage the company. In this relationship there is often a conflict of interest because the manager does not always act in accordance with the interests of the owner (Jensen & Meckling, 1976). These differences in interests can encourage managers to make opportunistic decisions, including

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in tax avoidance practices to improve the company's profit performance. In addition, the existence of information asymmetry between the principal and the agent provides an opportunity for managers to hide information or perform actions that are not completely transparent (Eisenhardt, 1989). Policies such as the provision of executive incentives and the implementation of internal control systems, including through digital transformation, are essential to reduce agency conflicts and increase transparency. Thus, agency theory is the foundation for understanding how internal company factors affect decisions related to tax avoidance.

2.2. Theory-Based Views

The Resource-Based View (RBV) theory emphasizes that a company's competitive advantage is determined by its ability to manage its internal resources (Barney, 1991). These resources must have valuable, rare, inimitable, and non-substitutable (VRIN) characteristics in order to create sustainable value and excellence. In the context of the modern enterprise, resources are not only physical assets, but also include intangible assets such as technology, knowledge, and organizational systems. The concept of RBV is relevant to explain the role of intellectual capital and digital transformation as a company's strategic resource. Intellectual capital, which consists of human capital, structural capital, and relational capital, is able to improve the efficiency and quality of decision-making (Rahmi et al., 2024). Digital transformation as a form of technology utilization can also improve company performance and transparency (Hanelt et al., 2021).

2.3. Tax Avoidance

Tax avoidance is an effort made by companies to minimize the tax burden by taking advantage of loopholes in tax regulations that are still legal (Ratnawati et al., 2018). While not directly against the law, this practice often conflicts with the primary purpose of tax policy because it can reduce state revenue. Therefore, tax avoidance is an important concern for governments and regulators in an effort to improve tax compliance. Tax avoidance is carried out through various strategies such as tax planning, the use of differences in accounting and fiscal rules, and the regulation of certain transactions to reduce taxable profits (Scholes, 2014). The greater the difference, the higher the indication of tax avoidance practices. Tax avoidance practices are influenced by various factors, both internal and external to the company. Internal factors such as executive incentives, intellectual capital, and profitability levels can encourage management to devise an efficient tax strategy.

2.4. Digital Transformation

Digital transformation is a process of comprehensive change in organizations through the use of digital technology to improve operational efficiency, information quality, and decision-making (Zhang & She, 2024). This transformation includes not only the use of technology, but also changes to the company's business processes, organizational structure, and work culture. Digital transformation is an important factor in improving the company's competitiveness and performance. Digital systems such as Enterprise Resource Planning (ERP) and cloud accounting allow for better data integration as well as strengthening internal controls (Verhoef et al., 2021). Technological developments can also be used by companies to develop tax planning strategies that are more complex and difficult to detect (Hidayatullah et al., 2024).

2.5. Executive Incentives

Executive incentives are compensation given to the top management of a company as a form of reward for the performance achieved, either in the form of salary, bonuses, or shares (Jensen & Meckling, 1976). The provision of these incentives aims to align the interests between managers (agents) and company owners (principals) so that management is encouraged to improve the company's performance and value. Incentives based on profit performance can encourage management to make opportunistic decisions, including in tax avoidance practices. Managers tend to try to maximize after-tax profits to increase the compensation received, so a tax efficiency strategy is one of the options (Nabila & Ramdani, 2022).

2.6. Intellectual Capital

Intellectual capital is an intangible asset owned by a company that comes from the knowledge, skills, innovations, and relationships owned by the organization (Rahmi et al., 2024). Intellectual capital plays an important role in improving operational efficiency and the quality of decision-making and companies that have good intellectual capital management tend to be able to develop business strategies, including tax strategies, more effectively (Rahmi et al., 2024).

2.7. Profitability

Profitability is a company's ability to generate profits from its operational activities, which is generally measured using ratios such as *Return on Assets* (ROA), *Return on Equity* (ROE), and *Net Profit Margin* (Stawati, 2020). The level of profitability reflects the effectiveness of management in managing the company's resources to create profits, and is an important indicator in assessing the company's financial performance. Companies with a high level of profitability tend to have a greater tax burden because the resulting taxable profit is also high. This condition encourages management to carry out tax planning to optimize the tax burden legally. This is in line with the research of Dewi and Noviari (2017) which states that profitability has a positive effect on tax avoidance, because companies strive to maintain optimal profit after tax.

2.8. Research and Hypothesis Development Model

2.8.1. The Effect of Digital Transformation on Tax Avoidance

The influence of digital transformation on tax avoidance can be explained through the perspective of agency theory. Digital transformation allows companies to improve operational efficiency as well as the quality of financial information through the integration of technology-based systems (Zhang & She, 2024). With digital systems such as *Enterprise Resource Planning* (ERP) and reporting automation, the transparency and accuracy of financial data has become better, thereby reducing the opportunity for management to carry out opportunistic practices such as tax avoidance. Digital transformation also has other potentials. Technological advances can be utilized by management to develop tax planning strategies that are more complex and difficult to detect by tax authorities (Hidayatullah et al., 2024). Some previous studies have shown inconsistent results. Some studies have found that digital transformation has a negative effect on tax avoidance because it increases transparency and internal control. Meanwhile, other research shows that digital transformation has no significant effect on tax avoidance, and in some cases it even has the potential to increase the practice. Therefore:

H1: Digital transformation affects tax avoidance.

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2.8.2. The Effect of Executive Incentives on Tax Avoidance

The influence of executive incentives on tax avoidance can be explained through agency theory which states that there is a conflict of interest between managers (agents) and company owners (principals) (Jensen & Meckling, 1976). Providing incentives to executives aims to align these interests so that managers are motivated to improve company performance. Incentives based on financial performance, particularly profit, can encourage management to take opportunistic actions to maximize the compensation received. Managers tend to try to reduce tax burdens so that after-tax profits increase, so that the company's performance looks better and has an impact on increasing the incentives received. This is in line with the research of Nabila and Ramdani (2022) which states that executive incentives have a positive effect on tax avoidance, because management has an incentive to maximize profits through tax efficiency strategies. There are also studies that show different results, where executive incentives don't always encourage tax avoidance practices, especially if the company has a strong oversight system.

H2: Executive incentives have an effect on tax avoidance.

2.8.3. The Influence of Intellectual Capital on Tax Avoidance

The influence of intellectual capital on tax avoidance can be explained through the Resource-Based View (RBV) theory which states that a company's advantage is determined by its ability to manage internal resources, especially intangible assets (Barney, 1991). Intellectual capital has the potential to increase tax avoidance practices because it is supported by better managerial knowledge and skills (Rahmi et al., 2024). Previous research results showed inconsistent findings. Several studies have found that intellectual capital does not have a significant effect on tax avoidance (Widodo et al., 2022; Haeruddin et al., 2023), while other studies have shown a significant positive influence (Rahmi et al., 2023). These differences in results show that the role of intellectual capital in influencing tax avoidance still needs further research. Therefore:

H3: Intellectual capital has an effect on tax avoidance.

2.8.4. The Effect of Digital Transformation on Tax Avoidance with Profitability as a Moderator The influence of digital transformation on tax avoidance with profitability as a moderation variable can be explained through agency theory. Digital transformation allows companies to improve transparency, data accuracy, and internal controls through the use of technology (Zhang & She, 2024). With a more integrated system, management's opportunities to carry out opportunistic practices such as tax avoidance can be reduced. Technology can also be leveraged to design more complex taxation strategies (Hidayatullah et al., 2024). Profitability allegedly affects the relationship. Companies with high levels of profitability tend to have a greater tax burden, so they have a stronger incentive to do tax avoidance. Companies that have high profitability are also generally supported by better digital systems, so that they are able to develop tax strategies more effectively. This shows that profitability can strengthen or weaken the influence of digital transformation on tax avoidance. The role of profitability as a moderation variable is important in explaining the relationship between digital transformation and tax avoidance. Therefore:

H4: Profitability moderates the influence of digital transformation on tax avoidance.

2.8.5. The Effect of Executive Incentives on Tax Avoidance with Profitability as a Moderator

The influence of executive incentives on tax avoidance with profitability as a moderating variable can be explained through agency theory (Jensen & Meckling, 1976). Providing incentives to executives aims to encourage managers to improve the company's performance, especially in terms of achieving profits. However, incentives based on financial performance can encourage management to take opportunistic actions, including minimizing the tax burden through tax avoidance. Profitability plays an important role in strengthening the relationship. Companies with high levels of profitability tend to have a greater tax burden, which encourages management to be more aggressive in tax planning to maintain after-tax profits. This condition can strengthen the influence of executive incentives on tax avoidance, as managers have greater motivation to increase the compensation received. Therefore:

H5: Profitability moderates the influence of executive incentives on tax avoidance.

2.8.6. *The Influence of Intellecual Capital on Tax Avoidance with Profitability as a Moderator*

The influence of intellectual capital on tax avoidance with profitability as a moderation variable can be explained through the theory of Resource-Based View (RBV) (Barney, 1991). Intellectual capital as an intangible asset consisting of *human capital*, *structural capital*, and *relational capital* provides the ability for companies to manage information and strategize more effectively, including in tax planning. Companies with high intellectual capital tend to have better ability to take advantage of tax regulatory loopholes to reduce tax burdens legally.

Based on this description, the hypothesis proposed in this study is:

H6: Profitability moderates the influence of intellectual capital on tax avoidance.

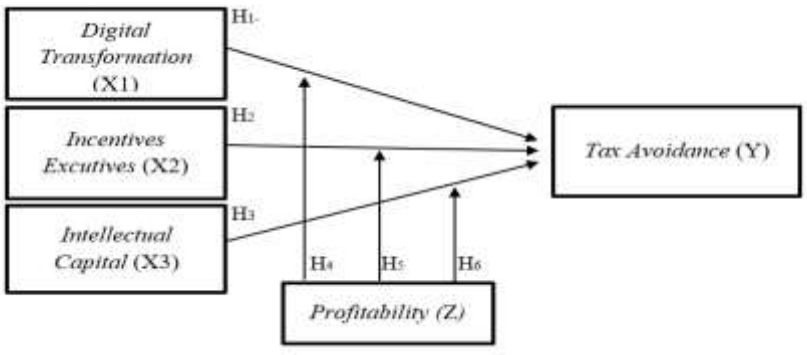


Figure 1: Proposed research model.
Source: Author's own work

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3.RESEARCH METHODS

3.1 Population and Sample

The population in this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sampling technique in this study uses the purposive sampling method, which is the selection of samples based on certain criteria that are adjusted to the purpose of the research. The criteria used in determining the sample are as follows:

Table 1. Population and Sample

Sample Criteria	Quantity
Manufacturing companies listed on the Indonesia Stock Exchange (IDX)	228
Companies that did not publish consecutive annual reports from 2020-2024	(102)
The company does not disclose executive incentives in its annual report	(3)
The company does not use rupiah (IDR) currency	(13)
The company did not generate profits consecutively in the observation period (57) contained in the annual report	57)
Number of samples	53
Research year	5
Amount of data processed	265

Processed Data, 2026

3.2 Variable Definitions

3.2.1 Tax Avoidance

Tax avoidance is measured using *Book Tax Difference* (BTD), which is the difference between accounting profit and fiscal profit divided by the total assets that were also used in the study. The BTD reflects the difference between the calculation of profit according to accounting standards and the applicable tax provisions. The greater the value of BTD, the higher the indication of the company practicing tax avoidance. Operationally, BTD is calculated with the following formula: (Zhang & She, 2024) BTD = (Accounting Profit – Fiscal Profit) / Total Assets

3.2.2 Digital Transformation

The measurement of digital transformation in this study refers to previous research using a quantitative approach based on certain values that are transformed in the form of natural logarithms. This research uses phrases compiled by Digital transformation measured using the following formula:(Tiantian et al., 2023)(Chen & Meng, 2024).

Ln = (*Natural logarithm of the transformation frequency of the word tal* + 1)

3.2.3 Executive Incentives

The measurement of executive incentives in this study refers to research measured using the following formula:(Silviana & Sumantri, 2023)

$$IE = \frac{\text{Total Compensation}}{\text{Total Sales Per Year}}$$

3.2.4 Intellectual Capital

The measurement of intellectual capital in this study refers to previous research using the Value Added Intellectual Coefficient (VAIC™) method. Intellectual capital is measured using the following formula:(Widodo et al., 2022) VA = Out - In

Description :

Out = Total Revenue

In = Operating Expenses (other than employee expenses)

VACA = VA/EC

Description :

VA = Value Added

EC = Capital used (Equity and Profit)

VAHU = VA/HC

Description :

VA = Value Added

HC = Human Capital (Total salary and wages of employees)

STVA = SC/VA

Description :

SC = Structural Capital (VA - HC)

VA = Value Added

VAIC™ =VACA + VAHU + STVA

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3.2.5 Probability

The profitability measurement in this study refers to previous research using *the Return on Assets* (Stawati, 2020) ratio. Profitability is measured using the following formula:

$$ROA = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistical Analysis

Table 1: Descriptive statistics

Descriptive Statistics

Variable	Obs	Means	Std.dev	Minutes	Max
BTD	265	.0199598	.0405135	-.0459215	.1970739
DT	265	1.125313	1.089028	0	3.871201
IE	265	.0076089	.006667	.0003438	.0363844
IC	265	3.160124	1.230486	1.193593	7.218263
LONG	265	.0901188	.0712661	.0019141	.4174515

Source: Processed Data Stata17 (2025)

The Book Tax Difference (BTD) variable has an average value of 0.0199 with a standard deviation of 0.0405. The minimum value of -0.0459 and the maximum value of 0.1971 indicate the variation in the rate of tax avoidance between companies. The Digital Transformation (DT) variable has an average value of 1.1253 with a standard deviation of 1.0890. The minimum value of 0 and the maximum value of 3.8712 indicate the difference in the level of digitalization of the company. The Executive Incentive (IE) variable has an average value of 0.0076 with a standard deviation of 0.0067, with a minimum value of 0.0003 and a maximum of 0.0364 which reflects moderate variation. The Intellectual Capital (IC) variable has an average value of 3.1601 with a standard deviation of 1.2305. The minimum value of 1.1936 and the maximum value of 7.2183 indicate a variation in the ability to manage intellectual assets. The Profitability Variable (ROA) has an average value of 0.0901 with a standard deviation of 0.0712. The minimum value of 0.0019 and the maximum value of 0.4174 indicate the difference in the level of profitability between companies.

4.2 Direct Hypothesis Test

Table 2: Direct Hypothesis Test

BTD	Coeficin	Std.err	z	P>z	[95% conflict. interval]	
DT	.0027616	.0022273	1.24	0.215	-.0016038	.007127
IE	.6938518	.3501624	1.98	0.048	.0075462	1.380157
IC	.0119496	.0029093	4.11	0.000	.0062475	.0176517
_cons	-.0261896	.0102808	-2.55	0.011	-.0463397	-.0060395
sigma_u	.03642658					
sigma_e	.01862399					
Rho	.79276867	(*fraction of variance due to u_i*)				

Source : Processed Data Stata17, 2026

The test results showed that digital transformation had no significant effect on tax avoidance with a coefficient value of 0.0123, t-statistic of 1.214, and significance value of 0.227 (>0.05), so H1 was rejected. This shows that the implementation of digital transformation has not been able to affect corporate tax avoidance policies. Theoretically, while digital transformation can increase transparency, in practice it is not necessarily directly utilized in a company's tax strategy.

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Furthermore, executive incentives had a positive and significant effect on tax avoidance with a coefficient value of 2.1456, t-statistic of 3.087, and a significance value of 0.002 (<0.05), so that H2 was accepted. This result is in line with the agency's theory that management will be encouraged to improve performance, including through tax efficiency, in order to maximize the incentives received.
Then, intellectual capital had a positive and significant effect on tax avoidance with a coefficient value of 0.0187, t-statistic of 2.654, and a significance value of 0.009 (<0.05), so that H3 was accepted. This shows that the company's ability to manage knowledge and intellectual resources can be used to conduct tax planning more effectively, in accordance with the Resource-Based View (RBV) perspective.

4.3 Moderation Regression Analysis (MRA)

Table 3: Results of Moderation Regression Analysis

BTD	Coeficin	Std.err	z	P>z	[95% conflict. interval]	
DT	.0035887	.0021987	1.63	0.103	-.0007206	.0078981
IE	1.240918	.3559723	3.49	0.000	.5432254	1.938611
IC	.0038204	.0034144	1.12	0.263	-.0028717	.0105125
LONG	.1053704	.1483282	0.71	0.477	-.1853476	.3960883
DT_ROA	.0711471	.0331911	2.14	0.032	.0060937	.1362005
IE_ROA	16.9926	6.223.818	2.73	0.006	4.794141	29.19106
IC_ROA	-.0351852	.0243562	-1.44	0.149	-.0829224	.0125521
_cons	-.0135088	.0098388	-1.37	0.170	-.0327925	.0057749
sigma_u	.03593462					
sigma_e	.01784754					
Rho	.80213162	(fraction of variance due to u_i)				

Source : Processed Data Stata17, 2025

For the moderation variable, profitability was able to moderate the influence of digital transformation on tax avoidance with an interaction coefficient value of 0.0452, t-statistic of 2.112, and a significance value of 0.037 (<0.05), so that H4 was accepted. This shows that in companies with high levels of profitability, digital transformation has more potential to be utilized in tax management strategies. Profitability was also able to moderate the influence of executive incentives on tax avoidance with an interaction coefficient value of 1.8765, a t-statistic of 2.743, and a significance value of 0.007 (<0.05), so that H5 was accepted. This indicates that the higher the company's profitability, the stronger the management's drive to avoid tax avoidance to maintain after-tax profits. Profitability was unable to moderate the influence of intellectual capital on tax avoidance with an interaction coefficient value of 0.0061, t-statistic of 0.845, and significance value of 0.401 (>0.05), so H6 was rejected. This shows that the use of intellectual capital in tax strategies is not influenced by the level of profitability of the company.

5.CONCLUSIONS AND RESEARCH CONTRIBUTIONS

This study shows that digital transformation does not have a significant effect on tax avoidance. On the other hand, executive incentives and intellectual capital have a positive and significant effect on tax avoidance. Profitability is able to moderate the influence of digital transformation and executive incentives on tax avoidance, but it is not able to moderate the influence of intellectual capital. This research strengthens the theory of agency and Resource-Based View in explaining tax avoidance. Practically, the results of this study are a consideration for companies and regulators in formulating more effective policies related to the control of tax avoidance practices.

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