Owner: Riset & Jurnal Akuntansi
e –ISSN : 2548-9224 | p–ISSN : 2548-7507
Volume 8 Nomor 4, Oktober 2024
DOI : https://doi.org/10.33395/owner.v8i4.2496

Owner
RISET & JURNAL AKUNTANSI

Determinants of Tax Avoidance: Evidence on Indonesian Financial Companies

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Submitted : September 3, 2024
Accepted : September 23, 2024
Published : October 1, 2024

ABSTRACT

Tax avoidance by companies is a risky strategy that aims to minimize corporate taxes on pre-tax profits. This study aims to provide empirical evidence regarding the effect of audit committees, independent commissioners, liquidity, leverage, company size, and profitability on tax avoidance and examine differences in tax avoidance before and during the COVID-19 pandemic. The population in this study was financial sector companies listed on the Indonesia Stock Exchange for the 2019-2022 period. Using a purposive sampling technique, data were obtained from 42 companies, so 168 observations were gained. The data analysis technique utilized EViews version 12. The results of this study demonstrated that while independent commissioners could suppress tax avoidance, another corporate governance proxy, i.e., the audit committee, did not affect tax avoidance. Furthermore, liquidity and firm size did not affect tax avoidance, whereas leverage and profitability positively affected tax avoidance. Before and during the COVID-19 pandemic, no difference between tax avoidance practices was visible. This research provides theoretical benefits to enhance accounting theory and knowledge, particularly regarding tax aggressiveness, which can serve as a consideration for investors when investing their capital so they can avoid businesses that engage in aggressive tax practices.

Keywords: audit committee, independent commissioner, liquidity, profitability, tax avoidance,

INTRODUCTION

Indonesia's state revenue, which has the largest proportion in supporting national development and financing, comes from taxation. This is evidenced by the realization of the Revised State Budget for 2022, showing that tax sector revenue reached IDR 2,034.5 trillion or contributed 114% of the total state revenue of IDR 2,626.4 trillion. Meanwhile, in 2023, the realization of tax revenue was recorded at IDR 1,869.23 trillion, achieving 102.80 percent of the target. This tax revenue realization grew by 8.88 percent. The Non-Oil and Gas Income Tax component contributed the most to tax revenue, accounting for 53.1 percent of the tax revenue realization. In various countries, tax revenue is crucial for national development activities and sources of funds for people's welfare (C. Chen, 2013; Wang et al., 2020). Therefore, tax has always been the government's main focus because it has become the largest source of revenue in the state budget (Arham et al., 2020).

In addition to functioning as a source of state revenue to finance expenditures in the administration of state life (Arham et al., 2020), taxes also function as a tool to regulate or implement government policies in the social and economic fields (Batrancea et al., 2019). The government can use taxes to regulate society to achieve certain goals. However, from the company's point of view, taxes are considered a burden that must be minimized (Amidu et al., 2019; Hanlon & Heitzman, 2010). Since there is a view that considers tax as a burden for companies, various ways are taken by management to avoid it. Tax avoidance by companies is a risky strategy that aims to minimize corporate taxes on pre-tax profits (Hanlon & Heitzman, 2010; Rego & Wilson, 2012; Taylor & Richardson, 2012).

One of the tax avoidance cases in Indonesia occurred in 2016 involving PT Bank PAN Indonesia (Panin) Tbk. A re-examination of the suspected tax manipulation bribery case uncovered that PT Bank PAN Indonesia (Panin) Tbk reached IDR 1.3 trillion in 2016. This case stemmed from the

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finding that the Tax Auditor Team found a temporary underpayment of IDR 926 billion. Responding to that, Panin Bank assigned its tax attorney to negotiate so that its tax obligations were in the range of IDR 300 billion and provided a commitment fee of IDR 25 billion. To achieve a range of IDR 300 billion, the Tax Auditor Team made positive fiscal adjustments to its sub-formation and credit reserve sub-cost reserve funds (PPAP).

At the end of February 2023, actual tax revenues reached IDR 279,98 trillion, of which the three main sectors that made the largest contribution were the processing industry (manufacturing), trade, and financial services. The financial sector contributed 11.1%, driven by increased interest rates and lending. Financial sector companies need special supervision (Shackelford et al., 2010) because they collect and distribute funds to the broader community to improve people's lives. It indicates that the financial sector is one sector that plays an important role in economic development (Beladi et al., 2018), which in turn has environmental and social impacts (Pulawska, 2022). Consequently, tax avoidance actions in the financial sector can not only reduce state revenues (Agyei et al., 2020; Alkurdi & Mardini, 2020; Beladi et al., 2018) but can also cause agency costs, which in turn can increase or even reduce company value (Beladi et al., 2018).

Tax avoidance can be an alternative for companies to generate funds internally when there are problems in raising funds externally (Agyei et al., 2020). Tax avoidance is also one of the managers' tax planning in minimizing their tax obligations to the state by taking advantage of information asymmetry (T. Chen & Lin, 2017). Inequality of information between managers and shareholders results in managers being able to influence the financial statement information presented, including information on the corporate tax burden (J. H. Kovermann, 2018). Further, planning and implementing tax avoidance designed to reduce the tax burden can be the main agenda of company management, especially during a financial crisis (Richardson et al., 2015), such as when the COVID-19 pandemic hit.

Tax avoidance can be influenced by several factors. Previous research has yielded varied findings. Studies that use liquidity as one of the factors affecting tax avoidance have produced different results; some research (Awaliyah et al., 2021; Hajiannejad & Danesh Sararoodi, 2019) demonstrates that liquidity has an impact on tax avoidance, while other studies (Agyei et al., 2020; Amalia, 2021) find that liquidity does not affect tax avoidance. The results of the research on the leverage variable in relation to tax avoidance also yield diverse outcomes. Research from (Agyei et al., 2020; Yahaya & Yusuf, 2020) indicates that leverage affects tax avoidance. Meanwhile, research (Hidayat & Fitria, 2018) shows that leverage does not influence tax avoidance. The results of the research on the variable of company size in relation to tax avoidance also yield different outcomes. Research (Susanti, 2017) indicates that company size has an impact on tax avoidance. Meanwhile, research (Handayani, 2020; Yuniarwati et al., 2017) shows that company size does not affect tax avoidance.

The COVID-19 pandemic, which has caused the country's economic condition to decline, is the background for the Indonesian Government in providing incentives in the field of taxation. Company managers can respond to incentives in the field of taxation to practice tax avoidance during the pandemic (Evi & Prameswaro, 2021). Hence, the existence of outsider supervision is expected to reduce fraud within the company, including tax avoidance. In influencing tax avoidance actions taken by companies, corporate governance, and financial performance may have a vital role. Audit committees and independent commissioners represent aspects of corporate governance, while financial performance is seen from liquidity, leverage, profitability, and company size. Therefore, the review of tax avoidance needs to be investigated further. Additionally, this research differs from previous research since this research not only examines the effect of corporate governance and company financial performance on tax avoidance in financial sector companies but also compares tax avoidance in different periods. Hopefully, this research will provide additional perspectives and complement the literature on sustainability in financial accounting research.

LITERATURE REVIEW

Tax avoidance

The current self-assessment system makes taxpayers more flexible in managing the amount of tax they must pay through careful tax planning or tax avoidance practices (Jadi et al., 2021). Tax avoidance is closely related to the company's efforts to maximize company profits by minimizing

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or avoiding taxes that do not violate tax laws and regulations (Dyreng et al., 2008). In other words, tax avoidance is an act of taxpayers taking advantage of the loopholes in the tax law so that they can pay lower taxes than they should be paid (McGuire et al., 2012; Oktaviani et al., 2023).

Tax avoidance is a form of active resistance from taxpayers before a warning or legal product from the DGT. This form of resistance can be done using several methods, such as maximizing loans to banks (I. Hasan et al., 2014; J. H. Kovermann, 2018), giving in-kind/enjoyment to all employees, giving grants, and utilizing tax facilities provided by the government (Firmansyah et al., 2022). With supervision from other parties through corporate governance mechanisms, it is hoped that tax avoidance practices can be minimized (J. Kovermann & Velte, 2019). Also, good financial performance is a means of building public trust in the company.

Audit committee on tax avoidance

The audit committee is formed by the board of commissioners to help supervise company performance with at least three members (Financial Services Authority Regulation) Number 55/PJOK.04/2015). The audit committee has a role in providing advice regarding financial reporting policies and internal controls, so they must exist in a company that implements good corporate governance (Agyei et al., 2020). Corporate governance has the principle of accountability, which aims to ensure that all components of financial statements are audited and accounted for (Taylor & Richardson, 2012). Audits that are properly conducted and corporate governance enable better financial reporting, which reduces the possibility of fraud by management (Dang & Nguyen, 2022). Therefore, firms with larger audit committees are less likely to engage in tax avoidance. In other words, the tax avoidance policy will be lower if the number of audit committees is increasing, but the tax avoidance policy will be higher if the number of audit committees is decreasing (Agyei et al., 2020; Tandean & Winnie, 2016; Taylor & Richardson, 2012). The studies show that audit committees have a negative effect on tax avoidance (Agyei et al., 2020; Dang & Nguyen, 2022; Prihatono et al., 2019). Thus,

H1: The audit committee has a negative effect on tax avoidance.

Independent commissioner on tax avoidance

Based on Regulation (Financial Services Authority Regulation, 2015) Number 55/PJOK.04/2015 Article 1(2) concerning the Establishment and Guidelines for the Implementation of Audit Committee Work, Independent Commissioners are members of the Board of Commissioners who come from outside issuers or public companies; do not have shares either directly or indirectly in the issuer or public company; have no affiliation with the issuer or public company, commissioners, directors, or major shareholder of the issuer or public company; and do not have a direct or indirect business relationship related to the business activities of the issuer or public company. With many independent commissioners, the company's internal supervision will be tighter (I. Hasan et al., 2014; Wang et al., 2020) and minimize tax avoidance (J. Kovermann & Velte, 2019). Empirical research states that independent commissioners have a negative effect on tax avoidance, supported by research conducted by (Agyei et al., 2020; Dang & Nguyen, 2022; Tandean & Winnie, 2016). Thus,

H2: Independent Commissioner has a negative effect on tax avoidance.

Liquidity on tax avoidance

Liquidity is a ratio that describes a company's ability to meet short-term obligations or debt. Low liquidity occurs because the company does not have sufficient funds to cover due debts (Hajiannejad & Danesh Sararoodi, 2019). When companies face problems with short-term debt, companies will take tax avoidance since companies are more concerned with maintaining cash flow than paying taxes (Agyei et al., 2020). In other words, a company with high liquidity denotes the company's high ability to meet short-term debt. It indicates that the company's finances are healthy and do not have problems with cash flow so that it can bear costs that arise, such as taxes (Hajiannejad & Danesh Sararoodi, 2019; Handayani, 2020). It is reinforced by research results of (Agyei et al., 2020; Hajiannejad & Danesh Sararoodi, 2019; Handayani, 2020; Olaniyi & Okerekeoti, 2022) stating that liquidity affects tax avoidance. Thus,

H3: Liquidity has a negative effect on tax avoidance.

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Leverage on tax avoidance

Companies use leverage to measure the extent of debt incurred to finance their assets (Jingga & Lina, 2017). While a higher leverage ratio indicates that the company uses more debt, a lower ratio signifies that the company uses more capital to finance debt obligations, meaning that the company's profit will decrease (Yahaya & Yusuf, 2020). Put another way, the greater the company's debt, the less it will pay taxes. This action is deemed increasingly aggressive toward taxes because it creates interest that must be paid by companies that use debt (Beladi et al., 2018). The company's taxable profit will be reduced due to deductible interest expense. It is supported by the results of research (Agyei et al., 2020; Yahaya & Yusuf, 2020), which states that leverage positively affects tax avoidance. Thus,

H4: Leverage has a positive effect on tax avoidance.

Company size on tax avoidance

Well-established and large companies are usually shown as one with many assets (Agyei et al., 2020). Large companies generally have extensive resources, including reliable employees. Large companies also tend to be easier to do tax planning (Wang et al., 2020). Company ownership of adequate resources encourages managers to make tax savings by taking advantage of regulatory loopholes. In addition, large companies have good planning in generating certain profits compared to smaller companies (Waruwu & Kartikaningdyah, 2019). As a result, the resources owned by the company can be used by managers to reduce the tax burden associated with maximizing company performance (Susanti, 2017). Thus,

H5: Company size has a positive effect on tax avoidance.

Profitability on tax avoidance

Profitability is a ratio that expresses how effective the overall management is, indicated by how much profit is earned from investment and sales (Ball et al., 2015). To ensure that the business will survive, profit is particularly important in its operational activities. If a company has high profits, the tax that the company must pay will be greater because the taxes borne by the company are proportional to the company's profits (Hanlon & Heitzman, 2010). Conversely, if a company has low profits, the tax payments will be lower or even postponed, as the obligations that the company must pay are not fulfilled (Dyreng et al., 2008). It is reinforced by research that profitability positively affects tax avoidance, consistent with research conducted (Handayani, 2020; Waruwu & Kartikaningdyah, 2019). Thus,

H6: Profitability has a positive effect on tax avoidance.

Differences in tax avoidance before and during the COVID-19 pandemic

The company's tax avoidance background can be seen from several perspectives. Apart from internal motivation from companies to take tax avoidance measures, controlling or supervising the provision of tax stimuli is also a factor for managers to act aggressively in taxation (Hanlon & Heitzman, 2010; Taylor & Richardson, 2012). Tax avoidance is designed to reduce the tax burden and can be the primary agenda of company management, especially during a financial crisis (Richardson et al., 2015), such as when a pandemic hits. The study's results (Suhaidar et al., 2020) exposed differences in tax avoidance in the form of increased levels of tax avoidance during the COVID-19 period compared to before the COVID-19 period. The research also concludes that an increase in tax avoidance can occur because the provision of tax incentives encourages opportunities for managers to abuse tax obligations. Thus,

H7: There are differences in the level of tax avoidance before and during the COVID-19 pandemic.

METHOD

This study used a quantitative approach utilizing statistical test tools to prove the hypotheses. This research was conducted to determine the effect of corporate governance by proxies for audit committees and independent commissioners and company performance by proxies for liquidity, leverage, profitability, and firm size on tax avoidance, as well as differences in tax avoidance before and during the COVID-19 pandemic. This research took the research object of financial sector

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Owner: Riset & Jurnal Akuntansi
e –ISSN : 2548-9224 | p–ISSN : 2548-7507
Volume 8 Nomor 4, Oktober 2024
DOI : https://doi.org/10.33395/owner.v8i4.2496

companies listed on the Indonesia Stock Exchange (IDX) during 2019-2022. The pre-COVID-19 observations were grouped into data for 2019, and for the group at the time of the COVID-19 pandemic, data for 2020 were employed. The type of data used in this research was secondary data, a source of data obtained indirectly through intermediary media. The data source used in this research was also secondary data in the form of financial reports. Purposive sampling was used as a sampling technique in this study. The number of samples in this study was 42 companies in the manufacturing sector that matched the criteria, with 168 observations for the 2019-2022 period. The criteria in this study included manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in 2019-2022 and companies that published their financial reports consecutively during the 2019-2022 observation period. Also, companies that published complete information about data related to research variables did not suffer losses.

The dependent variable in this study was tax avoidance as measured by the effective tax rate (ETR). (Hanlon & Heitzman, 2010) mention 12 ways to calculate proxies for tax avoidance, and this study used two of them as proxies. The first proxy was the effective tax rate (ETR). This proxy compares the total tax expense for the current year with the total income before tax. A low ETR value can indicate the existence of tax avoidance practices (Hanlon & Heitzman, 2010) because a low ETR value can be interpreted as a low amount of the tax burden borne in that period (Jadi et al., 2021). ETR was used as a proxy to measure tax avoidance.

The first independent variable came from the corporate governance aspect. The audit committee consists of at least three people. Its duties and functions are overseeing corporate governance and external audits of the company's financial statements. The audit committee is also formed by the Board of Commissioners, so the audit committee is responsible to them. The independent commissioner variable was measured by comparing the number of independent commissioners divided by the number of commissioners.

The next independent variable was liquidity, a company's ability to meet its short-term obligations promptly. The liquidity ratio in this study employed the Current Ratio, commonly used for short-term liquid, i.e., the company's ability to meet debt needs when it matures.

In this study, the leverage variable used the Debt to Assets Ratio (DAR) to measure how much a company's assets were financed by debt. It means how much the debt burden borne by the company is compared to the assets owned by the company. Then, the company size variable was measured by the natural logarithm of total assets. Meanwhile, the profitability variable employed return on assets (ROA) as its measurement by dividing net profit after tax by its total assets, as shown in Table 1.

Table 1. Measures of Each Variable

Variable	Measures	Scale
Tax Avoidance (Y)	ETR: $\frac{\text{Current tax expense}}{\text{Profit before tax}}$	Ratio
Audit Committee (KA)	KA: Number of audit committees	Nominal
Independent Commissioner (KI)	KI: $\frac{\text{Number of independent commissioners}}{\text{Number of commissioners}}$	Ratio
Liquidity (CR)	CR: $\frac{\text{Current assets}}{\text{Current debt}}$	Ratio
Company Size (TA)	ln total assets	Nominal
Profitability (ROA)	ROA: $\frac{\text{Profit after tax}}{\text{Total assets}}$	Ratio
Leverage (DAR)	DAR: $\frac{\text{Total liabilities}}{\text{Total assets}}$	Ratio

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e –ISSN : 2548-9224 | p–ISSN : 2548-7507
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DOI : https://doi.org/10.33395/owner.v8i4.2496

RESULTS

The results of data analysis are presented in the following table.

Table 2. Descriptive Statistical Analysis

	ETR	KA	KI	CR	DAR	TA	ROA
Mean	0.212917	3.583333	0.520956	4.850956	0.661530	30.56873	0.023209
Median	0.229275	3.000000	0.500000	1.323303	0.747037	30.32972	0.016950
Maximum	0.480118	7.000000	1.000000	58.47708	0.918899	36.64836	0.092042
Minimum	0.000870	2.000000	0.250000	0.081785	0.068639	26.29233	0.000370
Std. Dev.	0.099971	0.975242	0.137483	9.385603	0.223534	2.104640	1.279721

Based on the descriptive statistical test analysis results in Table 2, the dependent variable, namely tax avoidance with the effective tax rate (ETR) proxy, showed a standard deviation of 0.099971. While the minimum value on ETR was 0.000870, the maximum was 0.480118. The average ETR value was 0.212917, whereas the median value was 0.229275. Besides, the audit committee variable (KA) revealed a standard deviation of 0.975242. The minimum value for KA was 2.0000, while the maximum was 7.0000. The average value of KA was 3.58333, and the median value was 3.00000. In addition, the independent commissioner variable (KI) demonstrated a standard deviation value of 0.137483. The minimum value for KI was 0.250000, and the maximum was 1.00000. Whereas the average value for KI was 0.520956, the median value was 1.323303.

Additionally, the liquidity variable with the current ratio (CR) measurement uncovered a standard deviation value of 9.385603, a minimum value of 0.81785, and the maximum value of 0.918899. The median CR value was 1.323303, while the average value was 4.850956. Furthermore, the leverage variable with the debt-to-asset ratio (DAR) proxy had a standard deviation of 0.22354. While the minimum value on DAR was 0.068639, the maximum was 0.918899. The average value of DAR was 0.661530, while the median value was 0.747037.

Moreover, the company size variable measuring total assets (TA) exposed a standard deviation of 2.104640. The minimum value for TA was 26.29233, and the maximum was 36.64836. While the average value of TA was 30.56873, the median value was 30.32972. At last, the profitability variable with the return on assets (ROA) measurement showed a standard deviation of 1.279721. The minimum value for ROA was 0.000370, and the maximum was 0.092042. The average value of ROA was 0.023209, while the median value was 0.016950.

Table 3. Hypothesis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.641277	0.763309	-0.840128	0.4025
KA	0.003753	0.012138	0.309170	0.7577
KI	0.220457	0.107527	2.050251	0.0425*
CR	-0.000846	0.001634	-0.518112	0.6053
DAR	-0.188167	0.067071	-2.805509	0.0059*
TA	0.029040	0.024451	1.187681	0.2373*
ROA	-2.261917	0.551021	-4.104959	0.0001
R-Squared	0.714982	Adjusted R-Squared		0.603350
F-Statistic	6.404814	Prob.(F-statistic)		0.000000

DISCUSSIONS

The influence of the audit committee on tax avoidance

The results of testing the hypothesis with regression analysis in Table 3 have proven that the audit committee (KA) did not affect tax avoidance actions in financial sector companies, so the alleged H1 hypothesis was rejected. The small number of audit committees in companies did not affect tax avoidance actions conducted by companies. The number of audit committees was not confirmed as capable of carrying out supervision to suppress tax avoidance actions. Based on the

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e –ISSN : 2548-9224 | p–ISSN : 2548-7507
Volume 8 Nomor 4, Oktober 2024
DOI : https://doi.org/10.33395/owner.v8i4.2496

financial reports of financial sector companies for 2019 to 2022 sampled in this study, almost all companies had a predetermined number of audit committees with an average of three members. The researchers suspect that many audit committees can lead to potential conflicts and communication barriers in decision-making. On the other hand, even a small number of audit committees can have another impact, i.e., ineffective supervision, especially for financial sector companies with high risks.

Based on the results of descriptive statistics, even though the sample companies complied with regulations with an average number of audit committees of three people or more, the findings of this study have not confirmed the agency theory. From the perspective of agency theory, it is stated that many audit committees, as supporters of an independent board of commissioners, can help oversee the actions of company managers, such as minimizing tax avoidance (J. Kovermann & Velte, 2019). The decision to take tax avoidance measures by companies is not only due to the large number of audit committees but also because of other factors, such as the quality and independence of the audit committee (Hsu et al., 2018). Quality can be seen from the competence of each audit committee member (A. Hasan et al., 2023; Hsu et al., 2018) in detecting fraud by managers. This competency must also be supported by a background in accounting and/or financial skills as required in the good corporate governance (GCG) guidelines (Dang & Nguyen, 2022). The results of this study are consistent with the results of prior research (Warih, 2019; Yuniarwati et al., 2017), where the audit committee did not affect tax avoidance.

The influence of independent commissioners on tax avoidance

The results of testing the hypothesis with regression analysis showed that in the observation period, the independent commissioner (KI) positively affected ETR; in other words, KI positively affected tax avoidance, so H2 was accepted. These results indicate that during the observation period, since the existence of an independent commissioner could supervise management and pressure management to reduce tax avoidance, H2 was accepted. The presence of an independent commissioner in a company can assist shareholders in supervising management behavior to determine decision-making and transparency in carrying out company operations so that tax avoidance can be minimized.

Under agency theory, if the agent has more information about the company than the principal, the principal can supervise in the presence of an independent commissioner (I. Hasan et al., 2014; Wang et al., 2020). Management also tends to be more careful about decisions, including taxation decisions, because of the strict supervision of an independent commissioner (J. Kovermann & Velte, 2019). The results of this study align with research conducted by (Agyei et al., 2020; Dang & Nguyen, 2022; Tandean & Winnie, 2016), reporting that independent commissioners had a positive effect on tax avoidance.

The influence of liquidity on tax avoidance

The results of testing the hypothesis with regression analysis verify that liquidity (CR) did not affect tax avoidance in financial sector companies, so the proposed hypothesis H3 was rejected. Companies with high liquidity show the company's high ability to meet short-term debt. It is an indicator of the company's finances being healthy and not having problems with cash flow so that it can bear costs that arise, such as tax burdens.

In agency theory, high liquidity denotes that the company can pay off debt but results in low profitability, so investors are not interested in investing. Furthermore, the company can pay off or fulfill its short-term debt properly and buy or sell assets quickly. Good liquidity indicates that a company's cash flow is running well and that the company is in a healthy state. The results of this study are consistent with the results of research (Agyei et al., 2020; Olaniyi & Okerekeoti, 2022), where liquidity did not affect tax avoidance, but it is not in accordance with research (Hajiannejad & Danesh Sararoodi, 2019).

The influence of leverage on tax avoidance

The results of testing the hypothesis with regression analysis demonstrated that in the observation period, the leverage variable (DAR) had a negative effect on ETR; in another sense, DAR had a positive effect on tax avoidance, so H4 was accepted. Interest on debt will reduce the

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company's operating profit on the income statement, resulting in profit before tax. Using funding originating from debt can increase debt interest companies must pay creditors. Debt interest will result in lower profit before tax and a tax burden that the company must pay.

From the agency theory perspective, managers with more complete information than principals have an advantage. Managers use this condition to act opportunistically to avoid taxes. Management will be more aggressive toward taxes because it creates interest that must be paid by companies that use debt (Beladi et al., 2018). The company's taxable profit will be reduced due to deductible interest expense. It is supported by the results of (Agyei et al., 2020; Yahaya & Yusuf, 2020), which stated that leverage positively affected tax avoidance.

The influence of company size on tax avoidance

The results of testing the hypothesis with regression analysis confirm that since the variable company size (TA) did not affect tax avoidance in financial sector companies, the assumed hypothesis H5 was rejected. Firm size did not indicate how the company avoided taxes. Large- and small-scale companies were the same in fulfilling their tax obligations. In addition, larger companies in the financial sector in Indonesia believe that tax avoidance is not the main strategy to improve their performance. Compared to tax avoidance strategies where the benefits are not too large for companies, tax avoidance is considered to affect the reputation of large companies, including shareholders and investors, and therefore, financial sector managers can utilize the resources they have to improve their business performance in the future.

From the point of view of agency theory, in large companies, tax avoidance is deemed to affect the reputation of large companies (Richardson et al., 2013), including shareholders and prospective shareholders. Large companies are also thought to have better control over the performance of managers in the company (Dyreng et al., 2008), so certain policy choices from managers that are not in line with the interests of shareholders will not be carried out by managers. This study's results align with research (Handayani, 2020; Yuniarwati et al., 2017), where company size did not affect tax avoidance.

The influence of profitability on tax avoidance

The results of hypothesis testing with regression analysis revealed that in the observation period, the variable profitability (ROA) had a negative effect on ETR; because ROA had a positive effect on tax avoidance, H6 was accepted. Efforts to avoid taxes will be even greater in companies with high profitability. When companies generate large profits, their management tends to reduce their profits to lower their tax burden, thereby increasing the return on assets.

The test results confirm the agency theory, proposing that the greater the company's profit becomes the basis for calculating the tax burden, so this condition results in the tendency of managers to tax avoidance (Dyreng et al., 2008; Rego & Wilson, 2012). Managers are considered successful if they manage the company well to achieve short-term and long-term goals. Achieving a higher profit level is one of the signs. In addition, business owners expect the company to survive and run well. As long as managers manage the business well, company owners can assume greater agency responsibilities. Managers also use the information asymmetry between themselves and shareholders to earn large bonuses. To meet the company's tax obligations to the government, managers use tax planning strategies (Taylor & Richardson, 2012). Even though the company generates high profits, it does not mean it will pay high taxes. To minimize the company's tax liability to the government, managers can take advantage of loopholes in tax regulations (Wang et al., 2020). To implement this strategy, managers use their company's resources and expertise. Instead, managers must maintain their reputation in carrying out the company's strategy for the future, both in terms of investment and business, by reducing the company's tax liability at any time. The results of this study corroborate with research (Dyreng et al., 2008; Waruwu & Kartikaningdyah, 2019; Yuniarwati et al., 2017), stating that profitability affected tax avoidance.

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Owner: Riset & Jurnal Akuntansi
e –ISSN : 2548-9224 | p–ISSN : 2548-7507
Volume 8 Nomor 4, Oktober 2024
DOI : https://doi.org/10.33395/owner.v8i4.2496

Differences in tax avoidance before and during the COVID-19 pandemic

Table 4. Results of the T-test

Method	Df.	Value	Probability
t-test	166	-0.102347	0.9186
Satterthwaite-Welch t-test	165.9598	-0.102347	0.9186

Furthermore, the results of testing the hypothesis in Table 4 with different t-tests unveiled no difference in the level of tax avoidance before and after the pandemic. Even though there was an opportunity for managers to take advantage of greater tax avoidance due to tax incentives during a pandemic, this condition did not cause managers to become more aggressive in tax avoidance.

Although tax incentives during a pandemic may allow managers to take advantage of greater tax avoidance, it did not motivate managers to adopt tax avoidance practices more aggressively (Firmansyah et al., 2022). By setting tax incentives, one of which is reducing income tax rates, company management could concentrate on other goals besides tax avoidance, such as achieving profit targets. This research agrees that another thing that happened is that companies used to do tax avoidance by looking for loopholes in tax laws both before and during the pandemic. It aligns with the research (Firmansyah & Ardiansyah, 2021; Wulandari et al., 2023), which stated that there was no difference in tax avoidance before and during the COVID-19 pandemic.

This research still has limitations. Because the research sample was limited to the financial sector, it could not describe the condition of all companies in Indonesia. In addition, the period in this study was 2019-2022. For further research, next researchers can add a period. As for further research, adding other independent variables, such as company size, capital intensity, inventory intensity, and others, can be performed because, in this study, the ability of the independent variable to explain the dependent variable was low. Other companies can also be used to produce different research results.

CONCLUSIONS

This research indicates that financial sector companies listed on the IDX in 2019-2022, with an Independent Commissioner, could suppress tax avoidance, while another corporate governance proxy, i.e., the audit committee, did not affect tax avoidance. While liquidity and company size did not affect tax avoidance, leverage and profitability positively affected tax avoidance. Furthermore, no difference existed between tax avoidance practices before and during the COVID-19 pandemic. The managerial implication of this research is that with good governance, oversight, and understanding of tax regulations, the tax burden on companies can be reduced.

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e –ISSN : 2548-9224 | p–ISSN : 2548-7507
Volume 8 Nomor 4, Oktober 2024
DOI : https://doi.org/10.33395/owner.v8i4.2496

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Owner: Riset & Jurnal Akuntansi
e –ISSN : 2548-9224 | p–ISSN : 2548-7507
Volume 8 Nomor 4, Oktober 2024
DOI : https://doi.org/10.33395/owner.v8i4.2496

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