

## Factors that influence Tax Avoidance: Profitability, Leverage, and Company Size

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**Abstract:** The Literature Review Article on the Influence of Profitability, Leverage, and Company Size on Tax Avoidance is a scientific article which aims to build a research hypothesis on the influence between variables that will be used in further research. The method for writing this Literature Review article is the library research method, which is sourced from online media such as Google Scholar, Mendeley and other academic online media. The results of this literature review article are: 1) Profitability influences Tax Avoidance; 2) Leverage influences Tax Avoidance; and 3) Company size influences Tax Avoidance.

**Keywords:** Tax Avoidance, Profitability, Leverage and Company Size

### Introduction

#### Background

Taxes are a very large source of income to carry out development. Taxes are collected from Indonesian citizens and are an obligation that can be enforced. Indonesia's national development is essentially carried out by the community together with the government (Wijoyanti, 2010) in (Sulaeman, 2021). Therefore, the role of the community in financing development must be strengthened by increasing public awareness of their tax obligations. According to Law Number 16 of 2009 concerning General Provisions and Procedures for Taxation, Article 1 paragraph 1 explains the definition of tax, namely that it is a mandatory contribution to the state that is owed by an individual or entity that is coercive based on law, with no direct compensation and use. for the needs of the state for the greatest prosperity of the people.

Taxes can be interpreted as payments to citizens based on applicable laws, and the state does not directly provide compensation to taxpayers for these payments. In general, state revenue is the main source of government expenditure, along with the financial part of

the APBN which includes tax revenue and non-tax revenue (Jotopurnomo & Mangoting, 2013) in (Sulaeman, 2021).

Minister of Finance (Menkeu) Sri Mulyani Indrawati, Tuesday (01/03), in an online press conference for the implementation of the 2022 APBN, stated that state revenue for the 2022 APBN was 2,626.4 trillion rubles or 115.9% of state revenue. country. budget targets based on Presidential Decree no. 98 of 2022: IDR 2,266.2 trillion. This understanding increased by 30.6% due to a stronger and more stable economic recovery and relatively high commodity price promotions. Of the total government revenues, tax revenues reached IDR 2,034.5 trillion or 114% of the target of IDR 1,784 trillion set in Presidential Decree 98/2022, representing 31.4% of the realization of IDR 1,547.8 trillion in 2021. Realization of tax revenues This is supported by tax, customs and excise revenues (kemenkeu.go.id).

Tax revenues, the main source of APBN funding, are in line with the government's desire to receive as much tax as possible. However, this is inversely proportional to the company's desire to fulfill its tax obligations at the lowest possible denomination. As a result, companies are looking for ways to reduce their tax burden without violating existing regulations – tax avoidance (Mardiasmo, 2003) in (Hermawan et al., 2021).

Tax evasion creates obstacles to tax collection and reduces government revenues. Tax avoidance is always understood as a legal activity (e.g. minimizing the tax burden without violating tax regulations) and tax avoidance (tax evasion) as an activity that violates the law. The problem of avoiding tax burdens is a complex and unique problem. is a complex and unique problem. On the one hand, tax avoidance is permissible, but on the other hand it is also undesirable. The tax avoidance carried out is unlikely to be in conflict with tax law, because the practice of tax avoidance is believed to take advantage of loopholes in tax law which have an impact on government revenues from the tax sector. In recent years, the government, in this case the tax authorities (tax authorities), has done everything to ensure that there is a clear line between tax avoidance and tax evasion (Amri, 2015) in (Mahdiana & Amin, 2020).

In this way, individual or corporate taxpayers can look for loopholes in weaknesses in tax regulations, so that the laws and regulations state that these activities do not violate regulations and are legal. Companies that carry out aggressive tax avoidance can lead to risky acts of fraud in tax payments such as threats of sanctions or fines, a bad company image in the eyes of investors, a decline in share prices and a company's reputation that is considered bad because of tax avoidance (Rachmawati et al., 2023).

Profitability is a very important measure for evaluating the quality of a business. In this way, companies can know and measure how much the company can generate sales or profits, and thus also know how effectively the company uses existing resources. Profitability is also a commonly used method including Return on Assets (ROA). This method is used as a method to show the results of the number of assets used in the company. This method shows a measure of management's effectiveness in managing its investments. Whether the return on assets method is decreasing or increasing, it can be said that the company's performance is increasingly looking less good. It's good if Return On Assets increases or looks high, it shows that the company's capital management is improving. (Hermawan et al., 2021).

Leverage is a measure of how much of a company's assets are financed by debt.

Companies with large amounts of debt tend to take advantage of these debt characteristics to avoid significant corporate tax burdens. (Anouar & Houria, 2017) in (Pitaloka & Aryani Merkusawati, 2019). The use of debt will give rise to a fixed burden (fixed rate of return) which is called interest. The presence of interest is a deduction from the company's taxable income. The higher the company's total debt, the higher the interest the company must pay. Determining the interest rate also has a positive impact on the company because the interest rate reduces profits before tax, so the company pays less tax. (Hapsari Ardianti, 2019) in (Sitepu & Sudjiman, 2022). Leverage (debt) refers to tax avoidance. When a company has high debt, the company also has high tax liabilities. Therefore, companies are closely related to tax evasion (Sitepu & Sudjiman, 2022).

Company size describes the stability and capacity or ability of the company to carry out its economic or operational activities. The bigger the company, the more it becomes a concern for the government and influences the tendency of company leaders to evade or evade taxes. (Kurnasih and Ratna, 2013) in (Selviana, 2023). Company size is the total of all company assets. If company size can indicate the size of the company and also classify it, there are several ways to indicate the size of the company, such as total capital and total assets. The larger the company size, total assets and capital indicate that the company's condition is improving and there are more loopholes and weaknesses that the company can exploit in tax work. (Riadi, Muchlisin, 2020) in (Hermawan et al., 2021).

In this article, we will present an article that discusses matters that influence earnings management from a tax perspective. This aims to make it easier for lecturers, students, researchers and other functional staff to find relevant articles to strengthen the theory being studied, in order to see the relationship or influence between variables and determine hypotheses. This article discusses the influence of tax planning, deferred tax expenses, and deferred tax assets on earnings management, a literature review study in the field of tax accounting.

### **Formulation of the problem**

Based on the background, problems can be formulated that will be discussed in order to build hypotheses for further research, namely:

1. Does Profitability have an effect on Tax Avoidance?
2. Does Leverage affect Tax Avoidance?
3. Does company size influence tax avoidance?

## **THEORITICAL REVIEW**

### ***Tax Avoidance***

The definition of tax avoidance according to Ernest R. Mortenson in Kurnia (2010: 15), is as follows: "Tax avoidance is related to the arrangement of an event in such a way as to minimize or eliminate the tax burden by paying attention to whether or not there are tax consequences that arise. "Tax evasion does not constitute a violation of tax laws. Ethically it is not considered wrong in the context of the taxpayer's efforts to reduce, avoid, minimize or lighten the tax burden in a way that is permitted by tax law."

Tax avoidance is an effort to streamline the tax burden by avoiding the imposition of tax legally and safely for taxpayers without conflicting with applicable tax provisions where



the methods and techniques used tend to take advantage of weaknesses in the tax laws and regulations themselves to minimize the amount owed. one way is to direct it to transactions that are not tax objects (Pohan, 2013).

### **Profitabilitas**

According to Kasmir (2020), the definition of profitability is the comparison ratio used in assessing an agency's capability to gain profits. The profitability ratio is also a measure of the effectiveness of company management. This is shown in profits from transactions and profits from capital investment. The point is that the profitability ratio is used to show the effectiveness of the agency.

According to Sari (2020) Profitability is a measure of a company's ability to generate profits from its business activities. In addition, this ratio provides information regarding the level of effectiveness of company management.

### **Leverage**

*Leverage* is a comparative ratio used in measuring the level of assets of an agency funded by loans. This indicates how much the agency borrows from its assets. In a broad sense, the leverage ratio is used to measure the capability of an agency to fulfill all short-term and long-term obligations when liquidated (Kasmir, 2020).

Leverage is the use of debt to increase company income. Leverage can increase managerial success (income) and failure (loss). In a company's capital structure leverage refers to the amount of debt financing (Subramanyam, 2014)

### **Company Size**

According to Sawir (2012), company size is a measure that can determine the level of ease with which a company obtains funds from the capital market. Determination of company size in this research is based on total company assets. Company size is the main factor in determining the profitability or profits of a company with the concept of economies of scale. Meanwhile, in general company size is a measurement that is grouped based on the size of the company (Murhadi, 2014).

**Table 1**  
**Relevant previous research**

No	Author (year)	Previous research results	Similarities to this article	Differences with this article
1	(Jusman & Nosita, 2020)	<p>Audit quality has no effect</p> <p>The audit committee has no influence on</p> <p>Capital Intensity has no influence on</p> <p>Profitability Influences tax avoidance</p>	Profitability Influences tax avoidance	Audit quality, audit committee, and capital intensity have no effect on tax avoidance
2	(Anasta, 2021)	<p>Sales Growth has no effect on Tax Avoidance</p> <p>Profitability influences Tax Avoidance</p> <p>Capital Intensity influences Tax Avoidance</p>	Profitability Influences tax avoidance	Sales Growth has no effect on Tax Avoidance. Capital Intensity influences Tax Avoidance
3	(Pratiwi et al., 2021)	<p>Financial distress influences tax avoidance</p> <p>Leverage influences tax avoidance</p> <p>Sales growth influences tax avoidance</p>	Leverage influences tax avoidance	Financial distress and sales growth influence tax avoidance

4	(Fathoni & Indrianto, 2021)	<p>Leverage influences tax avoidance</p> <p>Sales growth influences tax avoidance</p> <p>Earnings management has no effect on tax avoidance</p>	Leverage influences tax avoidance	Sales growth influences tax avoidance. Earnings management has no effect on tax avoidance
5	(Haryanti, 2021)	<p>Sales growth influences tax avoidance. Earnings management has no effect on tax avoidance. Executive character has an effect on tax avoidance</p> <p>Sales growth affects tax avoidance</p> <p>Company size influences tax avoidance</p>	Company size influences tax avoidance	Executive character and sales growth influence tax avoidance
6	(Windaryani & Jati, 2020)	<p>Company size has a positive effect on tax avoidance</p> <p>Institutional ownership has a negative effect on tax avoidance</p> <p>Accounting conservatism has a negative effect on tax avoidance</p>	Company size on tax avoidance	Institutional ownership and accounting conservatism have a negative effect on tax avoidance

## **Method**

The method for writing this Literature Review article is the descriptive qualitative method and library research, sourced from the online application Google Scholar, Mendeley and other online applications. This literature review article uses writing data sources that are limited to a 5 year time span, namely between 2019 and 2023.

In qualitative research, literature reviews must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions asked by the researcher. One of the main reasons for conducting qualitative research is that the research is exploratory in nature (Ali & Limakrisna, 2013).

## **DISCUSSION**

Based on theoretical studies and relevant previous research, the discussion of this literature review article in the Tax Accounting concentration is:

### **1. The Effect of Profitability on Tax Avoidance**

Profitability influences Tax Avoidance because the higher the company's ROA, the higher the profits the company earns, which also results in a high tax burden which eats away at the company's profits. This creates benefits between business actors and the state, namely trying to maximize the tax burden on business actors, while business actors carry out tax avoidance to reduce the tax burden paid by business actors so as to maximize the profits obtained by business actors. (Primasari, 2019).

Agency theory states that agents will increase company profits. Agents in agency theory try to control the tax burden so that compensation related to the agent's performance is not reduced by the tax burden as a result of a decrease in company profits. Managers as agents want higher compensation through higher profits, and some as shareholders (customers) want lower tax costs. Therefore, the profits generated by the company are managed as well as possible by the company's management (representatives), for example through implementing tax policies. The plan works by maximizing expenses that can be deducted from taxable income, such as: Depreciation expenses and research and development expenses (Muid, 2022)

Profitability influences Tax avoidance, this is in line with research conducted by: (Jusman & Nosita, 2020), (Anasta, 2021).

### **2. Effect of Leverage on Tax Avoidance**

The higher the leverage ratio value, the higher the amount of money the company withdraws from third party loans and the higher the interest costs incurred on these loans. Rising interest costs will reduce the company's tax burden. The higher the leverage, the stronger the company's tax avoidance actions. Interest-bearing debt can be deducted from taxable income (Astari et al., 2019).

Agency theory explains that creditors are interested in the security of their assets, which are expected to generate profits for them in the future. Therefore, companies try to report higher profits, which can be achieved by reducing existing costs. One of them is that companies avoid taxes to reduce the tax burden (Muid, 2022). Leverage's influence on Tax avoidance is in line with research conducted by: (Pratiwi et al., 2021), (Fathoni & Indrianto,

2021).

### 3. The Influence of Company Size on Tax Avoidance

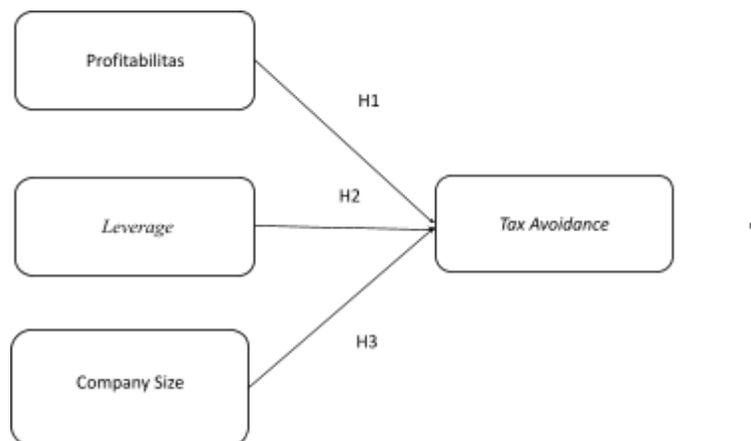
Based on research results (Anarky et al., 2021) company size has an impact on tax evasion because the greater the company value each year, the ETR value also increases and vice versa, the size of the company is described by the size of the assets owned by the company, which shows that the company does not have assets for tax avoidance, but company assets are used to improve company operations. It could be that the average issuer in this industry actually uses these assets for operational purposes, thereby incurring other costs that reduce the tax burden paid. However, corporations cannot always use their power for tax planning, because their ability to be in the spotlight and be the target of regulatory decisions is limited (political cost theory). Company size thus has an influence on administrative initiatives for tax avoidance.

The larger the company size in terms of real estate company assets, the greater the management's efforts to avoid taxes. Company size provides an indication of the company's stability and ability to carry out economic activities with its own funds. Controlling company assets to reduce tax revenues by exploiting company expenses which can lead to companies committing tax avoidance (Honggo and Marlinah, 2019) in (N. Sari & Artati, 2021).

Company size influences tax avoidance, which is in line with research conducted by: (Haryanti, 2021), (Windaryani & Jati, 2020).

### CONCEPTUAL FRAMEWORK

Based on the problem formulation, theoretical studies, relevant previous research and discussion of the influence between variables, the framework for this article is as follows.



**Figure 1**  
**Conceptual Framework**

Based on the conceptual framework image above, Profitability, Leverage and Company Size influence Tax Avoidance. Apart from these three exogenous variables that influence Tax Avoidance, there are many other variables that influence it, including:

- a) Capital Intensity: (Anasta, 2021)
- b) Sales Growth: (Pratiwi et al., 2021), (Fathoni & Indrianto, 2021)

- c) Financial distress: (Pratiwi et al., 2021)
- d) Profit Management: (Fathoni & Indrianto, 2021)
- e) Executive Character: (Haryanti, 2021)
- f) Sales Growth: (Haryanti, 2021)
- g) Institutional ownership: (Windaryani & Jati, 2020)
- h) Accounting conservatism: (Windaryani & Jati, 2020)

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusion**

Based on theory, relevant articles and discussion, hypotheses can be formulated for further research:

1. Profitability influences Tax Avoidance.
2. Leverage influences Tax Avoidance.
3. Company size influences Tax Avoidance.

### **Recommendations**

Based on the conclusions above, the suggestion in this article is that there are still many other factors that influence Tax Avoidance, apart from Profitability, Leverage and Company Size at all types and levels of organizations or companies, therefore further studies are still needed to Look for other factors that can influence Tax Avoidance, apart from the variables examined in this article. These other factors include Capital Intensity, Sales Growth, Financial distress, Profit Management, Executive Character, Sales Growth, Institutional Ownership, and Accounting Conservatism.

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