Finance, Accounting and Business Analysis

Finance, Accounting and Business Analysis
Volume 5 Issue 2, 2023
http://faba.bg/
ISSN 2603-5324

The Effect of Profitability and Leverage on Tax Avoidance Moderated by Firm Size: Evidence from Property and Real Estate Companies in Indonesia

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Info Articles

History Article:
Submitted 30 September 2023
Revised 1 December 2023
Accepted 13 December 2023

Keywords:
Tax Avoidance, Profitability, Leverage, Firm Size.

JEL: G32, H26, M4.

Abstract

Purpose: This research aims to determine the moderating role of company size on the influence of profitability and leverage on tax avoidance in property and real estate companies listed on the BEI in 2020 - 2022
Design/Methodology/Approach: This research uses quantitative methods. The research population was 79 companies in the property and real estate sub-sector listed on the Indonesia Stock Exchange in 2020 - 2022. The sample in this study was 10 companies. The sampling technique used purposive sampling. The analytical method used in this research is moderated regression analysis (MRA).
Findings: The research results found that profitability has an effect on tax avoidance, leverage has no effect on tax avoidance, company size has no effect on tax avoidance, company size is unable to moderate the effect of profitability on tax avoidance, company size is not able to moderate the effect of leverage on tax avoidance
Practical Implications: The findings of this research are useful for increasing insight and helping companies in determining the direction of their tax policies as well as being taken into consideration by the government in formulating tax regulations so as to reduce gaps in tax avoidance.
Originality/Value: This research uses company size as a moderating variable to differentiate this research from previous research so that it is hoped that it can provide broader insight into tax avoidance practices.
Paper Type: Research Paper

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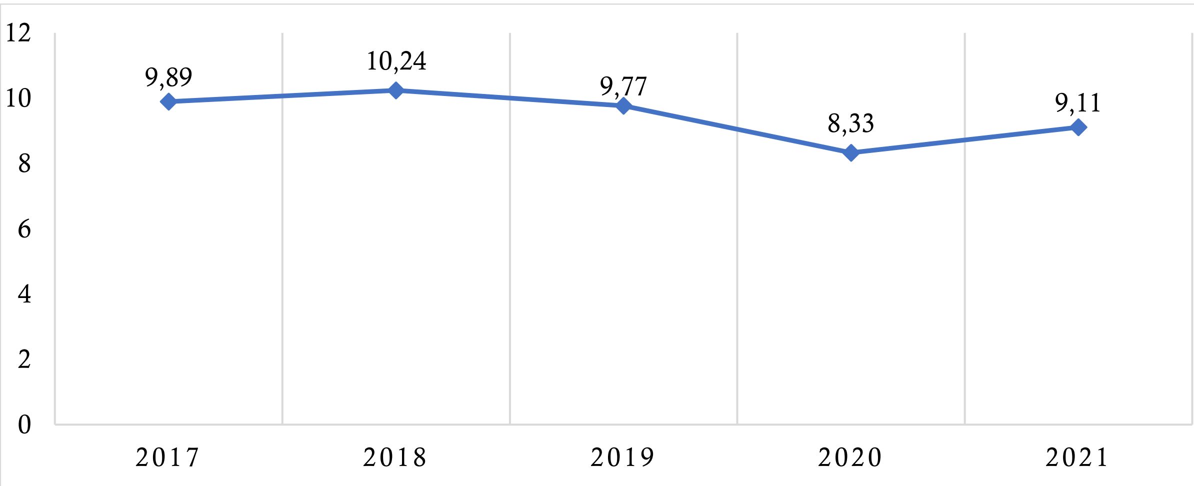
INTRODUCTION

Taxes are the largest source of state revenue in Indonesia. However, for taxpayers, especially companies, they view taxes as a burden that can reduce their profits. This is supported by agency theory which states that there is a conflict of interest between agents (companies) and principals (government). The government wants to maximize state revenues from taxes by ensuring that taxpayers pay taxes according to statutory regulations. However, companies as taxpayers try to pay the minimum tax possible. Because of this, the practice of tax avoidance has emerged. The many tax avoidance practices carried out by taxpayers cause low levels of tax revenue in Indonesia (Badertscher et al. 2018). The country loses significant amounts of tax due to tax avoidance practices (Lolana and Dwimulyani 2019).

One way to carry out tax planning that is legal and does not violate the law is to avoid tax (Pradana and Sartika 2022). Tax avoidance is a strategy for taxpayers to reduce taxes by taking advantage of loopholes in tax law so that there are no differences in views between taxpayers and tax authorities (Lestari 2020). Tax avoidance is an effort made to minimize taxes by exploiting loopholes in the Tax Law. Tax avoidance is an implementation of the concept of tax reduction by a company in a legal way due to imperfections in tax law (Suryantari and Mimba 2022). However, the practice of tax avoidance causes a lot of losses for the state, amounting to hundreds of billions of rupiah each year, originating from the state's tax sector revenues (Prapitasari and Safrida 2019). The International Center for Taxation and Development (ICTD) states that corporate tax avoidance data from 30 countries and Indonesia is ranked 11th with an estimated value of corporate taxes not paid to the Indonesian Directorate General of Taxes of USD6.48 billion.

To measure a country's tax performance, you can use the tax ratio. Basically, the tax ratio shows tax compliance which can be seen from the tax ratio formula itself, namely tax revenue divided by GDP. According to Maulana (2020), achieving a tax ratio that does not meet the specified target is partly caused by tax aggressiveness which includes tax avoidance. The trend in Indonesia's tax ratio can be said to be quite stagnant, there have been no significant changes in recent years. From 2017 to 2021, Indonesia's tax ratio is still low. According to a report from the Ministry of Finance, in 2017 Indonesia's tax ratio was at the level of 9.89 % of GDP. Then it increased to 10.24 % in 2018, then fell to 9.77 % in 2019, and fell further to 8.33 % in 2020. 2020 was the year where Indonesia's tax ratio decreased the most. This happened because of the Covid-19 pandemic which limited people's economic activities. Meanwhile in 2021, Indonesia's tax ratio will begin to increase in line with strengthening tax performance and national economic recovery from the impact of the pandemic. Indonesia's tax ratio in 2021 is 9.11 % of GDP. Even though it has increased compared to 2020, Indonesia's tax ratio in 2021 is still below the pre-pandemic level as can be seen in Figure 1.



Source: The Ministry of Finance (2022)
Figure 1. Indonesian Tax Ratio

One of the cases of tax avoidance that occurs in Indonesia is in companies operating in the property and real estate sector. In 2016, there was a document leak regarding Panama Papers financial transactions. The document contains a list of major clients in the world, which are allegedly hidden to minimize the tax burden that the company must pay. One company involved is PT. Ciputra Development, Tbk and PT Lippo Karawaci, Tbk, which are companies in the property and real estate sector. PT Ciputra Development hid assets of USD 1.6 billion or the equivalent of IDR 21.6 trillion with the aim of avoiding taxes in Indonesia (Awaloedin 2020).

This research was conducted at companies in the Property and Real Estate sector. Companies in the Property and Real Estate sector receive attention from the government regarding the taxes paid. According to the Fiscal Policy Agency, companies in the Property and Real Estate sector have a low tax ratio. Accumulatively, tax revenues from the Property and Real Estate sector until July 2021 are still negative, namely -11.5 %. Apart from that, from 2019 to 2022, Property and Real Estate sector companies had the smallest Effective Tax Rate (ETR) value compared to other sector companies, which indicates that this sector carried out the greatest tax avoidance actions (Sari and Wahyuni 2023).

There are many factors that influence tax avoidance, one of which is profitability. Profitability is the ability of a company to generate profits over a certain period. The profitability ratio can be proxied using Return on Assets (ROA). ROA functions to measure the company's effectiveness in using the resources it has. The higher the company's profitability, the higher the company's net profit will be generated (Anggraeni and Oktaviani 2021). Companies with high profits tend to have a high tax burden. Research carried out by Faizah (2022), Anggraeni and Oktaviani (2021), Rahmadani and Abubakar (2020), Suryani and Mariani (2019), Arinda and Dwimulyani (2019) and Wardani and Purwaningrum (2018) state that ROA has an effect on tax avoidance. In contrast to research conducted by Muslim and Nengzih (2021), Stawati (2020), Isnanto et al. (2019), Permata and Wahyuningsih (2018) and Mustika and Silfi (2017) stated that ROA has no effect on tax avoidance.

Another factor influencing tax avoidance is leverage. Leverage describes the level of a company's dependence on debt to finance its operational activities. Leverage shows the extent to which the company is financed by debt or external parties compared to the company's capabilities as depicted by capital (Kurniasih and Hermanto 2020). Leverage can be proxied using the Debt to Equity Ratio (DER). Having debt will give rise to a fixed burden called interest expense. The higher the total debt in a company, the greater the interest expense the company must pay. The interest expense arising from debt owned by the company will reduce profits before tax so that the tax paid by the company will be smaller. The higher the interest paid by the company, the lower the profit, and this will have an impact on reducing capital and the amount of tax paid to the company (Barli 2018). Results of research conducted by Widodo and Wulandari (2021), Rahmadani et al. (2020), Faizah (2022), Suryani and Mariyani (2019) and Sinaga and Suardikha (2019) show that leverage has an effect on tax avoidance. Meanwhile research conducted by Rohima et al. (2023), Indarti (2023), and Kumalasari and Wahyudin (2020) which found that leverage has no effect on tax avoidance.

Firm size is one factor that can influence the practice of tax avoidance in companies. Firm size is a classification of a business based on the amount of assets it owns. Firm size shows the company's ability to return tax decisions. Firm size indicates the company's stability and ability to carry out its economic activities. The larger the size of the company, the more it will become the center of attention from the government and will give rise to a tendency to comply or avoid taxes (Kurniasih and Sari 2013). The larger the firm size, the management is usually more aggressive in avoiding taxes (Suyanto et al. 2019).

This research focuses on analyzing profitability, leverage and tax avoidance with firm size as a moderating variable. The use of firm size as a moderating variable differentiates this research from previous research so it is hoped that it can provide broader insight into tax avoidance practices.

LITERATUR REVIEW

Agency Theory

Agency theory was first coined by Jensen and Meckling (1976) who stated that there was a conflict of interest between principals delegating authority to other people (agents) to make decisions in running the company. Agency theory is a theory that explains that companies have different interests between agents (management) and principals (owners) (Mulyani et al. 2021). According to agency theory, differences in interests between the tax authority and companies cause non-compliance by taxpayers or companies resulting in tax avoidance, namely by reducing tax payments explicitly.

Positive Accounting Theory

Watts and Zimmerman (1986) explain three hypotheses that can encourage opportunistic actions by management, namely the bonus plan hypothesis, debt covenant hypothesis, and political cost hypothesis. Positive accounting theory explains accounting practices with the assumption that all parties will act rationally in their respective personal interests and consider accounting information as a commodity in economics and politics.

Tax Avoidance

The company considers tax to be a burden that can reduce company profits. The company tries to minimize the taxes paid but in ways that do not violate or conflict with tax regulations. Companies usually carry out tax planning with the aim of minimizing the taxes that must be paid. Tax avoidance is a form of company effort to reduce the tax burden in a way that is legal and does not conflict with applicable tax laws (Stawati, 2020). Tax avoidance in this research is proxied using CETR.

$$\text{CETR} = \frac{\text{Tax Payment}}{\text{Profit before Tax}} \tag{1}$$

Profitability

Profitability is the main measure used to assess a company's ability to produce profits (Manafi 2017). Profitability can be proxied by the ratio Return on Assets (ROA). ROA shows the amount of profit a company generates using the total assets it owns. The higher this ratio, the better the company's performance in using assets to obtain net profit.

$$\text{ROA} = \frac{\text{Net profit after tax}}{\text{Total Assets}} \tag{2}$$

Leverage

Leverage describes the level of a company's dependence on debt to finance its operational activities. Leverage shows the extent to which the company is financed by debt or external parties compared to the company's capabilities as depicted by capital (Kurniasih and Hermanto 2020). Leverage can be proxyed using Debt to Equity Ratio (DER). DER is a measure of how much debt a company has in relation to its total equity. The debt owned by the company has the consequence of fixed costs, namely interest expenses. The greater the debt that the company carries, the consequence is that the interest burden that the company must pay is also higher.

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}} \tag{3}$$

Firm Size

Firm size is a classification of a business based on the amount of assets it owns. Firm size is a measure and value that can classify companies into large and small types according to overall assets (Robin et al. 2021). Firm size is an indicator that explains the financial strength of a company. Firm size is known in the log of total assets, because firm size is thought to have a more consistent level of stability compared to other agents and is consistent throughout the period (Jogiyanto 2007).

$$\text{Size} = \text{Ln(Total Assets)} \tag{4}$$

Empirical Literature

Faizah (2022) tries to obtain empirical evidence regarding the effect of institutional ownership, profitability, leverage on tax avoidance with company size as a moderating variable. This research uses a sample of Manufacturing Companies listed on the Indonesia Stock Exchange (BEI) from 2015 to 2019. This research finds that institutional ownership and profitability have no effect on tax avoidance but leverage has a significant negative effect on tax avoidance. This research also found that company size cannot moderate the positive effect of institutional ownership on tax avoidance, company size cannot moderate the positive effect of profitability on tax avoidance, and company size cannot moderate the effect of leverage on tax avoidance.

Anggraeni and Oktaviani (2021) conducted research on thin capitalization, profitability and company size influencing tax avoidance. The samples used are manufacturing companies listed on the Indonesia Stock Exchange for the period 2017 to 2019. This research shows that the independent variable thin capitalization has no effect on tax avoidance. Meanwhile, profitability has a positive influence on tax avoidance, and company size has a negative influence on tax avoidance. Rahmadani et al. (2020) analyzes the effect of company size, profitability, leverage, earnings management on tax avoidance and analyzes the effect of political connections as a moderating variable. The population in this research are companies listed in the mining sector on the Indonesia Stock Exchange (BEI) for the 2007-2018 period. The results of hypothesis testing prove that company size and earnings management have no effect on tax avoidance, profitability and leverage have an effect on tax avoidance. Political connections are significant in moderating profitability on tax avoidance and political connections are not significant in moderating company size, leverage and earnings management on tax avoidance.

Suryani and Mariani (2019) analyzes the influence of company age, company size and profitability on tax avoidance with leverage as a moderating variable. The research sample was on manufacturing companies listed on the Indonesia Stock Exchange for the period 2014 to 2017. The research results showed that company age had a positive effect on Tax Avoidance, Company Size had no effect on Tax Avoidance, Profitability and Leverage had a negative effect on Tax Avoidance, Leverage was able to moderate the effect of age company and company size on Tax Avoidance, but Leverage is not able to moderate Profitability and Tax Avoidance. Arinda and Dwimulyani (2019) tested the effect of profitability, leverage, sales growth and audit quality on tax avoidance moderated by good corporate governance. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange from 2011 to 2017. Based on the results of the analysis, it can be concluded that Profitability has a positive effect on tax avoidance, Leverage has a negative effect on tax avoidance, Sales growth, audit quality, and Good corporate governance has no effect on tax avoidance. Good corporate governance weakens the positive influence of profitability on tax avoidance, Good corporate governance does not strengthen the negative influence of leverage on tax avoidance, Good corporate governance does not weaken the positive influence of sales growth on tax avoidance, and Good corporate governance does not strengthen the negative influence of audit quality on tax avoidance.

Wardani and Purwaningrum (2018) conducted research to test the effect of profitability, leverage, sales growth and Corporate Social Responsibility (CSR) on tax avoidance. The population in this research is food and beverage manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the 2012-2016 period. The results of this research show that profitability and leverage have a significant positive effect on tax avoidance. Sales growth and CSR do not significantly influence tax avoidance. Muslim and Nengzih (2021) tested the effect of profitability and corporate governance on tax avoidance in manufacturing companies listed on the Indonesian Stock Exchange. The results of this research show that profitability has a significant negative effect on tax avoidance, the composition of the board of commissioners, managerial ownership, and institutional ownership do not have a significant effect on tax avoidance

Isnanto et al. (2019) examines empirical evidence of the influence of capital intensity, inventory intensity, profitability and fiscal loss compensation on tax aggressiveness. This research consists of 54 food and beverage sector samples listed on the Indonesia Stock Exchange for the 2013-2017 period. The results of this research show that partially, capital intensity and inventory intensity influence tax aggressiveness. Meanwhile, profitability and fiscal loss compensation do not affect tax aggressiveness. Permata and Wahyuningsih (2018) tests the effect of Size, Age, Profitability, Leverage, Sales Growth on Tax Avoidance. The population that is the object of this research is the basic industry and chemical sectors listed on the Indonesia Stock Exchange (BEI) in 2012 - 2016. The analysis technique used is logistic regression analysis. Based on data analysis and discussion, it can be concluded that size, age, profitability, leverage and sales growth have no effect on tax avoidance. This means that the government has succeeded in implementing the Tax Amnesty program which has the effect of companies not committing Tax Avoidance

Mustika and Silfi (2017) examines the influence of corporate social responsibility, company size, profitability, leverage, capital intensity and family ownership on tax aggressiveness. The population in this research is mining and agricultural sector companies listed on the Indonesia Stock Exchange during 2012-2014. The results of the research show that corporate social responsibility and family ownership influence tax aggressiveness. Company size, profitability, leverage, and capital intensity have no effect on tax aggressiveness.

Widodo and Wulandari (2021) Rani conducted research which aims to determine the effect of profitability, leverage, capital intensity, sales growth and company size on tax avoidance. This research uses manufacturing companies registered on the Indonesian Stock Exchange in 2017-2019. The data analysis used is a multiple linear regression test. The analysis results show that profitability and company size have no influence on tax avoidance. Meanwhile, leverage and capital intensity have a significant positive influence on tax avoidance. The test results show that sales growth has a significant negative effect on tax evasion.

Sinaga and Suardikha (2019) aims to obtain empirical evidence on the effect of leverage and capital intensity on tax avoidance with the proportion of independent commissioners as a moderating variable. The population of this research are manufacturing companies listed on the Indonesian Stock Exchange in 2013-2017. Data analysis techniques use multiple linear regression analysis and Moderated Regression Analysis (MRA). The results of the analysis show that leverage has a positive influence on tax avoidance. This means that the more debt a company uses to fund assets, the higher the level of tax avoidance. Capital intensity has a negative effect on tax avoidance. This means the more capital a company invests in the form of fixed assets, the lower the level of tax avoidance. The proportion of independent commissioners does not moderate the influence of leverage and capital intensity on tax avoidance. Rohima et al. (2023) conducted research aimed at testing factors that are thought to influence tax avoidance consisting of related party transactions, sales growth, company size and leverage. The research sample was 11 manufacturing companies with a research period of 2016-2020. The results of multiple regression analysis show that related party transactions, sales growth have a negative effect on tax avoidance, while company size and leverage have no significant effect on tax avoidance. However, this research has succeeded in proving that related party transactions in the form of loans increase company efficiency, large companies are more aggressive in tax avoidance and leverage is one way to save tax.

Kumalasari and Wahyudin (2020) conducted research aimed at analyzing and describing empirically the influence of leverage and capital intensity on the effective tax rate (ETR) with profitability as a moderating variable. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2018 period. The data analysis technique used in this research is descriptive statistical analysis and inferential statistical analysis, namely regression analysis with moderating variables using the absolute difference value test method. The research results show that leverage does not have a significant effect on the effective tax rate (ETR). Capital intensity has a positive and significant effect on the effective tax rate (ETR). Profitability is able to moderate the influence of leverage on the effective tax rate (ETR). However, profitability is not able to moderate the effect of capital intensity on the effective tax rate (ETR).

The Effect of Profitability on Tax Avoidance

Profitability is used to measure a company's performance in producing profits. Profitability can be proxied using the ROA ratio. Based on agency theory, company managers have an interest in convincing investors to invest their capital. A high ROA value will make investors interested in investing their capital in the hope that the company will be able to provide a high rate of return on that capital. As the profits generated increase, the amount of income tax increases as the company's profits increase, allowing businesses to avoid taxes. When a company has high profits, a company also has the obligation to pay a high amount of tax, so that the company is more likely to implement tax avoidance measures, so that it can minimize the amount of tax paid to the government (Arinda and Dwimulyani 2019). Research conducted by Faizah (2022), Anggraeni and Oktaviani (2021), Rahmadani and Abubakar (2020), Suryani and Mariani (2019), Arinda and Dwimulyani (2019) and Wardani and Purwaningrum (2018) stated that ROA influences tax avoidance. So a hypothesis is prepared:
H1: Profitability has an effect on tax avoidance

The Effect of Leverage on Tax Avoidance

Leverage describes the level of a company's dependence on debt to finance its operational activities. Leverage shows the extent to which the company is financed by debt or external parties compared to the company's capabilities as depicted by capital (Kurniasih & Hermanto, 2020). Leverage can be proxyed using Debt to Equity Ratio (DER). Having debt will give rise to a fixed burden called interest expense. The higher the total debt in a company, the greater the interest expense the company must pay. The interest expense arising from debt owned by the company will reduce profit before tax so that the tax paid by the company will be smaller. The higher the interest paid by the company, the lower the profit, and this has an impact on reducing capital and the amount of tax paid to the company (Barli 2018). Results of research conducted by Widodo and Wulandari (2021), Rahmadani et al. (2020), Faizah (2022), Suryani and Mariyani (2019) and Sinaga and Suardikha (2019) show that leverage has an effect on tax avoidance. So a hypothesis is prepared:
H2: Leverage has an effect on tax avoidance

The Effect of Firm Size on Tax Avoidance

Firm size is the classification of the company into large or small categories based on total assets. Companies that are large companies tend to have greater resources for managing taxes because of the costs attached to these resources compared to smaller companies. The larger the firm size, the management is usually more aggressive in tax avoidance (Suyanto et al. 2019). The size of the company will attract great attention from the government regarding compliance with the amount of tax paid. However, not all companies can use their resources for tax avoidance because companies are subject to government-regulated decisions and policies (Kim et al. 2010). So a hypothesis is prepared:
H3: Firm size has an effect on tax avoidance

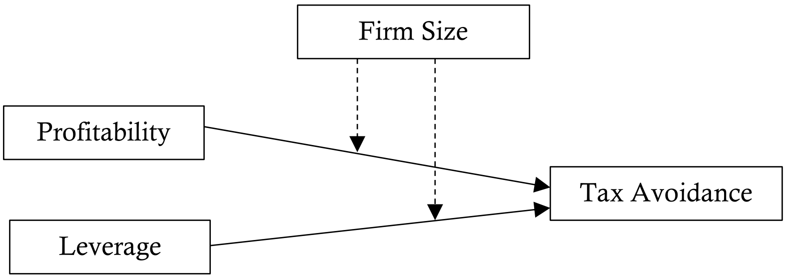
Firm Size Moderates the Effect of Profitability on Tax Avoidance

Companies that are relatively large in terms of their assets tend to have high profits. The greater the company's profitability, which is indicated by the value of the assets it owns, the greater the tax burden it must pay. This is because the tax burden is calculated based on the amount of income earned by the company. However, on the other hand, large companies will get the attention of investors and the government. This is in accordance with the theory of political costs. The larger the firm size and the level of profitability, the greater the tendency to reduce tax avoidance. So a hypothesis is prepared:

H4: Firm size moderates the effect of profitability on tax avoidance

Firm Size Moderates the Effect of Leverage on Tax Avoidance

Firm size can be interpreted as a scale that can classify the condition of the company, where the company is classified as a small company or large company in terms of total assets owned. If the company's leverage ratio is high, it means the company has large debt relative to capital and this affects the company's interest expenses (Fauziah and Kurnia 2020; Saputra et al. 2020). The higher the level of debt, the higher the interest burden which will result in the lower tax burden paid. So a hypothesis is prepared:
H5: Firm size moderates the effect of profitability on tax avoidance



Explanation:
⟶ : The effect of independent and dependent variables
-------▸ : The Effects of moderation on the relationship between independent variables and dependent Variables

Figure 2. Conceptual Framework

METHODS

This research uses quantitative methods. The research population was 79 companies in the property and real estate sub-sector listed on the Indonesia Stock Exchange in 2020-2022. The sample in this study was 10 companies. The sampling technique used purposive sampling with the following criteria:

- Property and Real Estate Subsector Companies listed on the Indonesia Stock Exchange in 2020 - 2022 that have complete data required for research.
- Property and Real Estate Subsector Companies listed on the Indonesia Stock Exchange in 2020 – 2022 that have positive profits

The analytical method used in this research is moderated regression analysis (MRA). MRA is a special application of multiple linear regression, the regression equation contains an interaction element (multiplication of two or more independent variables). This interaction test is used to determine the extent to which the relationship between the Firm Size variables can influence the relationship between Profitability and Leverage on Tax Avoidance. The following is the model in this research:

Model 1:

$$\mathrm{CETR}_{\mathrm{it}} = \alpha + \beta_1 \mathrm{ROA}_{\mathrm{it}} + \beta_2 \mathrm{DER}_{\mathrm{it}} + \beta_3 \mathrm{SIZE}_{\mathrm{it}} + \varepsilon \tag{5}$$

Model 2:

$$\mathrm{CETR}_{\mathrm{it}} = \alpha + \beta_1 \mathrm{ROA}_{\mathrm{it}} + \beta_2 \mathrm{DER}_{\mathrm{it}} + \beta_3 (\mathrm{ROA} * \mathrm{SIZE})_{\mathrm{it}} + \beta_4 (\mathrm{DER} * \mathrm{SIZE})_{\mathrm{it}} + \varepsilon \tag{6}$$

where:
CETR: Cash Effective Tax Rate (Tax Avoidance)
ROA: Return on Assets (Profitability)
DER: Debt to Equity Ratio (Leverage)
Size: Firm Size

RESULT AND DISCUSSION

Hypothesis Test Results

The coefficient of determination (R-Square) is used to measure the ability of the independent variable in explaining variations in changes in the dependent variable. The results of the coefficient of determination test in this research can be shown in the table below.

Table 1. Results of the Determination Coefficient Test

	R	R-square	Adjust R-Square
Model 1	0.776	0.602	0.556
Model 2	0.830	0.689	0.640

Source: Calculated by the author, 2023

The coefficient of determination test results in table 1 above show that the R-Square value in model 1 without the moderating variable is 60.2 %. These results show that the magnitude of the influence exerted by the independent variables in this research, namely profitability, leverage and size, on tax avoidance is 60.2 %, while the remaining 39.8 % is influenced by other factors outside the independent variables in this research. The R-Square value in model 2 with the moderating variable is 68.9 %. This result is greater than the R-Square value in model 1 which does not involve moderation. This shows that the Firm Size variable as a moderator strengthens the effect of Profitability and Leverage on Tax Avoidance.

Table 2. Simultaneous Test Results

	F	Sig	Description
Model 1	13.104	0.000	Fit Model
Model 2	13.862	0.000	Fit Model

Source: Calculated by the author, 2023

Based on table 2, the results of the Simultaneous test (F-test) show that in model 1 the calculated F value is 13,104 with sig 0.000 < 0.05, so this indicates that profitability, leverage and firm size simultaneously influence tax avoidance. In model 2, the calculated F value is 13,862 with a sig value. 0.000 < 0.05, this indicates that the model with the moderating variable is also a fit model.

Table 3. Partial Test Results (Model 1)

Model	Coefficient	t	Sig	Hypotesis
Constanta	-3.207	-0.860	0.0398	
Profitability	-0.705	-5.753	0.000	Accepted
Leverage	0.050	0.157	0.877	Rejected
Size	-0.374	-0.339	0.737	Rejected

Source: Calculated by the author, 2023

Based on table 3, the results of hypothesis testing show that the profitability variable has an effect on tax avoidance with a sig value of 0.000 < 0.05. The leverage variable has no effect on tax avoidance with a sig value. 0.877 > 0.05. Company size has no effect on tax avoidance with a sig value. 0.737 > 0.05.

Table 4. Results of the Moderated Regression Analysis Test

Model	Coefficient	t	Sig	Hypotesis
Constanta	-2.358	-2.277	0.032	
Profitability	-0.500	-3.113	0.005	Accepted
Leverage	0.398	0.578	0.568	Rejected
ROA*SIZE	-0.028	-0.636	0.531	Rejected
DER*SIZE	-0.333	-1.758	0.091	Rejected

Source: Calculated by the author, 2023

Based on the results of the t test in table 4 above, it can be concluded that the interaction between Firm Size and Profitability has a calculated t value of -0.636 with a sig value amounting to 0.531 > 0.05. This shows that Firm Size is unable to moderate the relationship between Profitability and Tax Avoidance. The interaction between Firm Size and Leverage has a calculated t value of -1.758 with a Sig. value equal to 0.091 > 0.05. This shows that Firm Size is unable to moderate the relationship between the Leverage and Tax Avoidance.

Discussion

The Effect of Profitability on Tax Avoidance

Based on the results of the t test, it shows that profitability has an effect on tax avoidance. The regression coefficient value is negative, meaning that the higher the level of profitability, the lower the CETR value. The smaller the company's CETR value, the more likely it is for the company to avoid tax because the tax value is smaller when compared to its profit before tax. Tax obligations will increase as company income increases, so the company will feel burdened by this. These results support agency theory which states that there are differences in interests between the tax authority and companies causing non-compliance by taxpayers or companies resulting in tax avoidance, namely by explicitly reducing tax payments. The results of this research are in line with research conducted by Faizah (2022), Anggraeni and Oktaviani (2021), Rahmadani and Abubakar (2020), Suryani and Mariani (2019), Arinda and Dwimulyani (2019) and Wardani and Purwaningrum (2018).

The Effect of Leverage on Tax Avoidance

Based on the results of the t test, it shows that leverage has no effect on tax avoidance. When a company has a lot of debt, it is unlikely to try to avoid paying taxes. This is because company managers are more careful in reporting the company's finances and do not want to take big risks to avoid paying taxes. Having a lot of debt can also cause problems for a company and cause it to lose money. So, it is important for companies to find the right balance between debt use and tax payments. If a company uses too much debt, this can result in high costs and risks, which can harm its profits. On the other hand, it is better for companies to use their own money or borrow from people who are already connected to the company, because that way they don't have to pay as much tax. Several other studies also found similar results, such as the research of Rohima et al. (2023), Indarti (2023) and Kumalasari and Wahyudin (2020).

The Effect of Firm Size on Tax Avoidance

The results of the third hypothesis test in this study indicate that the size of the company does not affect tax avoidance activities. The results of this study are in line with the research of Amala and Safriansyah (2020) and Khomsiyah et al. (2021) which states that firm size has no effect on tax avoidance. Larger companies, which have a lot of assets, are less likely to make efforts to avoid paying taxes. This is because large companies usually generate high and more stable profits so they are able to pay taxes. Apart from that, the government also pays close attention to large companies and ensures they pay taxes properly. If a large company tries to avoid paying taxes, they can get into trouble and have a bad reputation.

Firm Size Moderates the Effect of Profitability on Tax Avoidance

The results of the MRA test show that firm size cannot moderate the effect of profitability on tax avoidance. Companies that are classified as large tend not to avoid taxes even though they have high profitability. Based on the political cost theory, it states that large companies tend to receive more supervision from the government to be subject to tax payments in accordance with applicable tax regulations. With government attention to large companies, tax avoidance will be minimized. This is because the government wants to ensure they are following the rules and paying the right amount of tax. So, even though it has large assets, the company cannot avoid paying taxes. The results of this research are in line with research conducted by Utomo and Giawan (2020), Putra and Jati (2018) and Fitri and Munandar (2018) stated that firm size does not moderate the effect of profitability on tax avoidance.

Firm Size Moderates the Effect of Leverage on Tax Avoidance

The MRA test results show that firm size does not moderate the influence of leverage on tax avoidance. Firm size is not the main factor that encourages companies to avoid tax. The results of this research are in line with research conducted by Hutapea and Herawaty (2020) and Nanningsih and Santi (2023) state that firm size does not strengthen the relationship between leverage and tax avoidance. The higher the resulting leverage ratio, the lower the effective cash tax rate (CETR) of the company. This shows that the company has good and efficient capabilities in fulfilling its short and long term obligations, so that the tax burden that must be paid becomes lower.

CONCLUSION

Based on the results of hypothesis testing, it can be concluded in this research that: profitability has an effect on tax avoidance, leverage has no effect on tax avoidance, firm size has no effect on tax avoidance, firm size is unable to moderate the effect of profitability on tax avoidance, firm size is unable moderating the effect of leverage on tax avoidance.

This research still has several weaknesses, such as the observation data used is relatively short.

Therefore, it is recommended that further researchers extend the observation period. It is also hoped that the results of this research will increase insight and help companies in determining the direction of their tax policies and serve as material for consideration by the government in formulating its tax regulations so that it can reduce gaps in tax avoidance.

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