

The Influence of Profitability, Executive Character, and Company Size on Tax Avoidance

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Abstract

Research Background: A Limited Liability Company (PT) that has deposited or traded at least 40% of its shares on the IDX from the total shares it owns and has fulfilled certain requirements is an example of a domestic corporate taxpayer. Companies, especially Limited Liability Companies that have entered the capital market or the Indonesian Stock Exchange, have become taxpayers and are required to pay, withhold and collect tax. **Introduction/ Main Objectives:** This study aims to analyze the effect of profitability, executive character and company size on tax avoidance with leverage as an intervening variable. **Methods:** The population of this study consisted of 220 companies listed on the Indonesia Stock Exchange (IDX) during the period 2020-2024, with sample of 61 companies selected through a purposive sampling method. The data used are secondary data that are quantitative in nature. The analysis method used is path analysis to identify direct and indirect effect using SPSS 22 Software. **Results:** The data was proceed using path analysis and the results showed that profitability, executive character and company size did not affect the company's tax avoidance with leverage as and intervening variable.

Keywords: Company size; Executive character; Leverage; Profitability; Tax Avoidance

JEL Classification: M41; F38

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INTRODUCTION

Regulation of the Minister of Finance of the Republic of Indonesia No. 40 of 2023 explains the definition of a taxpayer, namely an individual or entity who makes payments, withholds and collects tax and has rights and obligations in terms of taxation which are in accordance with tax provisions and applicable laws and regulations. A Limited Liability Company (PT) that has deposited or traded at least 40% of its shares on the IDX from the total shares it owns and has fulfilled certain requirements is an example of a domestic corporate taxpayer. Companies, especially Limited Liability Companies that have entered the capital market or the Indonesian Stock Exchange, have become taxpayers and are required to pay, withhold and collect tax. Taxes are managed well by the state because the largest source of state revenue comes from taxes and almost all company and community activities are subject to tax, such as when carrying out sales or purchase transactions for goods, paying employee salaries, and so on.

Tax avoidance is caused by differences in interests between the tax authorities and the company. The Fiscus wants large and sustainable tax revenues to implement national

development. On the other hand, companies as corporate taxpayers think that tax is a pure burden that has no direct contribution to profits and reduces the company's net profit. There are several factors that influence the practice of tax avoidance in a company, including executive character based on research by Dyreng (2010), company size based on research by Swingly and Sukartha (2015), profitability based on research by Rinaldi and Cheisviyanny (2015), and leverage based on research by Carolina et al. (2014).

The first factor is profitability, namely the company's ability to earn profits. Profitability consists of several ratios, one of which is return on assets (ROA) which reflects the company's financial performance. If the ROA that a company is able to achieve is higher, then the company's financial performance and asset management can be categorized as good. Previous research conducted by Maharani and Suardana (2014) and Agusti (2014) stated that profitability has a negative effect on tax avoidance in manufacturing companies, while Rinaldi and Cheisviyanny (2015) stated that profitability has a positive effect on tax avoidance. Nabila et al. (2023) stated that profitability has a positive effect on tax avoidance in financial companies

The second factor is the executive's character. Executive characters consist of two types, namely as risk takers and risk avoiders (risk averse) (Low, 2006). Executives who have a risk taker character will be braver in making every business decision by taking advantage of existing opportunities even though these opportunities have high risks (MacCrimmon & Wehrung, 1990 in Agustiniingsih, 2017), while executives who have a risk averse character will consider every existing opportunity and choose the business opportunity that has the lowest risk (Carolina et al., 2014).

The next factor is company size, a scale used to classify companies into small and large companies according to various ways, for example total company assets, average sales level, number of sales and stock market value. Company size is generally divided into three categories, namely large firm, medium firm, and small firm. Previous research conducted by Rinaldi and Cheisviyanny (2015) stated that company size has a negative effect on tax avoidance practices in manufacturing companies, while research conducted by Nabila et al. (2023) shows that company size has a positive effect on tax avoidance in the financial company sector.

RESEARCH METHOD

Table 1. Research sample

No	Information	Amount
1	Manufacturing companies listed on the Indonesian Stock Exchange from 2020 to 2024	220
2	Companies that are not listed on the Indonesian Stock Exchange consecutively during 2020-2024	(39)
3	Companies that do not publish audited annual financial reports during 2020-2024	(20)
4	Companies that do not make a profit during 2020-2024	(100)
Total sample		61
Total sample (5 x 61)		305



The population used in the research was 220 manufacturing companies that were listed on the Indonesia Stock Exchange (BEI) from the period 2020 to 2024. The research sample consisted of 61 companies in the period 2020-2024 which were taken using the purposive sampling method. Data was processed using SPSS 22 software.

RESULTS AND DISCUSSION

Table 2. Multiple linear analysis test results 1

		Coefficients ^a			t	Sig.
Model		Unstandardized Coefficients		Standardized Coefficients Beta		
		B	Std. Error			
1	(Constant)	-1,591	,262		-6,068	,000
	ROA	-1,047	,149	-,774	-7,013	,000
	Risk	1,148	,165	,774	6,974	,000
	Size	,376	,049	,376	7,665	,000

a. Dependent Variable: DAR

Table 3. Multiple linear analysis test results 2

		Coefficients ^a			t	Sig.
Model		Unstandardized Coefficients		Standardized Coefficients Beta		
		B	Std. Error			
1	(Constant)	-,151	,414		-,365	,000
	ROA	-1,416	,413	-,788	-3,431	,000
	Risk	,922	,406	,524	2,273	,000
	Size	,061	,080	,046	,765	,000
	DAR	,086	,094	,065	,910	,000

a. Dependent Variable: CETR

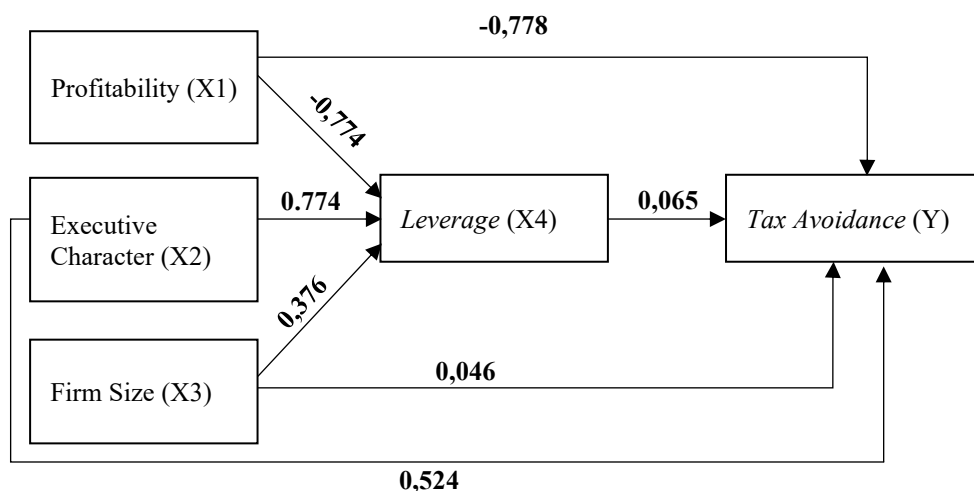


Figure 1. Path analysis results

Table 3 shows that the significance level (Sig.) of the profitability variable is 0.000 and has a regression coefficient (Beta) value of -0.788. The significance level of the executive character variable is smaller than alpha (α) 0.05 and the regression coefficient value is negative, which indicates that The greater the profitability, the lower the CETR value. A low CETR value indicates a high level of tax avoidance carried out by the company. This means that profitability partially influences tax avoidance. Thus the first hypothesis (H1) is accepted. The results of this research are in accordance with the research results of Nadien & Intan (2024) which stated that companies with high profitability tend to carry out tax avoidance, because if a company wants to carry out tax avoidance it must be more efficient in terms of expenses so that it does not need to pay large amounts of tax. Novita & Hetty (2023) also stated that there is a negative relationship between profitability and tax avoidance.

Table 3 shows that the significance level (Sig.) of the executive character variable is 0.000 and has a regression coefficient (Beta) value of 0.524. The significance level of the executive character variable is smaller than alpha (α) 0.05, this means that partially executive character has an effect on tax avoidance. Thus the second hypothesis (H2) is accepted. The results of this research are in accordance with research by Ratih & Fikri (2024) which states that the higher the level of company risk, the more courageous executives are to take risks, which indicates that the executive is a risk taker. Directors with a risk taker nature tend to take risks so that the taxes paid are reduced. Proper presentation of financial reports by avoiding fraudulent acts such as tax avoidance can increase public trust regarding good company management in fulfilling tax obligations imposed by the state on companies (Merslythalia and Lasmana, 2016).

Table 3 shows that the significance level (Sig.) of the company size variable is 0.000 and has a regression coefficient (Beta) value of 0.046. The significance level of the profitability variable is smaller than alpha (α) 0.05, this means that partially company size has an effect on tax avoidance. Thus the third hypothesis (H3) is accepted. The results of this research are in accordance with the research results of Deanna & Meiriska (2017) and Ratih & Fikri (2024) which state that the larger the company size, the higher the tax avoidance will be. The positive influence of company size on tax avoidance is explained through political costs, which reveal that large companies are more politically sensitive and their political burden will be greater than small companies. This is because large companies are considered to have high levels of profit, so they will receive widespread attention from consumers and the media which can later attract the attention of the government and regulators to pay their taxes (Merslythalia and Lasmana, 2016).

Table 3 shows that the significance level (Sig.) of the leverage variable is 0.000 and has a regression coefficient (Beta) value of 0.065. The significance level of the leverage variable is smaller than alpha (α) 0.05, this means that leverage partially influences tax avoidance. The research results are in accordance with the research results of Yana, et al. (2024) and Carolina et al. (2014) and which states that the greater the leverage, the greater the tax avoidance.

The positive influence of leverage on tax avoidance is because manufacturing companies are basically an industry that is full of risk, especially at the exploration to



construction stage which has high uncertainty but requires very large capital (Fadhilah, 2011), however if this capital is financed through debt, it will actually increase the company's risk, this is because high financing originating from debt will also raise the risk of company bankruptcy.

The direct influence that profitability has on tax avoidance is -0.778. Meanwhile, the indirect effect of profitability through leverage is the multiplication of the beta value (profitability against leverage) with the beta value (leverage against tax avoidance), namely: $-0.774 \times 0.065 = -0.05$. The calculation above shows that the direct effect is -0.778 and the indirect effect is -0.05, which means that the indirect effect is greater than the direct effect, so the conclusion that indirectly profitability through leverage has an effect on tax avoidance is accepted. This is in line with research by Nabila, et al. (2023) which states that profitability indirectly influences tax avoidance through leverage as an intervening agent. The negative effect of profitability on leverage is because companies that have high profitability will have large retained earnings, so based on pecking order theory companies that have high profitability will tend to prefer using retained earnings before using debt because debt has a risk of company bankruptcy (Kartika, 2013).

The direct influence that executive character has on tax avoidance is 0.774. Meanwhile, the indirect effect of executive character through leverage is the multiplication of the beta value (executive character on leverage) and the beta value (leverage on tax avoidance), namely: $0.774 \times 0.065 = 0.05$. The calculation above shows that the direct effect is 0.774 and the indirect effect is 0.05, which means that the indirect effect is smaller than the direct effect, so the conclusion that indirectly the executive character through leverage has no effect on tax avoidance (H5) is rejected. Results of this research is not in line with the results of research by Carolina et al. (2014) which states that leverage is an intervening variable that links executive character with tax avoidance. The executive's courage in taking risks is reflected in the executive's decision to use debt as a source of company funding, because debt will increase the chance of the company going bankrupt (Carolina et al., 2014), or in other words create the risk of bankruptcy.

The direct influence that company size has on tax avoidance is 0.376. Meanwhile, the indirect effect of company size through leverage is the multiplication of the beta value (company size on leverage) and the beta value (leverage on tax avoidance), namely: $0.376 \times 0.065 = 0.02$. The calculation above shows that the direct effect is 0.376 and the indirect effect is 0.02, which means that the indirect effect is smaller than the direct effect, so the conclusion that indirectly company size through leverage has no effect on tax avoidance is rejected. This is not in line with the research of Nabila, et al. (2023) which states that company size indirectly influences tax avoidance through leverage as an intervening variable. The positive influence of company size on tax avoidance is explained through political costs, which reveal that large companies are more politically sensitive and their political burden will be greater than small companies. This is because large companies are considered to have high levels of profit, so they will receive widespread attention from consumers and the media which can later attract the attention of the government and regulators to pay their taxes (Merslythalia and Lasmana, 2016).

Large-scale companies also tend to have greater resources than smaller-scale companies in carrying out tax planning. One of these resources is humans who are experts

in taxation who are needed to carry out tax planning so that it can be carried out optimally in order to reduce the company's tax burden (Nicodeme in Darmadi 2013).

CONCLUSION

The results of this discussion can be drawn into several conclusions, namely that the profitability variable has a significant influence in a negative direction on tax avoidance. The results of this research show that the higher the profitability, the higher the tax avoidance of a company, this is because companies that have high profitability have the opportunity to position themselves in tax planning to reduce the amount of tax liability burden.

Executive character has a significant influence in a positive direction on tax avoidance. This shows that the higher the executive's character, the more it influences the tax avoidance practices carried out by a company. Directors with risk taker traits are more willing to take risks in tax avoidance.

Company size has a significant influence in a positive direction on tax avoidance. This shows that the larger the company size, the higher the tax avoidance practices carried out by a company. Large companies are more politically sensitive and their political burden will be greater than small companies, this is because large companies are considered to have a high level of profit, so so that it will receive widespread attention from consumers and the media which will later attract the attention of the government and regulators to pay taxes.

Leverage has a significant influence in a positive direction on tax avoidance. This shows that the greater the leverage, the higher the tax avoidance, because basically manufacturing companies are an industry that is full of risk, especially at the exploration to construction stages which have high uncertainty but require very large capital, however, if the capital is financed through debt, it will actually increase the company's risk, this is because high financing originating from debt will also raise the risk of company bankruptcy.

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