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The Influence of Profitability, Leverage and Company Size on Tax Avoidance in Energy Sector Companies

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Abstract
Tax avoidance is a practice aimed at managing tax expenditures to minimize the amount of tax that must be paid, while still complying with applicable legal regulations. This study uses Profitability (ROA), Leverage (DER), and Firm Size (SIZE) as independent variables that are suspected to influence Tax Avoidance (CETR) as the dependent variable. The research was conducted on energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023. The data used is secondary data, derived from the financial statements of energy sector companies listed on the IDX. Sampling was done using a purposive sampling technique, with a sample size of 54 companies and a total of 270 observations. The obtained data were analyzed using multiple linear regression analysis techniques. The results of the study indicate that profitability has a significant positive effect on tax avoidance, leverage does not affect tax avoidance, while firm size has a significant positive effect on tax avoidance. The results of this study are expected to provide theoretical and practical contributions in the fields of taxation and financial management.

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

Abstract
Penghindaran pajak adalah praktik untuk mengatur pengeluaran pajak dengan tujuan meminimalkan jumlah pajak yang harus dibayar, namun tetap sesuai dengan peraturan hukum yang berlaku. Penelitian ini menggunakan Profitabilitas (ROA), Leverage (DER), dan Ukuran Perusahaan (SIZE) sebagai variabel independen yang diduga mempengaruhi Penghindaran Pajak (CETR) sebagai variabel dependen. Penelitian dilakukan pada perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019-2023. Data yang digunakan merupakan data sekunder, yaitu berasal dari laporan keuangan perusahaan sektor energi yang tercatat di Bursa Efek Indonesia. Pengambilan sampel dilakukan dengan teknik purposive sampling, dengan jumlah sampel sebanyak 54 perusahaan dan total observasi sebanyak 270. Data yang diperoleh dianalisis menggunakan teknik analisis linear berganda, hasil penelitian menunjukkan bahwa profitabilitas berpengaruh signifikan positif terhadap penghindaran pajak dan leverage tidak berpengaruh terhadap penghindaran pajak, sementara ukuran perusahaan berpengaruh signifikan positif terhadap penghindaran pajak. Hasil penelitian diharapkan dapat memberikan kontribusi teoritis dan praktis dalam bidang perpajakan dan manajemen keuangan.

***Kata Kunci**: Profitabilitas, Leverage, Ukuran Perusahaan, Penghindaran Pajak*

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INTRODUCTION

Taxes are one of the main sources of income for Indonesia's state finances, which functions to finance various development programs and other state expenditures. The main role of taxes is as a balance between state expenditure and income, so that taxpayer compliance, both individuals and corporations, is very important. However, in reality, there are still many challenges in efforts to increase tax compliance, especially related to tax avoidance practices.

Tax evasion is different from tax evasion, which is illegal. Tax avoidance is carried out legally and legally, by exploiting loopholes or weaknesses that exist in the taxation system. According to Pohan (2014), tax avoidance is an effort made by taxpayers to reduce the amount of tax that must be paid without violating the law, although in the end this has a negative impact on state tax revenues. Tax avoidance is often carried out by taking advantage of gaps (gray areas) in tax regulations that companies can exploit to reduce their tax burden.

Tax avoidance practices are becoming an increasingly relevant issue, especially in the energy sector. This sector has special characteristics, such as a complex financial structure, large operational scale, and high levels of profitability, all of which provide opportunities for companies to engage in tax avoidance. One striking case example is a report from Global Witness about Adaro Energy, a large coal company in Indonesia. Adaro is suspected of moving profits abroad through its subsidiaries in Singapore and Mauritius to avoid taxes that should be paid in Indonesia. This practice shows how companies exploit weaknesses in the global tax system to reduce their tax liabilities.

According to a report from the Indonesian Ministry of Finance, tax revenues in 2023 will reach IDR 1,869.23 trillion, which exceeds the 2023 APBN target of IDR 1,718.03 trillion. However, challenges in tax collection remain, especially due to tax avoidance practices carried out by large companies. This practice causes significant losses to the country. Based on the Tax Justice Network report in 2020, Indonesia is estimated to lose around US$4.86 billion or around IDR 68.7 trillion per year due to tax evasion. This loss is a major obstacle for the government in its efforts to increase sustainable tax revenues.

In addition, reports from the energy sector show quite significant fluctuations in income from 2019 to 2023, which are influenced by various factors, such as the COVID-19 pandemic, global economic recovery, and international conflicts such as the war in Ukraine. In uncertain economic conditions, companies tend to maximize tax avoidance strategies to maintain profitability. The difference in interests between the government, which wants to maximize tax revenues, and companies, which want to minimize the tax burden, further emphasizes the importance of strong and effective tax regulations.

Previous research has shown varying results regarding the influence of factors such as profitability, leverage, and company size on tax avoidance. Mayndarto (2022) found a negative influence between

profitability and tax avoidance, while Mahdiana and Amin (2020) showed a positive influence. The same thing also happens to leverage, where Siregar (2020) finds a positive influence, while Jao and Holly (2022) find a negative influence. Likewise with company size, research results also show inconsistent results.

Based on differences in previous research results and the urgency of the problem of tax avoidance in the energy sector, this research aims to examine in more depth the influence of profitability, leverage and company size on tax avoidance practices in energy sector companies listed on the Indonesia Stock Exchange for the 2019-2023 period. By understanding the factors that influence tax avoidance, it is hoped that the results of this research can provide an important contribution to policy makers in efforts to strengthen tax regulations and increase tax compliance in Indonesia.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the relationship between two parties, namely the owner (principal) and management (agent), where the agent is given the authority to carry out company operations on behalf of the principal. According to Jensen & Meckling (1976), this theory aims to understand conflicts of interest that arise due to differences in goals between the two parties. Shareholders want a quick return on investment, while management often pursues personal incentives, such as performance-based bonuses.

Conflicts of interest also arise in the context of tax avoidance, where management tends to prefer high tax avoidance to increase cash flow, while shareholders may prefer low levels of tax avoidance to reduce corporate risk. Agency relationships also involve the government as principal, where management seeks to minimize tax costs to increase profitability, which often conflicts with the government's interest in maximizing tax revenues.

Benefit Exchange Theory (Trade of theory)

Trade-off theory, introduced by Franco Modigliani and Merton Miller in 1963, explains the balance between the benefits and costs of using debt in a company's capital structure. The main benefit of using debt is tax savings (tax shield), where debt interest can be deducted from tax, providing direct benefits for the company. However, companies must balance these benefits with additional costs, such as increased bankruptcy risk and agency costs.

This theory suggests that companies will seek an optimal balance between debt and equity in order to minimize the overall cost of capital. Tax avoidance can be part of this strategy, but it must be done carefully so that the benefits are not offset by greater risks. External factors such as market conditions and regulations also influence company capital structure decisions, so companies must be adaptive in

their financing strategies.

Tax

According to Law Number 28 of 2007, tax is a mandatory contribution to the state that is collected from individuals or entities without direct compensation, aimed at the prosperity of the people. Taxes play an important role in financing the country, regulating the economy, and distributing income. Every taxpayer who earns income, as regulated in Law Number 17 of 2000, is required to remit income tax to the state.

Companies often create differences between accounting profit and fiscal profit that must be reconciled in tax reports. Fiscal reconciliation is the process of adjusting commercial financial reports prepared based on financial accounting standards and fiscal financial reports that refer to tax regulations. This process includes adjustments to income, expenses, and recording methods.

Production Sharing Contract

In accordance with Article 33 Paragraph 3 of the 1945 Constitution, natural oil and gas resources in Indonesia are controlled by the state and utilized as much as possible for the prosperity of the people. One of the management mechanisms is through a Production Sharing Contract (PSC), which is a contract between the government and oil and gas companies for exploration and exploitation. In a PSC, oil and gas companies bear the initial risk of exploration, and if successful, they get a share of the production proceeds, while the government gets the largest share of revenue to the state.

The two main models for managing oil and gas resources are concessionary and contractual models. In the concessionary model, the concessionaire directly manages production. Meanwhile, in the contractual model, such as PSC, the company acts on behalf of the state and the state still owns the production results. PSCs also have the potential for tax avoidance, through transfer mispricing and inflated operational costs. To overcome this, the Indonesian government implemented a gross split system, namely division based on a percentage of gross production, to reduce the risk of tax evasion.

Tax Avoidance

Tax avoidance is the practice of financial regulation by individuals or companies to minimize the amount of tax that must be paid, while still complying with applicable legal provisions. According to Logue (2005), this practice involves the use of careful and complex financial strategies to exploit loopholes in tax laws or creative interpretations of legal provisions. While not illegal, this practice often goes against the basic purpose of tax laws. Mappadang (2021) emphasizes that tax avoidance is carried out before the issuance of a Tax Assessment Letter, while Prebble (2005) adds that there

are often artificial elements in arrangements that are not based on business reality or risk, but simply to avoid tax. The method used to measure tax avoidance is CETR (Cash Effective Tax Rate).
Cash Effective Tax Rate = (Tax Payments)/ (Profit Before Tax) ×100%

Profitability

Profitability is an important concept in the context of corporate finance. According to Brigham & Houston (2018), the ability of a company to generate profits or profits from its operational activities. Thus, profitability reflects the company's effectiveness in optimizing all its assets to achieve maximum financial results. This comprehensive approach shows that profitability is not simply the result of a single factor, but rather the result of complex interactions between various elements in a company's structure and operations. According to Prihadi (2019) Profit can be interpreted in various ways, depending on the measurement needs.

$$\text{Return on assets} = (\text{Net Income})/(\text{Total Asset}) \times 100\%$$

Leverage

Leverage according to Sutrisno in Bairizki et al., (2022) can be explained as the use of assets or capital of a company where the company must bear fixed costs or pay fixed costs for this use. Leverage refers to a company's strategy of using assets and funding sources, such as debt or preferential shares, that carry fixed charges with the aim of increasing potential profits for shareholders. This reflects the company's ability to utilize assets and funds that carry fixed charges, with a focus on maximizing the wealth of company owners. In calculating the level of debt of a company or individual in relation to capital. According to Drake & Fabozzi (2012) there are several leverage formulas that can be used, and the most appropriate formula will depend on the specific situation.

$$\text{DER} = (\text{Total Debt})/ (\text{Total Equity})$$

Company Size

Company size refers to a classification scale based on factors such as total assets, stock market value, total sales, net profit, and number of employees (Dang et al., 2018). Based on Law no. 9 of 1995, companies are divided into two groups: small companies, with total assets of a maximum of IDR 20 billion, must not be affiliated with or controlled by a large company, and must not operate as mutual funds; as well as medium/large companies, which have greater net worth or annual sales results, including national and foreign businesses operating in Indonesia.

Company Size=Ln (Total Assets)

The Effect of Profitability on Tax Avoidance

Profitability reflects the company's ability to generate profits from available resources (Harahap & Syafri, 2007). According to Mahdiana & Amin (2020), profitability has a positive effect on tax avoidance, because companies with high profitability tend to be able to invest in tax avoidance strategies such as using tax consultants or establishing subsidiaries in countries with low tax rates.

H1: Profitability has a positive effect on tax avoidance.

The Effect of Leverage on Tax Avoidance

Leverage refers to the use of assets or sources of funds at a fixed cost to increase company profits (Sartono, 2017). Siregar (2021) states that leverage has a positive effect on tax avoidance because the interest burden on debt can reduce the company's tax burden.

H2: Leverage has a positive effect on tax avoidance.

The Influence of Company Size on Tax Avoidance

Company size describes the scale and resources the company has (Hartono, 2013). Research by Wulandari & Purnomo (2021) shows that company size has a negative effect on tax avoidance, because large companies face tighter supervision and tend to avoid tax avoidance practices to maintain their reputation.

H3: Company size has a negative effect on tax avoidance.

RESEARCH METHOD

This research focuses on energy sector companies in Indonesia as research objects. As the energy sector contributes significantly to the national economy, tax avoidance has become an important issue that requires in-depth understanding. Research variables include profitability, leverage, and company size. By collecting data from public financial reports of energy sector companies listed on the Indonesia Stock Exchange (BEI), this research will use regression analysis to test the influence of independent variables on tax avoidance. Sampling uses a purposive sampling method, where samples are selected sequentially by considering certain criteria in accordance with the research objectives.

The sample selection criteria are as follows:

1. Companies in the energy sector in Indonesia that publish complete financial reports for the

2019-2023 period.

2. The company has financial reports and annual reports sequentially for the 2019-2023 period.
3. Companies that remain listed on the Indonesian Stock Exchange and have not experienced delisting.
4. Company reports provide data that is relevant to the variables used in the research.

This research uses linear regression data analysis techniques to test the hypotheses that have been proposed. The process of data analysis and hypothesis testing will be carried out with the help of Eviews software. Testing in this research includes tests panel data analysis consisting of the Chow test, Hausman test and Lagrange multiplier test, as well classic assumption tests which include normality tests, heteroscedasticity tests, multicollinearity tests, and autocorrelation tests. In addition, hypothesis testing is carried out through partial tests (t tests), simultaneous tests (f tests), coefficient of determination tests (R^2), as well as multiple linear regression. The linear regression model used in this research is as follows:

$$CETR_{it} = \beta 0_{it} + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 SIZE_{it} + \varepsilon_{it}$$

RESULT, DISCUSSION, AND MANAGERIAL IMPLICATION

Descriptive Statistical Analysis

Based on tabel 1 descriptive statistics, the Tax Avoidance (CETR) variable has an average of 20.06% with a median of 18.30%. The maximum CETR value of 49.10% was recorded at the Medco Energi Internasional company in 2022, while the minimum value of -2.20% occurred at Cakra Buana Resources Energi in 2020. The CETR distribution is slightly skewed to the right (skewness 0.4618) with a kurtosis of 3.3111 and a standard deviation of 0.1051, shows that the variation in the level of tax avoidance among firms is quite low.

In the Profitability (ROA) variable, the average is 12.84% with a median of 7.80%. The highest ROA value reached 86.70% for the Prima Andalan Mandiri company in 2020, while the lowest was -8.00% for Resource Alam Indonesia in the same year. The ROA distribution is strongly skewed to the right (skewness 2.3185) and has a kurtosis of 9.1785, indicating the presence of extreme values in the data, with a standard deviation of 0.1574 indicating significant variations in profitability between companies.

For the Leverage (DER) variable, the average was recorded at 1.878 with a median of 0.849. The highest DER value of 152,106 was found at Cakra Buana Resources Energi in 2019, while the lowest value was -125,891 at the same company in 2020. Skewness of 1.6989 and kurtosis of 40.7588 indicate the existence of extreme values in the data, with a standard deviation of 21.3747, indicating

Table 1. Descriptive Statistics

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.2271	0.1147	-10.6979	0.0000
ROA	-0.0891	0.0438	-2.0340	0.0449
DER	0.0000	0.0003	-0.0622	0.9505
SIZE	0.0499	0.0040	12.4353	0.0000
R-squared			0.6330	
Adjusted R-squared			0.6209	
S.E. of regression			0.0647	
Sum squared resid			0.3807	
Log likelihood			127.3799	
F-statistic			52.3222	
Prob(F-statistic)			0.0000	

Source: Author's Processed Data (2024)

very large variations in leverage. large among companies.

Company Size (SIZE), the average is 28.8342 and the median is 28.8460. The maximum value of 32.3160 was recorded at Medco Energi Internasional in 2022, while the minimum value of 25.1920 was found at Cakra Buana Resources Energi in 2021. The SIZE distribution is almost symmetrical with a skewness of 0.0036 and kurtosis of 2.7044, and a standard deviation of 1.7223, indicating large variations in company size relatively low.

Linear Regression Analysis

In panel data regression analysis, the first step is to determine the panel data model that is most suitable for the research. There are several types of panel data models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To choose the right panel data model, testing is carried out between these models. Based on the results of the Chow test, Hausman test and Lagrange multiplier test, the model chosen is Common Effect. Thus, this research uses the Common Effect Model (CEM).

After carrying out the model selection test, then carry out the classical assumption test to ensure that the data is suitable for analysis. This test aims to ensure that the data is normally distributed and free from problems of normality, multicollinearity, heteroscedasticity and autocorrelation. Based on the test results, it was found that the data was normally distributed and free from multicollinearity, heteroscedasticity and autocorrelation problems. The results of multiple linear regression analysis are presented in table 2.

Based on multiple regression analysis, several important results can be concluded. A negative intercept indicates that when the independent variables (ROA, DER, SIZE) are zero, CETR will be –

Table 2. Results of Multiple Regression Equations

	CETR	ROA	DER	SIZE
Mean	0.2006	0.1284	1.8781	28.8342
Median	0.1830	0.0780	0.8490	28.8460
Maximum	0.4910	0.8670	152.1060	32.3160
Minimum	-0.0220	-0.0800	-125.8910	25.1920
Std. Dev.	0.1051	0.1574	21.3747	1.7223
Skewness	0.4618	2.3185	1.6989	0.0036
Kurtosis	3.3111	9.1785	40.7588	2.7044
Jarque-Bera	3.7601	236.2178	5689.1929	0.3460
Probability	0.1526	0.0000	0.0000	0.8411
Sum	19.0540	12.1990	178.4200	2739.2460
Sum Sq. Dev.	1.0374	2.3296	42946.6792	278.8350
Observations	95	95	95	95

Source: Author's Processed Data (2024)

1.2271, with statistically significant results. ROA has a significant negative coefficient (-0.0891), indicating that increasing profitability reduces CETR and supports H1 that profitability has a positive effect on tax avoidance. Meanwhile, DER has a positive coefficient but is not significant, so H2 is rejected, indicating that leverage has no effect on tax avoidance. SIZE has a positive coefficient (0.0499) and is significant. This result shows that increasing Size will increase the CETR value and supports H3 which states that company size has a negative effect on tax avoidance.

The F test shows that the overall regression model is significant, with an F-statistic of 52.3222 and a Prob F-statistic of 0.0000. The determination test (R^2 = 0.6330 and Adjusted R^2 = 0.6209) shows that 62.09% of the variation in CETR can be explained by the independent variables in the model, while the remainder is explained by other factors outside the model.

The partial t test shows that ROA and SIZE are significant, while DER is not significant. Discussion of research results shows that profitability has a positive effect on tax avoidance, supporting agency theory, although it contradicts several other studies. Leverage has no significant effect on tax avoidance, in line with several previous studies, but contrary to the trade-off theory. Company size has a negative effect on tax avoidance, indicating that large companies tend to be more careful in carrying out tax avoidance practices, in accordance with previous research.

Managerial Implications

The results of this research provide several important managerial implications, especially for energy sector companies listed on the Indonesia Stock Exchange. Managers of companies with high levels of profitability must monitor tax policies closely, ensuring tax avoidance strategies remain legal and do not violate regulations. Consultations with tax and strategic planning experts is highly recommended to minimize risks such as audits and penalties, while maintaining the company's

reputation. Even though high leverage can provide tax benefits, the research results show that leverage does not have a significant effect on tax avoidance. Therefore, managers must be careful in managing debt and focus on long-term financial health, especially to maintain creditor trust.

For large companies, the use of resources for effective tax planning is very important. Managers must ensure tax avoidance strategies comply with regulations to avoid sanctions and maintain reputation. Transparency in financial reports and compliance with tax regulations must be a priority.

CONCLUSION, SUGGESTION, AND LIMITATIONS

CONCLUSION

Based on the results of the analysis and discussion that has been carried out, several conclusions can be drawn from this research regarding the influence of profitability, leverage and company size on tax avoidance. These conclusions are as follows:

1. Profitability has a significant positive effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the 2019 – 2023 period.
2. Leverage has no effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the 2019 – 2023 period.
3. Company size has a significant negative effect on tax avoidance in energy sector companies listed on the Indonesia Stock Exchange for the 2019 - 2023 period.

LIMITATIONS

In this research, there are several limitations that need to be considered. It is hoped that future researchers who read the results of this research can improve and overcome these limitations. Limitations contained in this research include:

1. The sample used is limited to the energy sector listed on the Indonesia Stock Exchange for the period 2019 – 2023. So, it does not fully reflect the wider population, so the results of this research may not be generalized as a whole.
2. In this research, there are several limitations to the independent variables. The independent variables used in this research are only profitability, leverage, size.

SUGGESTION

Based on the research results and limitations that have been identified, several suggestions that can be given for further research are as follows:

1. It is recommended to use a wider sample and increase the number of samples to include companies from various industrial sectors. Additionally, extending the research period is useful to see long-term dynamics and trends. So that the research results can be generalized

better.

2. Future researchers are advised to add variables or factors that might influence tax avoidance such as CSR, Capital Intensity, and GCG. By adding other variables or factors, it is hoped that further research can provide more comprehensive and in-depth insight into tax avoidance, as well as help in formulating more effective policies to overcome this problem.

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