

THE EFFECT OF PROFITABILITY AND COMPANY SIZE ON TAX AVOIDANCE

(Study of Manufacturing Companies in the Consumer Goods Sector Listed on the Indonesia Stock Exchange for the Period 2018-2022)

Anggita Rizdhani

Faculty of Economics and Business, Widyatama University, Bandung, Indonesia.

Email: anggita.rizdhani@widyatama.ac.id

Keywords: *Profitability, Company Size, Tax Avoidance*

Abstract

This study aims to analyze the effect of Profitability and Company Size on Tax Avoidance in companies listed on the Indonesia Stock Exchange during the 2018-2022 period. The data used in this study are secondary data. The sample was selected using purposive sampling method, with a total of 36 companies taken from a population of 113 companies. The population of this study includes all manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange for the period 2018-2022. This study uses a quantitative approach with panel data analysis, where data processing is done using Eviews Version 12 software. The results showed that profitability has a significant effect on tax avoidance, while company size has no significant effect on tax avoidance.

I. INTRODUCTION

Tax plays a crucial role in a country's development, serving as the primary source of income for the state. It is utilized for various purposes, including infrastructure development and improving the welfare of citizens (Arrighi et al., 2022). In Indonesia, ta is conderced an essential obligation that individuals and entities must fulfill, contributing to the progress of the country and the prosperity of its people (Ramadhani & Laksito, 2023). Hove, the management of taxes in Indonesia needs careful attention to ensure effective utilization.

Table 1.1
Tax Ratio of ASEAN Countries in 2022

Negara	Tax Ratio	Negara	Tax Ratio
Kamboja	18,6%	Malaysia	11,7%
Thailand	14,6%	Laos	11,3%
Vietnam	14,1%	Indonesia	10,4%
Filipina	12,9%	Myanmar	4,4%
Singapura	12,6%	Brunei	1,5%

Source: www.ceicdata.com

Based on the table 1.1, in comparison to other ASEAN countries, Indonesia's tax ratio in 2022 places it in the bottom three positions. Countries like Cambodia, Thailand, and Vietnam have achieved higher tax ratios, closer to the ideal benchmark. This reveals that Indonesia has not fully maximized its tax potential and lags behind neighboring countries in terms of tax revenue. To compete with other developing nations, Indonesia should strive for a tax ratio of at least 20% of the total GDP (Heriani, 2022).

The low tax ratio in Indonesia is caused by conflicting interests between the government and taxpayers. Taxes are seen by companies as a cost that reduces profits, thus encouraging company efforts to minimize the tax burden. In contrast, the government relies on taxes as a major source of revenue (Ridho, 2016). This conflict leads to tax resistance, both passive (influenced by external factors) and active (direct tax reduction efforts) (Mayndarto, 2022).

Although tax avoidance is legal, because it is done by utilizing loopholes in tax regulations in minimizing the company's tax burden (Sulacman, 2021), it can be detrimental to the state because it reduces tax revenue (Aurelia & Leon, 2022). The Tax Justice Network (2020) reports that Indonesia ranks fourth in Asia for corporate tax avoidance, losing \$4.78 billion annually. Finance Minister Sri Mulyani highlighted the increasing trend of corporate tax avoidance through loss reporting, with cases increasing from 8% to 11% in 2019, despite companies continuing to operate and expand (Putri, 2021)

The following is a table regarding tax avoidance in several manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) with the period 2018- 2022 which are the samples in this study:

Table 1.2
CETR Data of Manufacturing Companies in the Consumer Goods Sector
Registered on the IDX 2018-2022

No.	Nama Perusahaan	Kode Emiten	Penghindaran Pajak (CETR)				
			2018	2019	2020	2021	2022
1.	Sumber Alfaria Trijaya Tbk	AMRT	21.9%	16.6%	18.3%	18.3%	18.9%
2.	Midi Utama Indonesia Tbk	MIDI	20.4%	14.3%	21.8%	21.9%	21.8%
3.	Akasha Wira International Tbk	ADES	8.5%	14.4%	11.4%	17.1%	17.7%
4.	Garudafood Putra Putri Jaya Tbk	GOOD	36.6%	21.8%	30.5%	24.8%	22.7%
5.	Buyung Poetra Sembada Tbk	HOKI	25.2%	35.6%	39.2%	63.2%	159.3%
6.	Ultra Jaya Milk Industry & Trading Company Tbk	ULTJ	30.8%	20.3%	22.6%	21.5%	33.2%
7.	Gudang Garam Tbk	GGRM	27.6%	22.1%	23.3%	16.8%	32.3%
8.	H.M. Sampoerna Tbk.	HMSP	24.6%	25.4%	26.4%	69.1%	23.1%

No.	Nama Perusahaan	Kode Emiten	Penghindaran Pajak (CETR)				
			2018	2019	2020	2021	2022
9.	Japfa Comfeed Indonesia Tbk.	JPFA	25%	47.1%	19.9%	28.5%	32.9%
10.	Unilever Indonesia Tbk.	UNVR	19.3%	31.5%	18.4%	24.7%	25.2%

Sumber: Laporan keuangan, data diolah

Based on the table above, it can be seen that in the period 2018 to 2022, several sample companies in this study were suspected of being involved in tax avoidance practices. This can be seen from the table above, where several companies have low CETR values, below 25%. According to Rahayu & Subadriyah (2021), companies are categorized as doing tax avoidance if the Cash Effective Tax Rate (CETR) is less than 25%, while companies with a CETR of more than 25% are considered not doing tax avoidance. PT Akasha Wira International demonstrates a CETR value below 25% for five consecutive years, suggesting that it pays lower taxes compared to its generated profits. Similarly, PT Sumber Alfaria Trijaya Tbk and PT Midi Utama Indonesia Tbk also have low CETR values, suggesting a sustained strategy in minimizing their tax burden.

Profitability and company size are key factors influencing tax avoidance. Profitability, defined as a company's ability to generate profit from its resources (Sudana, 2015), can increase the likelihood of tax avoidance due to higher tax burdens associated with greater profits (Rodriguez & Arias, 2012). Research by Novriyanti & Dalam (2020) and Sari & Somoprawiro (2020) supports this, noting that highly profitable companies often exploit tax provisions or complex strategies, such as transfer pricing, to minimize tax liabilities. However, findings are mixed, with Mudzakar (2019) stating no effect, while Margaretha & Jenni (2019) and Matanari & Sudjiman (2022) highlight a significant relationship between profitability and tax avoidance.

Company size, often measured by total assets or net sales, also influences tax avoidance. Larger companies, with greater profits and complex operations, tend to minimize tax burdens by leveraging legal loopholes (Purbolakseto et al., 2022). Safitri & Oktaviani (2022) and Stawati (2020) show a significant positive relationship between company size and tax avoidance. Conversely, research by Kartika et al. (2023) and Goenawan (2021) suggests no effect, as larger companies may prioritize strong tax planning to maintain a positive public image.

This study aims to determine how much influence profitability, and company size have on tax avoidance in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022. This study is expected to provide empirical evidence regarding the effect of profitability and the size of the company towards tax avoidance and is expected to provide additional insights, information and references for the academic environment, managers and regulators in decision making.

2. LITERATURE REVIEW

2.1 Tax Avoidance

Tax avoidance, as defined by Suandy (2017), is a legal effort to minimize tax burdens by maximizing tax regulations, while Pohan (2017) describes it as exploiting loopholes in tax laws without violating them. Article 12(1) of the Tax Law mandates taxpayers to pay taxes owed per regulations, creating opportunities for companies to minimize taxes.

The OECD identifies tax avoidance characteristics as using artificial arrangements, exploiting legal loopholes, and employing confidential methods advised by consultants. This study uses CETR to measure tax avoidance, with $CETR < 25\%$ indicating tax avoidance and $> 25\%$ indicating compliance (Rahayu & Subadriyah, 2021). CETR is preferred for its accuracy in

reflecting a company's effective tax burden and its clear interpretability: higher CETR suggests lower tax avoidance, and vice versa (Rudyanto & Pirzada, 2021).

$$\text{CETR} = \frac{\text{Pembayaran Pajak}}{\text{Laba Sebelum Pajak}}$$

2.2. Profitability

Profitability measures a company's financial performance, reflecting its ability to generate profits through sales, assets, and equity (Kasmir, 2016). The profitability ratio, as noted by Hery (2016), evaluates profit capacity, equity returns, profit growth, and profit margins. This study uses ROA, as it effectively indicates how well management utilizes assets to generate profits (Brigham & Houston, 2018) and serves as a comprehensive tool for comparing financial performance by combining profit and assets (Kieso et al., 2013).

$$\text{Return On Assets} = \frac{\text{EAT}}{\text{Total Assets}} \times 100\%$$

3. RESEARCH METHODS

The approach used in this study is quantitative. This research is carried out in the consumer goods industry sector, on manufacturing companies listed on the Indonesia Stock Exchange (DX) for the period of 2018-2022. The sampled companies have published their financial statements consistently during the observation period through the website www.idx.co.id. The data taken from the company's annual financial report is quantitative data.

Sample selection uses a purposive sampling method, where sample selection is done by fulfilling certain criteria. Of the 113 consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the period of 2018 - 2022 only 36 companies met the criteria so that the samples taken were as much as 180.

4. RESULT AND DISCUSSION

4.1 Result

Chow-test

**Table 4.1
Chow Test**

Probabilitas	Conclusion
0.000	Fixed Effect Model

Source: Eviews 12 output, 2024.

Based on the results of the e-views output above, it can be seen that the cross-section F probability statistic is 0.000, which means it is smaller than 0.05, it can be concluded that HO is rejected, so the correct temporary regression model is the Fixed Effect Model (FEM).

Hausmann-test

**Table 4.2
Hausman Test**

Probabilitas	Conclusion
0.1075	Random Effect Model

Source: Eviews 12 output, 2024.

Based on the e-views output above, it can be seen that the cross-section random probability value is 0.1075, which is greater than 0.05. This indicates that HO is rejected, so the appropriate model based on the Hausman test is the Random Effect Model (REM).

Lagrange Multiplier

**Table 4.3
Lagrange Multiplier Test**

Breusch-Pagan	Conclusion
0.000	Random Effect Model

Source: Eviews 12 output, 2024.

Based on the results of the e-views output above, it is known that the Breusch-Pagan cross-section probability statistic is 0.000, which is smaller than 0.05. Thus, HO is rejected, so the right model in the Lagrange Multiplier test is the Random Effect Model (REM). Therefore, based on the best

panel data regression model selection test above, it can be concluded that REM is the best regression model in this study.

Panel Data Regression Analysis

Table 4.4
Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.829145	0.496020	1.671595	0.0964
Profitabilitas	-0.591526	0.229057	-2.582439	0.0106
Ukuran Perusahaan	-0.016376	0.016676	-0.982030	0.3274

Source: Eviews 12 output, 2024.

The panel data regression equation shown in the table reveals that tax avoidance can be predicted using the equation:

$$\text{Tax Avoidance} = 0.8291 - 0.5915\text{ROA} - 0.0163\text{LN} + E$$

The values in the equation have the following explanations:

1. The constant value (C) of 0.829145 suggests that when profitability (ROA) and company size (LN) are both zero, the estimated CETR (Effective Tax Rate) will be 0.829145.
2. The coefficient of profitability, -0.591526, indicates that profitability has a negative impact on CETR. For every 1% increase in profitability, CETR decreases by 0.591526%, resulting in a corresponding 0.591526% increase in tax avoidance, assuming other variables remain constant.
3. The coefficient of company size, -0.016376, suggests that for every one unit increase in company size, CETR decreases by 0.016376 units and tax avoidance increases by the same amount, assuming other variables remain constant. However, this effect is not statistically significant, indicating that company size does not have a significant impact on tax avoidance.

Coefficient of Determination

Table 4.5
Lagrange Multiplier Test

R-Squared	0.038682
------------------	----------

Source: Eviews 12 output, 2024.

The coefficient of determination (R-squared) of 0.038682 or 3.9% indicates Profitability and Company Size have an effect of 3.9% on Tax Avoidance (Y). While the remaining 96.1 % is influenced by other variables not observed in this study.

Partial Test (t-test)

Effect of Profitability on Tax Avoidance

Table 4.6
Test Results of the Effect of Profitability on Tax Avoidance

Regression Coefficient	tcount	Prob.	ttable
-0.591526	-2.582439	0.0106	1.9733

Source: Eviews 12 output, 2024.

The results of the study indicate that profitability proxied by Return on Asset (ROA) has a significant effect on tax avoidance proxied by CETR. This is evidenced by the significance value of 0.0106, which shows that the value is smaller than a (0.05), as well as the calculated t value of -2.5824 which is greater than the t table of 1.9733. These results indicate that profitability has a negative effect on CETR.

In other words, the higher the company's ROA level, the lower the CETR value achieved, so that companies with high profitability are more inclined to engage in tax avoidance strategies. These findings are consistent with previous studies by Yohanes & Sherly (2022) and Rachmat & Rachman (2020) that also suggest a positive relationship between profitability and tax avoidance. When the company earns a large profit, the amount of income tax to be paid will also increase along with the increase in profit. Therefore, the higher the profit generated, the company tends to try to minimize tax payments by buying more assets or wealth, which will then lead to depreciation of the value of the assets purchased (Haidar & Mariana, 2023).

The research contradicts stakeholder theory, which argues that companies with high profitability would comply with tax regulations to protect their reputation. The study raises ethical concerns regarding corporate social responsibility. However, the research contradicts other studies by Rachmat et al. (2021), Sembiring & Sa'adah (2021), Muiyati et al. (2019), Mudzakar (2019), and Carrolline et al. (2021), which found no significant association between profitability and tax avoidance. These studies suggest that the size of a company's profitability does not influence its decision to engage in tax avoidance.

Effect of Company Size on Tax Avoidance

Table 4.7
Test Results of the Effect of Company Size on Tax Avoidance

Regression Coefficient	tcount	Prob.	ttable
-0.016376	-0.982030	0.3274	1.9733

Source: Eviews 12 output, 2024.

The results of a study suggest that the size of a company does not impact tax avoidance. The study found that the p-value of 0.3274 is greater than the significance level of 0.05, indicating that company size is not a significant factor in tax avoidance. Additionally, the I-value of 0.9820 is smaller than the critical I-value of 1.9733. This suggests that company size does not directly influence a company's decision to engage in tax avoidance.

The study explains that company size has no effect on tax avoidance because both large and small companies have the same tax obligations and status as taxpayers if they earn income that meets the criteria for taxation. Regardless of the company's size, if it falls into the tax subject category, its tax obligations remain the same.

This research contradicts the assumption held by stakeholder theory that large-scale companies are more likely to engage in tax avoidance to protect their reputation. The study concludes that there is no significant relationship between company size and tax avoidance.

However, other studies by Mariana et al. (2020), Yohanes & Sherly (2022), and Lestari & Dewi (2024) support the findings of this research, indicating that company size has no effect on tax avoidance. Conversely, studies by Sulaeman (2021) and Sari et al. (2021) suggest that company size can have a positive impact on tax avoidance, as larger companies often have more complex transactions, providing more opportunities for exploiting tax regulation loopholes.

5. CONCLUSION AND SUGGESTION

5.1 Conclusion

The research shows that profitability has a significant positive impact on tax avoidance. This means that companies with higher profits are more likely to engage in tax avoidance strategies as they have the resources and expertise to do so. On the other hand, the study also finds that company size does not affect tax avoidance. This suggests that regardless of the company's size, paying taxes is an obligation that every business entity must fulfill.

5.2 Suggestion

Based on the conclusions of the research results that have been carried out, the following suggestions are submitted as consideration for related parties:

1. This research aims to help companies understand tax avoidance behavior, enabling wise decision-making while maintaining compliance and prioritizing stakeholder responsibility.
2. The government should enhance supervision, promote transparency, and consider tax reforms like simplifying regulations or offering incentives for compliant companies.
3. Future research should include variables like audit quality, CSR, or disclosure levels, explore advanced methods (e.g., dynamic approaches, moderation/mediation), and compare industry sectors to uncover broader tax avoidance patterns

References

- Aurelia, V., & Leon, F. (2022). Pengaruh Penghindaran Pajak dan Kepemilikan Institusional terhadap Biaya Utang di Industri Makanan dan Minuman Indonesia. *The Accounting Journal of Binaniaga* Vol. 07, No. Of, 127-142.
- Arrighi, H. D. (2022). Penerimaan Negara Berupa Pajak dalam Perspektif Islam. *At tauzi': Jurnal Ekonomi Islam*, 22(2).
- Brigham, E. F. & J. F. Houston. (2018). *Dasar-Dasar Manajemen Keuangan*. Edisi 14. Salemba Empat. Jakarta.
- Haidar, N. M., & Mariana, C. (2023). The Effect of Profitability and Leverage on Tax Avoidance in Manufacturing Companies in The Consumer Goods Industry Sector Listed on The Indonesia Stock Exchange in 2019-2021. *Jurnal Ekonomi*, Volume 12, No 02, 762-769.
- Harahap, S. S. (2016). *Analisis Krisis Atas Laporan Keuangan*. Jakarta: PT Raja Grafindo Persada.
- Heriani, F. N. (2022). Gali Potensi Penerimaan Pajak, Ini Penjelasan DJP. *Hukum Online*.
<https://www.hukumonline.com/berita/a/gali-potensi-penerimaan-pajak--ini-penjelasan-djp-lt62da95a25579l/>. Diakses pada tanggal 19 November 2023.
- Hery. (2016). *Analisis Laporan Keuangan*. Jakarta: PT. Gramedia Widiasarana Indonesia.

- Johnston, J. & J. Dinardo. (1997). *Econometric Methods*, 4th ed. New York: Mc Graw-Hill International.
- Kasmir. (2016). *Analisis Laporan Keuangan*. Jakarta: Raja Grafindo Persada.
- Kieso, D. E., Weygandt, J. J., dan Warfield, T. D. (2013). *Financial Accounting IFRS Edition*. Jakarta: Erlangga
- Mariana, C., Mulyati, Y., Andari, D., Subing, H.J. T., & Susiani, R. (2020). Tax Avoidance, Firm Size, and Leverage: Evidence from Indonesia Listed Companies. *International Journal of Psychosocial Rehabilitation*, 24(02).
- Mayndarto, E. C. (2022). Pengaruh Profitabilitas dan Ukuran Perusahaan terhadap Penghindaran Pajak pada Perusahaan Manufaktur Sub Sektor Otomotif yang Terdaftar di Bursa Efek Indonesia. *Owner*, 6(1), 426-442.
- Mudzakar, M. K. (2019). Pengaruh Sales Growth, Capital Intensity, Profitabilitas dan Leverage Terhadap Tax Avoidance (Studi Empiris pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang terdaftar di Bursa Efek Indonesia Periode 2013-2017). *Conference on Management and Behavioral Studies*, 89-104. Jakarta: Universitas Tarumanegara.
- Mulyati, Y., Subing, H.J. T., Fathonah, A. N., & Prameela, A. (2019). Effect of Profitability, Leverage and Company Size on Tax Avoidance. *International Journal of Innovation, Creativity and Change*, 6(8), 26-35.
- Purbolakseto, H. V., Tjahjadi, B., & Tjaraka, H. (2022). Peran Ukuran Perusahaan Memoderasi Pengaruh Risiko Pajak Perusahaan Terhadap Penghindaran Pajak. *Jurnal Ekonomi Akuntansi Dan Manajemen*, Vol. 21 No. 2, 169-186.
- Putri, C. A. (2021). Ngakalin Pajak, Sri Mulyani: Banyak Perusahaan Mengaku Rugi. *CNBC Indonesia*.
- <https://www.cnbcindonesia.com/news/20210628145339-4-256506/ngakalin-pajak-sri-mulyani-banyak-perusahaan-ngaku-rugi>. Diakses pada tanggal 19 November 2023.
- Pohan, C. (2017). *Pembahasan Komprehensif Pengantar Perpajakan Teori dan Konsep Hukum Pajak*. Jakarta: Mitra Wacana Media.

- Rachmat, R. A. H., & Rachman, Y. T. (2020). Profitability and Tax Avoidance: Empirical Analysis. *Solid State Technology*, 63(3), 3567-3573.
- Rachmat, R. A. H. (2021). The Effect of Capital Structure and Profitability on Tax Avoidance in Manufacturing Companies Listed on the IDX 2013-2017. *Turkish Journal of Computer and Mathematics Education (TURCO MAT)*, 12(8), 1332-1341.
- Rahayu, I T. (2021). Faktor-Faktor Yang Mempengaruhi Penghindaran Pajak (Pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang Terdaftar di Bursa Efek Indonesia Tahun 2016-2019). *Indonesian Accounting Literacy Journal*, 2(1), 269-277.
- Ramadhani, G. R., & Laksito, H. (2023). Pengaruh Peraturan Perpajakan, Sanksi Perpajakan, dan Tax Amnesty Terhadap Kepatuhan Pelaporan Wajib Pajak (Studi Empiris pada KPP Pratarna Pekalongan periode 2018-2020). *Diponegoro Journal of Accounting*, 12(2).
- Ridho. (2016). Pengaruh Ukuran Perusahaan, Leverage, Profitabilitas dan Sales Growth terhadap Penghindaran Pajak (Tax Avoidance) pada Perusahaan Manufaktur di Bursa Efek Indonesia (BEI) Tahun 2010-2014. Universitas Islam Negeri SyarifHidayatullah.
- Rodriguez, E. F. And Arias, A. M. (2012). Do Business Characteristics Determine an Effective Tax Rate? *The Chinese Economy* 45 (6).
- Rudyanto, A., & Pirzada, K. (2021). The Role of Sustainability Reporting in Shareholder Perception of Tax Avoidance. *Social Responsibility Journal*, 17(5), 669-685.
- Sari, D. (2021). The Effect of Leverage, Profitability and Company Size on Tax Avoidance (An Empirical Study on Mining Sector Companies Listed on Indonesia Stock Exchange Period 2013-2019). *Turkish Journal of Computer and Mathematics Education (TURCOMAT)*, 12(4), 860-868.
- Suandy, E. (2017). *Perencanaan Pajak*. Jakarta: Salemba Empat.
- Sudana, I. M. (2015). *Manajemen Keuangan Perusahaan*. Edisi Kedua. Jakarta: Erlangga
- Sulaeman, R. (2021). Pengaruh Profitabilitas, Leverage dan Ukuran Perusahaan Terhadap Penghindaran Pajak (Tax Avoidance). *Syntax Idea Vol. 3 No. 2*, 354-367.
- Tax Justice. (2020). The State of Tax Justice 2020: Tax Justice in the time of COVID-19. November. <https://www.taxjustice.net/reports/the-state-of-taxjustice-2020/>.

www.ceicdata.com Diakses pada 19 November 2023.

www.idx.co.id Diakses pada 1 Februari 2024.