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THE EFFECT OF COMPANY SIZE, PROFITABILITY, LEVERAGE AND AUDIT QUALITY ON TAX AVOIDANCE OF MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2019-2023

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Abstract:
This study aims to empirically test the effect of Company Size, Profitability, Leverage and Audit Quality on Tax Avoidance in Manufacturing companies listed on the Indonesia Stock Exchange for the period 2019-2023. The research method uses a quantitative analysis approach. The sampling technique employed in this study utilizes a purposive sampling method involving a sample of 54 companies. This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange for the period 2019-2023. The data used in this study are secondary data obtained from the published financial statements of manufacturing companies. The data analysis methods used include descriptive statistics, classical assumption tests, t-tests, and coefficient of determination tests. The results of this study state that Company Size has no effect on Tax Avoidance listed on the Indonesia Stock Exchange for the period 2019-2023; Profitability hurts Tax Avoidance listed on the Indonesia Stock Exchange for the period 2019-2023; Leverage has no effect on Tax Avoidance listed on the Indonesia Stock Exchange for the period 2019-2023; Audit quality has a positive effect on Tax Avoidance listed on the Indonesia Stock Exchange for the 2019-2023 period.

Keywords: Company Size, Profitability, Leverage, Audit Quality, Tax Avoidance

INTRODUCTION

Taxes are a crucial foundation for the country to maintain its economic growth, especially as a source of capital for public facilities and infrastructure development. Approximately 80% of state revenue is derived from taxes, making it a crucial source for economic development and recovery. This is especially true during the pandemic, as evidenced by various tax incentives (Purwowidhu, 2023). However, for some business actors, tax payments are suspected of being a variable that reduces the Company's net Profit, so they are not always well received by the Company. To maintain high quality and quantity of profits, companies often attempt to reduce their tax burden legally, a method known as Tax Avoidance (Arem, 2019). Tax avoidance is a method or alternative chosen by companies as an effort to reduce the burden of legitimate tax payments without violating applicable tax regulations (Pohan, 2017). One of the methods often used to measure tax avoidance practices is the ratio or comparison between the amount of tax paid and the income before it is reduced by tax, also known as the Cash Effective Tax Rate (CETR). When the CETR value is low, it means that the Company has the potential to avoid taxes and vice versa (Agustina & Aris, 2016).

The practice of tax avoidance has resulted in significant losses for Indonesia. The State of Tax Justice (2020) released a report by the Tax Justice Network, stating that Tax Avoidance carried out by companies and individuals can have an annual impact of around US $4.9 billion, or approximately Rp. 69,000,000,000,000, - for the country of Indonesia. The phenomenon of tax Avoidance is a significant problem that requires attention from various stakeholders. Additionally,

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it is worth noting that during the period from 2019 to 2023, the Indonesian government implemented a policy of gradually reducing the Corporate Income Tax (PPh) rate. Through Government Regulation, instead of Law No. 1 of 2020, which was later ratified as Law No. 2 of 2020, the Corporate Income Tax rate was reduced from 25% to 22% for the 2020 and 2021 tax years. The Corporate Income Tax rate remains at 22% until 2023. This fiscal policy is designed to provide stimulus to the business world amid economic uncertainty caused by the COVID-19 pandemic (Ministry of Finance, 2020). This rate reduction is expected to reduce the incentive for companies to engage in tax avoidance, as a lighter tax burden diminishes the motivation to find loopholes for tax avoidance (Utami & Fadilah, 2021). This study examines several key variables that are believed to influence tax avoidance practices, including company size (X1), profitability (X2), Leverage (X3), and audit quality (X4). Based on previous research, the findings for each variable show varying results.

The company size variable (X1) yields varying results. Research conducted by Sidauruk and Fadilah (2020) and Primary (2019) found that company size does not have a significant effect on tax avoidance. This is because large companies tend to use accounting strategies, such as asset depreciation, to reduce their tax burden. However, research by Kalbuana et al. (2020) yields different results, showing that company size has a positive effect, as the larger the Company, the greater the opportunity to carry out tax planning. The Profitability variable (X2) also yields varying results in previous studies. According to Primasari (2019) and Darmayanti and Susanto (2015), a negative effect of Profitability on tax avoidance was found. This is because more profitable companies tend to employ efficiency strategies and maintain good tax compliance. However, different results were found in research by Artinasari and Mildawati (2019), Puspita and Febrianti (2017) and Rosalia (2017), which stated that Profitability does not affect Tax Avoidance.

The Leverage variable (X3) has an inconsistent gap in results, such as the results of research by Tanjaya and Nazir (2021), Akbar et al. (2020), Hidayat (2018) and Dewi and Oktaviani (2021), which have results that Leverage does not affect Tax Avoidance, with the conclusion that companies with debt focus more on debt repayment than tax avoidance strategies. Meanwhile, according to Wahyuni et al. (2019), Primary (2019), Sidauruk and Fadilah (2019), Faizah (2020), Kalbuana (2020), and Sulaiman (2021), Leverage affects Tax Avoidance. The Audit Quality variable generally shows an effect on tax avoidance. Arem (2019) and Pujilestari and Winedar (2018) state that high-quality auditors, especially those from the Big Four KAPs, are better able to identify and control tax avoidance practices. However, research by Primasari (2019) and Sidauruk and Fadilah (2020) yields different findings, stating that Audit Quality does not affect tax avoidance. This suggests that companies can still engage in tax avoidance, even when audited by quality auditors, depending on the intensity of supervision. Based on the background above, the author is motivated to conduct a retest to provide deeper insight into the variables that influence efforts to avoid taxes in Indonesia.

The Effect of Company Size on Tax Avoidance. According to Primasari (2019), company size is a scale used to classify companies into large or small by comparing total assets, stock market value, average sales level, and total sales. The greater the total assets owned by a company, the more its productivity tends to increase, which then results in greater profits and affects the amount of tax to be paid. This large tax burden can encourage companies to engage in tax avoidance practices. Research conducted by Stawati (2020), Tanjaya and Nazir (2021), Sulaiman (2021), and Wulandari and Purnomo (2021) indicates that company size has an impact on Tax Avoidance. Based on empirical studies and previous research show that there is an effect of Company Size on Tax Avoidance, so the first hypothesis of the study can be formulated as follows: H1: Company Size has a significant effect on Tax Avoidance.

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The Effect of Profitability on Tax Avoidance. Profitability is a description of a company's financial performance in generating profits from asset management, known as Return On Assets (ROA). According to Sidauruk and Fadilah (2020), high Profitability indicates that the Company can obtain maximum Profit; the higher the Company's Profit, the higher the tax burden. Based on previous research conducted by Primasari (2019), Stawati (2020), Sidauruk and Fadilah (2020), Sulaiman (2021), Tanjaya and Nazri (2021), and Dewinta and Setiawan (2016), the results indicate that company profitability affects Tax Avoidance. Based on empirical studies and previous research show that there is an effect of Profitability on Tax Avoidance, so the second hypothesis of the study can be formulated as follows: H2: Profitability has a significant effect on Tax Avoidance.

The Effect of Leverage on Tax Avoidance. Leverage is one of the key descriptions of a company related to its financing decisions. The higher leverage ratio indicates that the Company's debt is increasing, and the resulting interest burden will also be larger (Dewi & Oktaviani, 2021). This will result in a higher level of tax avoidance. Based on agency theory, principals and agents will prioritize their interests and act in a manner that benefits them. One action that can be taken is to use the leverage ratio to influence the Company's interest burden. This is because increasing interest burden will result in low taxes paid (Oktaviani et al., 2021). Based on previous research conducted by Wahyuni et al. (2019), Primasari (2019), Sidauruk and Fadilah (2019), Faizah (2020), Kalbuana (2020), and Sulaeman (2021) stated that Leverage influences Tax Avoidance. Considering empirical studies and previous research, it is evident that the Leverage Ratio influences Tax Avoidance, which leads to the formulation of the third research hypothesis as follows: H3: Leverage has a significant effect on Tax Avoidance.

The Effect of Audit Quality on Tax Avoidance. Audit Quality refers to the auditor's ability to thoroughly examine the client's financial statements, find errors or discrepancies, and report them accurately in the financial statements. Based on previous research conducted by Pujilestari and Winedar (2018), Arem (2019) stated that Audit Quality affects Tax Avoidance. Considering empirical studies and previous research, which show that there is an effect of Audit Quality on Tax Avoidance, the fourth hypothesis of the study can be formulated as follows: H4: Audit Quality has a significant effect on Tax Avoidance.

METHODS

The observation data used as the population in this study were obtained from the annual reports submitted by listed companies in the manufacturing industry sector for the period 2019 to 2023. In this study, sampling was conducted using the purposive sampling method, which involves selecting samples based on their suitability for specific characteristics and criteria. For this study, the following criteria were used to select the sample:

Table 1. Company Sample Criteria

No	Description	Amount
1	Manufacturing Companies listed on the IDX in the period 2019-2023 (Population)	134
2	The Company presents complete financial statements during the period 2019-2023	(23)
3	The Company presents financial statements in rupiah units	(17)
4	The Company has financial statements with a condition of not experiencing Profit (gain) during the period 2019-2023.	(42)
	Number of Company Samples	**54**

Source: Data Processed by Researchers (2024)

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According to Supranto (2008), a variable is a component that has a value that can change or vary, which is identified for research purposes and to facilitate conclusions. This study tested several variables, including four X variables and one Y variable. These five variables are described operationally as follows:

Tax Avoidance, also known as tax avoidance, is proxied by the cash effective tax ratio (CETR). Considering the research by Agustina and Aris (2016), CETR is a comparison between the amount of tax liability payments and the Profit before being reduced by tax. The high CETR ratio illustrates a lower level of tax avoidance and vice versa. In this study, the following is the formula for CETR:

$$\text{CETR} = \frac{Tax\ Payment}{Profit\ before\ tax}$$

As a reference, a CETR value that is close to the normal corporate tax rate (around 22% for the 2020-2021 tax year, according to Law No. 2 of 2020) is considered to indicate high tax compliance. Conversely, a CETR that is far below this rate may indicate tax avoidance practices.

According to Sidauruk and Fadilah (2020), identifying company size involves categorizing companies as large or small by examining the total amount of asset ownership, stock prices, market conditions, or the average value of company sales. The formula used is as follows:

$$\text{Company Size} = \ln (\text{Total Assets})$$

Return on Assets (ROA), which shows the ability of a business to generate profits, is an indicator of Profitability. A higher ROA level is directly proportional to the Company's financial performance; high profitability criteria are characterized by an ROA above 5%, while values below that indicate low profit efficiency in asset utilization (Darmayanti & Susanto, 2015). ROA is calculated as follows:

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

The amount of company financing that comes from loans is referred to as Leverage. According to Kasmir (2019), the debt-to-asset ratio (DAR) is a method for calculating a company's debt level. Companies with a debt-to-asset ratio (DAR) above 50% are categorized as having a high level of Leverage, while those below that number are included in the low-leverage category (Kasmir, 2019). The DAR ratio is calculated using the following formula:

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Audit quality is assessed based on the financial audit report, which indicates the accuracy and freedom from material errors (Rosalia, 2017). There are two variables used to classify audits:

0 = Non-Big Four KAP
1 = Big Four KAP

The Big Four KAP is considered to have high audit quality due to its global reputation, greater resources, and strict audit standards. However, the results of this study indicate that companies

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audited by The Big Four KAP have a higher tendency to do tax avoidance. This can happen because large companies audited by high-quality auditors also have the ability and resources to carry out legal but aggressive tax planning. Thus, the presence of quality auditors does not necessarily automatically suppress tax avoidance practices.

Data analysis in this study includes:

1. Descriptive Statistics: Descriptive statistical analysis provides a description or description of data that can be seen from the average value (mean), standard deviation, maximum, and minimum. In this study, statistical analysis was conducted on the dependent variable, namely Tax Avoidance, and the independent variables, namely Company Size, Profitability, Leverage, and Audit Quality.
2. Classical Assumption Test: According to Sugiyono (2019), data testing, also known as classical assumption testing, is one of the important steps used to determine whether the results of the regression estimation carried out are truly normally distributed. The classical assumption test used in this study is the normality test, which aims to determine whether the confounding variables or residuals in the regression model are normally distributed. The normality test in this study employs the Kolmogorov-Smirnov test with a significance level of $\alpha = 0.05$.
3. Multiple Linear Regression Analysis Test: In this study, multiple linear regression analysis was employed as a statistical method to examine the relationship between a dependent variable and several independent variables. The model used in this analysis consists of a regression equation that will be employed to test the relationship between the independent variables and the dependent variables. The regression equation used to test the variables in this study is as follows:

$$TA = \alpha + \beta 1\ \text{Size} + \beta 2\ \text{Profit} + \beta 3\ \text{Lev} + \beta 4\ \text{KA} +$$

Description:
TA = Tax Avoidance
Size = Company Size
Profit = Profitability
Lev = Leverage
KA = Audit Quality
e = Error

4. Hypothesis Test (T-Test): The t-test is a statistical test used to determine whether the independent variables individually affect the dependent variable. If the probability level is less than 0.05, it can be concluded that the independent variable has a significant effect on the dependent variable. The software used by researchers to test this study is IBM SPSS Statistics version 23.
5. Determination Coefficient Test.; The Determination Coefficient (R2) aims to test the level of closeness or attachment between the dependent variable and the independent variable, which can be seen from the value of the determinant coefficient (adjusted R-square). A small R-square value means that the ability of the independent variable to explain the dependent variable is very limited. A value close to one means that the independent variable provides almost all the information needed to predict the dependent variable (Sugiyono, 2019).

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RESULT AND DISCUSSION

Table 2. Descriptive Statistical Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CETR (Y)	270	-6.16	4.78	.2060	.18749
Company Size (X1)	270	17.65	33.66	26.1138	4.65978
ROA (X2)	270	-.83	2.13	.0595	.05400
DAR (X3)	270	.00	54.76	.4796	.22450
Audit Quality (X4)	270	.00	1.00	.2963	.25747
Valid N (listwise)	270				

Source: Data Processed by Researchers

The total research sample comprises 270 observations from 54 manufacturing companies, spanning five years from 2019 to 2023, as shown in Table 2. The results of descriptive statistics show that all variables have average values and standard deviations that indicate a relatively stable level of data distribution. This indicates that there are no significant extreme values, and the data tends to be evenly distributed around the average.

The data normality test in this study was conducted using the Kolmogorov-Smirnov (K-S) test, a non-parametric test method. This test aims to determine whether the residual data from the regression model is normally distributed. Decision-making is based on the significance value (p-value): if the significance value is greater than 0.05, then the data is considered normally distributed; conversely, if the significance value is less than 0.05, then the data is considered not normally distributed. The results of the normality test can be seen in the following table:

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		270
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.18249061
Most Extreme Differences	Absolute	.120
	Positive	.120
	Negative	-.077
Test Statistic		.120
Asymp. Sig. (2-tailed)		.200[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Data Processed by Researchers

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Table 4. Results of Multiple Linear Regression Analysis Test

Model		UnstandardizedUnstandardized Coefficients	
		B	Std. Error
1	(Constant)	.564	.070
	Company Size	.101	.002
	ROA	-.248	.072
	DAR	.113	.049
	Audit Quality	.378	.024

a. Dependent Variable: CETR
Source: Data Processed by Researchers

The following equation can be made based on the test results conducted using the multiple linear regression method to evaluate the influence of independent variables on the dependent variable, which is presented in Table 4:

Tax Avoidance =0.564 +0.101 (X1) – 0.248 (X2) + 0.113 (X3) + 0.378 (X4)

Table 5. Hypothesis Test Results (T-Test)

Model		t	Sig.
1	(Constant)	2.342	.020
	Company Size	.436	.663
	ROA	-3.437	.001
	DAR	.268	.789
	Audit Quality	3.204	.002

a. Dependent Variable: CETR
Source: Data Processed by Researchers

Based on the results of the t-test presented in Table 5, it can be concluded as follows:

1. Company Size (X1) has a significance value of 0.663 (> 0.05) or greater than the significance level of 5% (0.05), so variable X1 has no significant effect on tax avoidance. Thus, hypothesis H1 is rejected.
2. Profitability (X2) shows a significance value of 0.001 (< 0.05) or less than the significance level of 5% (0.05), and the coefficient is negative (-3.437), which means that variable X2 has a significant negative effect on tax avoidance. Therefore, hypothesis H2 is accepted.
3. Leverage (X3) has a significance value of 0.789 (> 0.05), or greater than the significance level of 5% (0.05), so it does not have a significant effect on tax avoidance. Therefore, hypothesis H3 is rejected.
4. Audit Quality (X4) shows a significance value of 0.002 (<0.05), or smaller than the 5% significance level (0.05) with a positive coefficient (3.204), which indicates that the X4 variable has a significant positive effect on tax avoidance. Thus, the H4 hypothesis is accepted.

The Effect of Company Size on Tax Avoidance (X1). The test results found that company size, as measured by X1, has no relationship or connection to the action or practice of tax avoidance. This is reflected in the significance value obtained from the test results of 0.663 (0.663 > 0.05), which is greater than the 5% significance level (0.05). Therefore, the first hypothesis in this study is rejected. Thus, company size does not influence the decision of manufacturing companies to engage in tax avoidance.

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Primary (2019) argues that the assumption that tax is a burden for every Company so that company size does not affect tax avoidance because company size tends to use depreciation and amortization of assets according to PSAK No. 17 to reduce income, so the Size of the Company does not affect the level of tax avoidance. The results of this study align with those of Noviyani and Muid (2019), Primasri (2019), Sidauruk and Fadilah (2020), and Kalbuana et al. (2020), which found that company size does not affect tax avoidance.

The Effect of Profitability on Tax Avoidance. The regression test output indicates that Profitability, as variable X2, hurts tax avoidance actions or practices, as seen from the significance level of 0.001 (0.001 < 0.05), which is less than the 5% significance level (0.05) and the t-statistic value of -3.437, which shows results that contradict the initial prediction. Based on these results, the second hypothesis (H2) in this study is accepted. This means that the increasing profitability ratio of the Company will certainly affect the Company's decision to avoid taxes.

Darmayanti and Susanto (2015) stated that one important factor in determining the effective tax rate is the Profit achieved by the Company, which can be measured by the ratio of Profit to total assets, commonly referred to as ROA. Companies with a high-profit return ratio more often employ planned tax strategies intended to reduce the Company's tax burden. The results of research related to tax avoidance conducted by Primasari (2019), Stawati (2020), Sidauruk and Fadilah (2020), Sulaiman (2021), Tanjaya and Nazri (2021), and Dewinta and Setiawan (2016) also found a correlation between tax avoidance and Profitability.

The Effect of Leverage on Tax Avoidance. This study found that Leverage as variable X3 does not affect the action or practice of tax avoidance. This is reflected in the significance output obtained in this study, which is 0.789, exceeding the threshold of 0.05. The results of the study indicate that the third hypothesis (H3) in this study is rejected. This suggests that the decision of manufacturing companies to engage in tax avoidance is not influenced by the level of Leverage or debt held by manufacturing companies during the sampling years, specifically from 2019 to 2023.

Primary (2019) stated that because the leverage ratio is considered not to affect the Company's Profit, Leverage is not a determining factor in tax avoidance practices. However, shareholder profits are expected to increase due to Leverage. The results of research by Tanjaya and Nazir (2021), Akbar et al. (2020), Primary (2019), Hidayat (2018), and Dewi and Oktaviani (2021) are in line. In addition, they stated that the influence of Leverage does not affect tax avoidance.

The Effect of Audit Quality on Tax Avoidance. The regression test output indicates that the fourth hypothesis (H4) is accepted, which suggests that the quality of audit service usage, as variable X4, has a positive effect on tax avoidance actions or practices. This is evidenced by the magnitude of the significance output, which is 0.002, which is smaller than the threshold of 0.05, and the magnitude of the t-statistic value of 3.204, which indicates a positive effect. This finding indicates that, during the sampling years (2019-2023), improving audit quality in manufacturing companies will influence the Company's decision to engage in tax avoidance actions or practices.

This can be explained by the fact that even though a high-quality auditor audits the Company, tax avoidance practices still occur, possibly because these companies have the resources and capabilities to carry out legal but aggressive tax planning. Audit quality in this context refers to the auditor's ability to conduct a thorough examination of the financial statements, detect potential irregularities, and deliver accurate audit reports. Previous research by Pujilestari and Winedar (2018) and Arem (2019) supports this finding, stating that audit quality does influence tax avoidance, but not always in a negative direction. Companies with high-quality auditors have greater flexibility in exploiting loopholes in tax regulations legally.

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CONCLUSION

This study was conducted on manufacturing companies listed on the Indonesia Stock Exchange for the period from 2019 to 2023, with a sample size of 54 companies. From the results of the study conducted with a series of tests that have been carried out, it can be concluded:

1. Company size does not affect Tax Avoidance listed on the Indonesia Stock Exchange for the 2019-2023 period;
2. Profitability hurts Tax Avoidance listed on the Indonesia Stock Exchange for the 2019-2023 period;
3. Leverage has no effect on Tax Avoidance listed on the Indonesia Stock Exchange for the 2019-2023 period;
4. Audit quality has a positive effect on Tax Avoidance listed on the Indonesia Stock Exchange for the 2019-2023 period.

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