JURNAL RISET AKUNTANSI TERPADU
Vol.17 No.1, 2024
Hal. 56-73

Tax Avoidance Assessment In Relation To The Institutional Ownership, Size Of The Company, And Profitability

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Abstract

Utilizing legal loopholes in a country's tax code, tax avoidance is a strategy that aims to lower the amount of taxes that nation imposes. Tax avoidance is a technique that is carried out by taxpayers, including individuals and corporations, with the intention of lowering the amount of tax that is required to be paid without breaching any current or applicable tax legislation. The objective of this study is to investigate the relationship between tax avoidance and factors such as profitability, company size, and institutional ownership. Manufacturing companies that are part of the consumer products industrial sector and are listed on the Indonesia Stock Exchange throughout the period of 2019–2023 are the focus of this research. Researchers carried out a variety of statistical analyses, including descriptive statistical tests, tests of coefficient similarity (pooling), tests of classical assumptions, multiple linear analysis, and hypothesis testing. In light of the findings, it was determined that factors such as profitability, company size, and institutional ownership all have a role in tax avoidance.

Keywords: Profitability, Company Size, Institutional Ownership, Tax avoidance

INTRODUCTION

In numerous nations, including Indonesia, taxes represent a substantial portion of the revenue framework and serve as the primary means of funding for the state (Ainniyya et al., 2021). Defined by Law No. 28 Year 2007 on General Provisions and Tax Procedures, taxes are compulsory contributions mandated by the state from individuals or entities, ensuring compliance with legal obligations. Unlike voluntary payments, taxes do not directly provide specific benefits to taxpayers but are obligatory duties enforced by law. As highlighted by (Putri & Putra, 2017), tax revenues are allocated by the state across various sectors, aiming to enhance the welfare of the entire populace, including defense, education, health, and infrastructure, alongside other public amenities offering both direct and indirect advantages to citizens. According to (Machfuzhoh & Pratiwi, 2021), taxes play a pivotal role in fostering societal prosperity by furnishing financial resources for essential public services. Defense expenditure ensures national security, education fosters citizens' skills and knowledge, health services improve quality of life, and infrastructure development underpins economic progress. The advantages of these public provisions extend beyond direct effects, encompassing social stability ensured by defense, heightened productivity facilitated by robust infrastructure, and diminished social disparities through public health initiatives (Monica & Andi, 2019).

A self-assessment tax system is implemented in Indonesia, as stated by (Ariska et al., 2020). This means that the obligation of calculating, paying, and reporting taxes falls on the shoulders of the taxpayers themselves. Tax compliance and ethics on the part of the general public have a direct bearing on the efficiency with which taxes are collected, making the public a significant contributor to the success of this system. Creating a society that is tax-compliant necessitates the establishment of tax systems and laws that are transparent, equitable, and easy to comprehend, in addition to the implementation of law enforcement that is both effective and efficient in dealing with tax rule infractions (Sarimin & Oktari, 2023).

This revenue is directly proportionate to company earnings, which means that as companies produce bigger profits, their tax payments to the state will also increase (Sari & Kinasih, 2021). Corporate tax is a substantial contributor to state tax revenue, which is directly proportional to corporate profits with this revenue. Furthermore, (Hajjariah & Nurhayati, 2020) state that certain businesses that have high profit margins have a tendency to plan their tax strategies in order to lower the amount of taxes that they are required to pay. For example, many corporations strive to execute tax avoidance, or tax evasion, legitimately to decrease their tax burden and maximize revenues.

According to (Junaedi et al., 2021), tax avoidance typically involves making use of possibilities that are available within the framework of tax legislation. These opportunities include tax exemptions and incentives that reduce taxable income. Tax avoidance is not a behavior that is considered unlawful in this situation, which is an important point to keep in mind. Instead, it is considered a component of effective tax planning, which is the process by which businesses strategically plan their activities and structures to conform to the regulations that are now in place regarding taxes with the intention of reducing the amount of tax burden they are subject to (Vemberain & Triyani, 2021). It is essential for businesses to exercise caution in order to avoid crossing the line between legitimate tax avoidance and tax evasion, which is a criminal offense that can lead to legal repercussions. For the purpose of reaching this equilibrium, it is essential for businesses to speak with tax professionals who have extensive knowledge and to keep their tax reports as transparent as possible (Aulia & Mahpudin, 2020).

According to (Mardiasmo, 2018), the term "tax avoidance" refers to the techniques that are utilized in the planning and control of actions in order to avoid the unfavorable effects that are associated with the application of taxes. To my surprise, tax avoidance is not a violation of the law; rather, it is an effort undertaken to either avoid taxation altogether or prevent a larger amount of taxation from being imposed (Sumarsan, 2017). In addition, (Ardianti, 2019) discusses the fact that a company's profitability is one of the many elements that might influence its activities regarding tax avoidance. In the context of this discussion, the term "profitability" refers to the capacity of a business to earn profits over a specific time period while maintaining a predetermined level of sales, capital, and assets. Because of this, it is possible to comprehend that the likelihood of engaging in tax avoidance is proportional to the level of profitability that the organization possesses.

According to (Nadya, 2021), one method that can be utilized to determine the level of profitability that a company possesses is known as return on assets (ROA). Return on assets (ROA) is a measurement that indicates the degree to which a company is able to earn profits by maximizing the use of its total assets. According to (Aulia & Mahpudin, 2020), a greater ratio shows better success in generating net income from the assets of the organization. This may lead to increased efforts to engage in tax avoidance tactics in order to maintain the same level of profit. Strategies for tax planning, such as tax avoidance, can assist businesses in maintaining their profitability by lowering the amount of taxes they are required to pay (Rahman, 2020).

Company size is the quantitative measure of a company's scale or magnitude, typically determined by the total assets or owned assets at the end of a fiscal year (Arianandini & Ramantha, 2018). (Praditasari & Setiawan, 2017) assert that firm size is crucial as it signifies the organization's ability and potential to confront market competition. According to (Awaliah et al., 2022), the measurement of a company's size can be assessed through different lenses, including the equity value, sales volume, or total asset worth. (Nadya, 2021) further demonstrates that the size of a firm plays a crucial role in categorizing it as either a large or small company. Total assets, stock market value, average sales level, and overall company sales are some of the variables that determine this classification. (Tanujaya, 2020) suggests that categorizing companies according to their size facilitates the development of business policies, regulations, and strategies that align with their specific characteristics and capabilities. This classification enables stakeholders to gain insights into the scale of a company's operations, enabling them to make informed strategic decisions and effectively allocate resources in line with the company's capacity and objectives (Barli, 2018).

As a type of ownership in the corporate structure, institutional ownership refers to the control of firm shares by institutional financial entities such as insurance companies, banks, pension funds, and investment banking (Wardani & Purwaningrum, 2018). This type of ownership is distinguished from other forms of ownership. According to (Dewi, 2019), ownership of this kind typically entails providing the firm in question with intensive care or monitoring of the management of its investment development. According to (Prasetyo & Pramuka, 2018), the presence of institutional shareholders who oversee in a professional manner offers a significant amount of control over the operations of company management. This control is applicable to a variety of aspects of company operations, including tax planning and management. Company management has the capacity to prevent or at least reduce activities that can impact the company's reputation and legality, such as tax evasion, according to (Noorica, 2021). This is because companies that place a heavy emphasis on company management have the ability to protect the company from such actions. This decision was made with the goal of assisting the firm in adhering to tax requirements and achieving sustainable long-term growth, all while avoiding risks that could potentially harm the company's reputation and legal standing (Fitria, 2018).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Agency Theory

According to (Jensen & Meckling, 1976), two of the most important notions in agency theory are agency conflict and agency cost. According to this idea, an "agent" is a person who is authorized to act on behalf of a "principal," but the principle and the agent may have interests and motivations that are different from one another, which indicates that there may be conflicts between the two parties. In most cases, the principle is required to shoulder certain costs, which are referred to as agency costs, in order to manage this conflict and make certain that the agent operates in a manner that is in accordance with the best interests of the principal. It is possible for these costs to be monitoring costs, which are used to keep an eye on the agent's conduct, or incentive costs, which are used to urge the agent to behave in a manner that is in line with the goals of the principal (Jensen & Meckling, 1976). According to (Sintyawati & Dewi, 2018), the fees incurred by the agency can have a detrimental effect on the performance and value of the organization. There is a direct connection between these expenses and important company issues such as investment decision-making and dividend policy, as well as tax behavior and techniques for corporate tax planning.

Taking into consideration the findings of (Dewinta & Setiawan, 2016), this idea is especially pertinent when considering the interaction that exists between businesses and the authorities that are in charge of taxation. The corporation is acting as an agent in this scenario, and its responsibility is to calculate and submit taxes. On the other hand, the tax authorities are acting as the principal, and their goal is to increase the amount of tax revenue as much as possible. Despite this, businesses frequently make an effort to reduce the amount of taxes they are required to pay, which can lead to conflicts of interest and negotiation procedures between the two parties. Tebiono & Sukanda, (2019) claim that the existence of disparities in objectives between managers and firm owners can have an effect on the tax planning tactics employed by larger corporations. As an illustration, managers may strive to maximize corporate profits by applying tax avoidance tactics. This may not always be in accordance with the objectives or aspirations of shareholders (or tax authorities), but it may be the case because managers have their own personal goals (such as job security and welfare). It is possible that this research will provide better knowledge of how the internal and external dynamics of a company affect the behavior of the company's finances.

2. Compliance Theory

A condition in which a person obeys a particular order or regulation is referred to as compliance, and it is explained by a theory known as compliance theory. According to (Kirchler et al., 2008), this theory is applicable in a variety of settings, including within the realm of tax compliance. According to (Rahayu, 2017), the term "tax compliance" refers to the mentality and actions of taxpayers within the context of satisfying their tax duties in line with the laws and regulations that are applicable. According to (Kirchler, 2007), there are two distinct types of tax compliance: voluntary compliance and enforced compliance. Both of these types of compliance are available. When taxpayers complete their tax duties without being pressured or threatened with consequences, this is an example of voluntary compliance. On the other hand, enforced compliance happens when taxpayers comply with their tax obligations as a result of stringent law enforcement or threats of punishment. Tax compliance is affected by a number of circumstances, including the following:

a. Awareness and understanding of taxation, individuals who possess a strong awareness and understanding of taxation are more likely to adhere to tax regulations (Alm & Torgler, 2011).
b. Trust in government and tax authorities plays a crucial role in enhancing tax compliance (Ferraro, 2017).
c. The presence of sanctions and the enforcement of laws, as well as the potential threat of sanctions and the effectiveness of law enforcement, can influence the degree to which individuals comply with tax regulations (Gangl et al., 2015).
d. Social standards and moral principles have a significant impact on tax compliance within society. Individuals who possess a belief that fulfilling tax obligations is a matter of moral duty are more likely to demonstrate compliance with tax payments (Torgler & Schneider, 2009).

According to (Tahar & Rachman, 2014), tax compliance theory acknowledges the significance of collaboration between the government and the people in order to establish an environment that is favorable to adhering to tax regulations. In exchange, it is expected of the government that it will use the money that it receives from taxes in an efficient and effective manner in order to provide the community with appropriate public services.

3. Taxation

The tax legislation in Indonesia, Law No. 28 of 2007 on General Provisions and Tax Procedures (KUP), establishes the legal structure for tax administration. It encompasses the definition of tax, the rights and responsibilities of taxpayers, as well as the protocols for tax audit, collection, and resolution of disputes. Taxes are required, obligatory payments made by the taxpayer to the government. The main characteristics of taxes as laid out in this legislation are:

a. Forced nature: taxes are levied by the government in accordance with the law and can be collected by enforcement. Taxpayers are obligated to pay it and have no alternative.
b. Taxpayers who pay taxes are not eligible to earn direct and specified benefits. This stands in opposition to taxes or levies, as payment grants immediate access to certain services or items.
c. Public funds, generated through taxes, are allocated towards state expenditures and a range of public services that contribute to the well-being of the population. These services include education, healthcare, infrastructure, and other essential public services.
d. Clauses or stipulations in a legal document or agreement, which consists of laws passed by the government and ratified by the legislature, governs taxes. The provisions encompass tax rates, tax subjects, tax objects, and other criteria that establish the precise amount of tax that must be paid.

The primary objective of this organized tax system is to establish equity and effectiveness in the process of tax collection while also promoting adherence and proactive involvement of taxpayers in the overall national tax framework. Furthermore, ensuring openness and accountability in the administration and distribution of taxes is crucial for fostering public trust in the government and establishing an equitable tax framework.

4. Profitability

Profitability refers to a company's capacity to generate profits through its business activities. Return on Assets (ROA) is a significant metric for assessing profitability. It entails quantifying a company's effectiveness in generating profits by utilizing its assets. According to (Gitman & Zutter, 2012) ROA, or Return on Assets, is a financial metric that measures the profitability of a company by calculating the ratio between its net income (after tax) and its total assets. The equation used to compute it is:

$$ROA = (\text{Net Income} / \text{Total Assets}) \times 100\%$$

The company's assets that are used to make profits are referred to as its profitability, also known as its net income. As a result, taking a look at the profits will provide an indication of how effectively the company manages its expenses and generates revenue (Putri & Putra, 2017). After then, assets are the number of assets that are utilized in order to earn these revenues. The utilization of the company's resources is demonstrated by this quantity of assets. It is a sign that the company has been successful in making effective use of its assets if it is able to generate high profits with a relatively small number of assets. Therefore, a higher return on assets (ROA) indicates that a company efficiently manages its assets and demonstrates that the organization is able to create profits from its assets to a greater extent. The ROA takes into account all of the funding sources, including equity and debt (Oktamawati, 2017). As a result, ROA is able to shed light on the degree to which management has effectively utilized the resources that are possessed by the company in order to generate profits, without taking into consideration the manner in which those resources were acquired.

5. Company Size

The magnitude of a company is a crucial factor in the examination of business and investment decisions. In simple terms, it refers to the size of the company, which is usually measured based on numerous indications. These indicators, as indicated by several studies, encompass total assets, stock market capitalization, sales volume, and capital. Riyanto (2013) suggests that the evaluation of a company can be based on its equity value, sales value, or asset value. For instance, a firm with a greater amount of assets is classified as a larger company compared to a company with a smaller amount of assets. Putra & Merkusiwati (2016) contend that firm size can be categorized into large and small companies using different approaches, such as total assets, stock market value, average sales level, and total sales. Furthermore, two prevalent methodologies for assessing the magnitude of a corporation in order to provide a clearer understanding of the terms 'big' and 'small'.

a. The natural logarithm of the company's total assets is calculated using this method. The logarithmic scale is employed to address the issue of significant fluctuations in the absolute value of assets, hence improving the study and understanding of data.
b. The natural logarithm of total sales is used in this method to calculate the value of Ln (Total Sales). Similar to assets, sales can exhibit significant fluctuations, and implementing a logarithmic scale mitigates the influence of these fluctuations.

The choice of the most suitable firm size is contingent upon the specific circumstances and objectives of the investigation. For instance, when conducting a firm study that emphasizes profitability or operational success, it may be more advantageous to utilize total assets or sales as a metric. Alternatively, when examining the company's worth on the market, the stock market value may serve as a more suitable measure.

6. Institutional Ownership

Due to the fact that large organizations often possess substantial resources and extensive investment experience, institutional ownership plays a crucial role in the dynamics of corporate governance. According to (Arianandini & Ramantha, 2018) research, institutional ownership refers to shareholders who are business entities. These shareholders include insurance companies, banks, pension funds, and investment banking businesses. These institutional shareholders typically hold a sizable stake in the company, which gives them a lot of power over management decisions. They frequently conduct more stringent supervision than private investors do as a result of the need to maximize profits on investment for their clients or policyholders (Noorica, 2021).

Prasetyo & Pramuka (2018) define institutional ownership as the proportion of shares owned by institutions compared to the total number of shares available. Institutional ownership is commonly linked to rigorous management supervision, as organizations with significant levels of institutional ownership are perceived to have superior control over management conduct. This encompasses the supervision of possible tax evasion, which is morally and legally ambiguous and a focal point for tax regulation and adherence (Hajjariah & Nurhayati, 2020). Institutional owners' participation in corporate governance is thought to influence the development of policies that are characterized by transparency and accountability. This is because these institutions are motivated not just by financial gains, but also by the need to ensure long-term adherence to regulations and maintain a positive reputation. Furthermore, institutions possess the capability to perform comprehensive analysis of corporate performance, as well as the ability to exert influence on management to implement policies that promote long-term value and growth (Gitman & Zutter, 2012).

7. Tax Avoidance

An individual or organisation may engage in tax avoidance as a legal approach in order to reduce the amount of taxes they are required to pay by employing tactics that are permitted under tax law. These actions, despite being legal, are frequently criticised due to the fact that they have the potential to influence the distribution of economic resources and create ethical concerns. Tax avoidance, as defined by (Richardson, 2006), is defined as the practice of engaging in activities that entail the use of legal structures or concepts with the intention of minimising or removing tax obligations. It may be inferred from this that organisations that participate in tax avoidance are looking for ways to reduce their tax burden that they are legally able to take, such as reducing, postponing, or avoiding the payment of taxes.

In a more recent study, Dyreng et al., (2010) explain that tax avoidance can comprise a variety of activities done by corporations to decrease their tax burden. These actions might range from making use of legal loopholes to engaging in strategic tax planning. In addition, (Gallemore et al., 2014) point out that there are two primary points of view about those who avoid paying taxes. To begin, there is the viewpoint of the firm, which is determined to find ways to reduce the tax burden in order to maximise the value for the shareholders. The second viewpoint is that of the government and society, which consider tax avoidance to be something damaging due to the fact that it has the ability to lower tax income, which can then be used to pay for public spending. According to (Hanlon & Heitzman, 2010), despite the debate on the ethical and economic effects of tax evasion, there are still loopholes that allow this activity to take place. This is the case despite the fact that that debate has taken place. A number of factors, including the complexity of tax legislation and the disparities in international law, frequently play a role in determining the extent to which tax avoidance happens.

8. The effect of Profitability on Tax avoidance

The return on assets (ROA) demonstrates the amount of profit that the company has earned by utilising its entire assets. According to the ratio, the ability to produce assets in order to get net profits is improved when the ratio is higher. If a company's profitability improves, it implies that the firm's performance is improving, and the greater the profit made by the company, the higher the tax burden. This is according to (Mardiasmo, 2018), who states that taxes and company earnings are directly related to one another. When a company is lucrative, it will seek more favourable legitimacy from the public, particularly from its shareholders. Lucrative companies are more likely to be emphasised by the government and are subject to tougher inspection or oversight, which means that they are more likely to comply with tax regulations. The results of the research by (Nadya, 2021) and (Nindita, et al., 2021) show that a company believes that because it has sizable earnings, it is able to pay taxes in accordance with the laws and regulations that are relevant to the company. This belief is based on the fact that the firm feels that it is able to avoid engaging in tax avoidance activities. In the event that this occurs, there is apprehension that it will have a negative impact on the credibility of the company in the eyes of the general public, which in turn may have an impact on the level of profitability and perhaps interfere with the company's ability to remain sustainable. Companies continue to comply with tax rules because, according to compliance theory, these regulations are based on an understanding of the tax duties that they have while at the same time being based on laws and regulations that have already been established.

The hypotheses that can be established in this study are as follows, and they are based on the theory together with the findings of past research that was discussed earlier:

H1: Profitability has a negative effect on tax avoidance

9. The effect of Company Size on Tax avoidance

The size of a firm, typically assessed by its total assets, significantly influences multiple operational and strategic factors, such as tax planning and potential tax evasion. According to (Mills et al., 1998), the size of a company might impact its tax strategy. It was argued that large corporations possess greater resources for tax planning, enabling them to be more effective in minimising their tax obligations and mitigating tax avoidance strategies. Tebiono & Sukanda (2019) discovered a positive correlation between a company's size and its effective tax rate, indicating that larger organisations tend to have higher tax rates. This suggests that larger companies may be more inclined to engage in tax avoidance methods. Junaedi et al., (2021) and Sarimin & Oktari (2023) claim that larger corporations are better equipped to manage the potential reputational and legal hazards that may arise from engaging in tax evasion practices. It has been observed that there is a positive correlation between the size of a firm and its level of tax compliance. Factors such as heightened tax audits and increased pressure from stakeholders for tax compliance can potentially impact this behaviour. Drawing upon the theories and findings of prior research as previously outlined, the hypotheses formulated for this study are as follows:

H2: Company size has a negative effect on tax avoidance

10. The effect of Institutional ownership on Tax avoidance

There has been a significant amount of attention paid in the literature within the fields of finance and accounting to the topic of the influence of institutional investors on the tax avoidance behavior of corporations. The researchers (Chen et al., 2010) discovered that the level of tax avoidance was inversely proportional to the type of ownership held by institutions. They suggest in their study that institutional investors have the ability and the desire to supervise management, and that they have a tendency to reject tax avoidance due to the dangers that are connected with the practice. According to another research conducted by Fiandri & Muid (2017), institutional investors have the ability to exert influence over the management of companies, which in turn allows them to generate profits and pay taxes. Institutional investors closely watch management actions and aim to prevent opportunistic behavior, which is the primary argument that they present. Balakrishnan et al., (2019), Hajjariah & Nurhayati (2020) and Junaedi et al., (2021) came to the conclusion that institutional ownership can have an effect on the tax behavior of corporations, which is consistent with this study. They make the observation that the restrictions that are applied by institutional shareholders have the potential to preclude business management from engaging in tax avoidance. On the basis of the theory and the findings of prior research, which have been discussed in the preceding section, the hypothesis that will be tested in this study is as follows:

H3: Institutional ownership has a negative effect on Tax avoidance

RESEARCH METHOD

This study employs a quantitative research approach, focusing on manufacturing companies operating in the consumer products industry sector that are listed on the Indonesian Stock Exchange for the period of 2019-2023. The focus of this study is to analyze the company's financial reports in order to gather data on several aspects such as profitability, company size, leverage, and institutional ownership. This study involved the utilization of 10 companies, comprising a sample size of 50 in total. The research employed the secondary data observation method as the data gathering approach. Secondary data typically consists of compiled facts, notes, or historical reports presented in the form of published documents (sugiyono, 2019). The research utilizes audited and published company financial reports from manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange. The data covers the period from 2019 to 2023 and was obtained from the official IDX website, idx.co.id. The research employs a non-probability sample strategy known as purposive sampling or judgment sampling. This technique involves the researcher selecting participants based on specific qualities that align with the research aims. The research has established many criteria for the selection of samples:

Table 1. Sample Selection

No	Information	Accumulated number Company
1	Manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange during the 2019–2023 period.	26
2	Manufacturing companies in the consumer goods industry sector that were listed before 2016 and were not delisted during 2019–2023.	(6)
3	Manufacturing companies in the consumer goods industry sector that have financial reports that have been audited for four consecutive years during the 2019–2023 period.	(4)
4	Manufacturing companies in the consumer goods industry sector that present financial reports in rupiah (Rp).	(2)
5	Manufacturing companies in the consumer products industrial sector with a Current Effective Tax Rate (ETR) below 25%.	(4)
6	The number of sample companies	10
Year of observation		5
Number of observations during 2019-2023		**50**

Source: Data processed, 2024

In the course of this investigation, the following methods of data analysis were utilized:

a. Descriptive statistics

   The average (mean), standard deviation, variance, maximum, minimum, total, range, kurtosis, and skewness (distribution differences) are all examples of descriptive statistics. These statistics provide an overview or description of the data that may be viewed from statistical observations. As part of this investigation, measuring tools are utilized to determine the average (mean), maximum, and minimum values. The mean is a statistical measure that is utilized to determine the average size of the population based on the sample. For the purpose of gaining a comprehensive understanding of the samples that have been gathered and that fulfill the prerequisites for being presented as research samples, the maximum is utilized.

b. Coefficient Equality Test (Pooling Test)

   The purpose of this test was to assess whether or not it is possible to mix research data across different time periods (cross-sectional and time series). In order to verify this, the author used a method known as dummy variables.

c. The Classic Assumption Test

The test of the classical assumption was carried out in order to determine whether or not the regression model used in this investigation contained any issues that were associated with the classical assumptions. The normality test, the heteroscedicity test, the multicollinearity test, and the autocorrelation test are the traditional assumption tests that are utilized.

d. Analysis of multiple linear regressions

Multiple linear regression is a statistical technique that was developed to determine the degree of correlation that exists between two or more variables, as well as to illustrate the direction of the link that exists between the dependent variable and the independent variable. The F statistical test was also carried out in addition to that in order to determine whether or not all of the independent factors concurrently had an influence on the variable that was being studied (the dependent variable). In addition, the t statistical test is utilized in order to ascertain the impact that each independent variable has on the variable that is being studied. The purpose of the test known as the coefficient of determination is to determine the extent to which the model is able to explain fluctuations in the variable that is being studied.

RESULT AND DISCUSSION

1. Descriptive Analysis

Descriptive statistical analysis is conducted to offer a comprehensive summary or depiction of the data under investigation (Arikunto, 2019). The test results display the minimum, maximum, average (mean), and standard deviation values for each variable analyzed.

a. The dependent variable of tax avoidance, which is calculated using the Current Effective Tax Rate (ETR), has a minimum value of -0.3483 under the circumstances of PT. Ultrajaya Milk Industry and Trading Company Tbk in the year 2020. This value indicates that the amount of tax avoidance that occurs is decreasing. On the other hand, the maximum amount of -0.1532 is the maximum amount that may be paid to PT. Tri Banyan Tirta Tbk in the year 2019, which indicates that there is a significant increase in the usefulness of the kelemahan perpajakan procedure for the purpose of minimising pajak. On the basis of this research, the nilai rata-rata tax evasion is around 0.185942. As a result of this, the potential for tax avoidance by the company is significantly increased.

b. The first independent variable (X1), Profitability with Return of Assets (ROA) as a proxy, has a minimum value of 0.1633 at PT. Garudafood Putra Putri Jaya Tbk in 2019, indicating that the company has the ability to generate a profit from its operations of 2.89%. The maximum value reached 0.3275 at PT. Sentra Food Indonesia Tbk in 2021, indicating the company's ability to generate profit from its activities was 24.52%. The average value of 0.178236 indicates that the consumer goods manufacturing sector has the ability to generate a profit of 11.2357% from 2019 to 2023.

c. A description of the extent to which the company has developed in terms of assets or market capitalization is provided by the second independent variable (X2), which is referred to as Company Size. PT. Nippon Indosari Corpindo and PT. Mayora Indah Tbk are the two companies that are the primary subject of this case study. Both of these companies are located in Indonesia. In this study, variations in the size of companies are seen throughout the years 2021 and 2022. A value of 28.2267 is considered to be the minimum for the Company Size variable. This value, which was collected from PT.

Nippon Indosari Corpindo in 2022, demonstrates that this firm is of a lesser size when compared to PT. Mayora Indah Tbk in the same year as well as in years prior to that. It is possible to have a maximum value of 32.7598 for the Company Size variable. In the year 2021, this value is seen at PT. Mayora Indah Tbk, which indicates that this firm has a greater number of assets or market capitalization than PT. Nippon Indosari Corpindo in the same year and in subsequent years. In this particular study, the average value of the Company Size variable is 29.27831. For the purpose of calculating this figure, the average firm size values of the two companies used over the observation period (2021 to 2022) were taken into consideration.

d. In 2019, PT. Sekar Laut Tbk and PT. Tiga Pilar Sejahtera Tbk had the lowest value of the independent variable Institutional Ownership, with a minimum value of 0.1226. During this time, both companies had no institutional ownership. PT. Campina Ice Cream Industry Tbk achieved a peak value of 0.9672 between 2019 and 2023, indicating that institutional ownership in the company stands at 84.27%. The mean value is 0.7653242, indicating that the average level of institutional ownership in manufacturing enterprises within the consumer goods industry from 2019 to 2023 is 76.53%.

2. Pooling data test

The pooling test is employed to determine the feasibility of conducting a hypothesis test either once or iteratively. The significance value (Sig.) is commonly employed as a threshold to ascertain the significance of the results obtained from a statistical test. If the p-value is more than 0.05, it indicates that we cannot reject the null hypothesis, which suggests that the data does not provide enough evidence to support a single test (Seltman, 2018). Put simply, the data does not provide sufficient evidence to support large deviations from what would be predicted based on the null hypothesis. Based on the conducted test results, it can be inferred that the pooling test results indicate that the variable values multiplied by the dummy variable have a significance value larger than 0.05. Therefore, it can be concluded that the data can be analysed using a single test.

3. Classic assumption test

Tabel 2. Classic Assumption Test Results

<table>
<tr><th>Research Test</th><th>Criteria</th><th colspan="3">Results</th><th>Information</th></tr>
<tr><td>Data Normality Test</td><td>P-Value > 0,05</td><td colspan="3">0,872</td><td>Data is normally distributed</td></tr>
<tr><td rowspan="4">Multicollinearity Test</td><td rowspan="4">Tolerance > 0,1 ;
VIF < 10</td><td></td><td>Tolerance</td><td>VIF</td><td rowspan="4">Multicollinearity does not occur</td></tr>
<tr><td>ROA</td><td>0,723</td><td>2,122</td></tr>
<tr><td>SIZE</td><td>0,527</td><td>2,723</td></tr>
<tr><td>INST</td><td>0,778</td><td>1,229</td></tr>
<tr><td>Autocorrelation Test</td><td>Sig. > 0,05</td><td colspan="3">0,726</td><td>Passes the Autocorrelation Test</td></tr>
<tr><td rowspan="3">Heteroscedasticity Test</td><td rowspan="3">Sig. > 0,05</td><td>ROA</td><td colspan="2">0,178</td><td rowspan="3">Heteroscedasticity does not occur</td></tr>
<tr><td>SIZE</td><td colspan="2">0,284</td></tr>
<tr><td>INST</td><td colspan="2">0,232</td></tr>
</table>

Source: Data processed, 2024

The results of the classification assumption test can be given in the following manner due to the fact that the results of the data analysis are presented in table 2 above:

a. Normality test

In order to determine whether or not the data were normal, the Kolmogorov-Smirnov Test using a single sample was utilized. A regression model that has residuals that are regularly distributed is considered to be of high quality. It is evident that the data shown above has successfully passed the test, as evidenced by the P Value of 0.872 being more than 0.05 (α = 5%). This indicates that the data follows a normal distribution.

b. Multicollinearity test
According to the findings presented in table 2, the values of the three variables, namely Profitability, firm size, and institutional ownership, in the VIF (Variance Inflation Factor) column are lower than 10, however the values in the tolerance column for the four variables are higher than 0.10. The results of this analysis demonstrate that these four variables do not exhibit any signs of multicollinearity.

c. Autocorrelation test
Based on the information provided in Table 2, the autocorrelation test results indicate a significant value (Sig.) of 0.726, which is greater than the significance level of 0.05 (α = 5%) for the Runs Test. Therefore, it may be inferred that the regression model for this test does not exhibit any autocorrelation.

d. Heteroscedasticity test
Table 2 shows that the Profitability (ROA) variable has a significance value of 0.178. The variable representing the size of the company (SIZE) has a significance value of 0.254. The final variable, Institutional Ownership (INST), has a significance value of 0.232. The results of the heteroscedasticity test indicate that the p-value (Sig.) for all variables is more than 0.05 (α = 5%). This indicates the absence of heteroscedasticity disturbance. In conclusion, this test demonstrates the presence of heteroscedasticity.

4. Multiple Linear Regression Test

Table 3. Results of Multiple Linear Regression Analysis

Research Test	Criteria	Results			Information
Multiple Linear Regression Analysis	-		Coefficient		-
		Constant	0.362		
		ROA **SIZE** **INST**	-0,621 -0,472 -0,328		
F Statistical Test	Sig.<0,05	F-count= 3,221, sig.= 0,021			Passed the F Statistical Test
Statistical Test t	Sig.<0,05		**Sig.**	**Coefficient**	
		ROA **SIZE** **INST**	0,012 0,022 0,023	-0,621 -0,472 -0,328	*ROA, SIZE, & INST have an effect negative towards tax avoidance*
Coefficient of Determination Test	$0 \leq R^2 \leq 1$	0,523			52.3% of the tax avoidance variable is explained by research variables

Source: Data processed, 2024

According to table 3 above, the equation for multiple linear regression derived from the table above is as follows:

$$Y = 0{,}362 - 0{,}621\ ROA - 0{,}472\ SIZE - 0{,}328\ INST$$

The following is the interpretation of the coefficients from this regression model:

a. Constant (0.362): If all independent variables are 0, the expected tax avoidance value is 0.362. This constant can be interpreted as the basic level of tax avoidance when there is no influence from profitability, company size, and institutional ownership.

b. ROA Coefficient (-0.621): For every one unit increase in profitability (ROA), tax avoidance (Y) is expected to decrease by 0.621 units, assuming other variables remain constant. This negative coefficient indicates that there is an inverse relationship between profitability and tax avoidance.

c. SIZE coefficient (-0.472): For every one unit increase in firm size (SIZE), tax avoidance (Y) is expected to decrease by 0.472 units, assuming other variables remain constant. This suggests that larger firms tend to avoid taxes less, based on this regression model.
d. INST coefficient (-0.328): For every one unit increase in institutional ownership (INST), tax avoidance (Y) is expected to decrease by 0.328 units, assuming other variables remain constant. According to this, the higher the institutional ownership, the lower the tax avoidance rate, indicating that institutional investors may have a role in preventing tax avoidance practices.

5. F Statistical Test

Based on Table 3 above, the F test results were obtained with a calculated F value of 3.221 and a significance value (Sig.) of 0.021. Cause the Sig value is smaller than 0.05 and the calculated F is greater than the F table, namely 2.67, this regression model can be used to predict tax avoidance. Therefore, it can be concluded that the variables profitability, company size, and institutional ownership have an influence on tax avoidance simultaneously.

6. Coefficient of Determination Test

As shown by the analysis results in Table 3 above, it can be seen that the summary model has an R_2 value of 0.527. This indicates that 52.7% of the variation in tax avoidance can be explained by three independent variables, namely profitability, company size, and institutional ownership. Meanwhile, the remaining 47.3% is explained by other factors not included in this research model.

7. T Statistical Test

Based on data analysis in Table 3, the results of this research can be reviewed as follows:

a. The profitability variable shows a significance value (2 tailed) of 0.012, which is smaller than 0.05, and a coefficient of -0.621. This shows that there is a negative and significant influence between profitability and tax avoidance, so the first hypothesis is accepted.
b. The company size variable shows a significance value (2 tailed) of 0.021, which is smaller than 0.05, and a coefficient of -0.472. These results indicate that company size has a negative and significant effect on tax avoidance, supporting the acceptance of the second hypothesis.
c. The institutional ownership variable shows a significance value (2 tailed) of 0.023, which is smaller than 0.05, and a coefficient of -0.328. These findings confirm the negative and significant influence between institutional ownership and tax avoidance, which confirms the acceptance of the third hypothesis.

8. Discussion

a. The effect of Profitability on Tax avoidance

Based on the t test results previously explained, it was found that the regression coefficient was -0.621 with a significant value of 0.0012 which is less than 0.05. These results indicate that the profitability variable has a significant negative influence on tax avoidance. This is because the higher the profitability, the lower the tax avoidance carried out. Companies with good profitability values are assumed not to avoid tax because the company's image will be bad if the company carries out this practice. Profitable companies will seek more positive legitimacy from society, especially shareholders. Profitable companies are more in the government's spotlight and are subject to stricter inspection or supervision so they tend to be tax compliant. A profitable company indicates that the company is in good financial condition so that no further efforts are needed to reduce the tax burden. In line with compliance theory, companies continue to comply with tax regulations because they are based on awareness of their tax obligations while remaining based on established laws and regulations. The results of this research are in line with research (Nadya, 2021), and (Nindita, et al., 2021), which explains that companies believe that by having high profits the company is able to pay taxes in accordance with applicable laws and regulations without having to carry out tax avoidance activities.

b. The effect of Company size on Tax avoidance

The results of the t test presented previously show a regression coefficient of -0.472 with a significance value of 0.0021 which is lower than the limit of 0.05. These findings suggest that the variable company size has a negative and significant effect on tax avoidance, where the larger the company size, the less likely management is to avoid tax in an effort to maintain the company's image in the eyes of the public. Companies with a larger scale have higher stability and a better ability to generate profits and fulfill their obligations compared to companies with a smaller size. As company size increases, the level of tax avoidance tends to decrease, which may be because companies do not utilize their power to plan taxes due to limitations in the form of the potential to be in the spotlight and become the target of regulatory decisions. In accordance with compliance theory, large companies will try to comply with all applicable tax regulations in order to gain legitimacy or good recognition from stakeholders, namely by paying taxes as required so that large companies tend to have large effective tax rates, which means large companies will avoid tax evasion because large companies get widespread attention from consumers and the media which will then attract the attention of the government. The results of this research are in line with (Junaedi et al., 2021) and (Sarimin & Oktari, 2023) who explain that company size can be seen from the financial capabilities of a company, where the larger the company size, the desire to avoid taxes tends to decrease or be low. This is done to maintain the reputation or image of the company that has been built.

c. The effect of Institutional ownership on Tax avoidance

The t test results presented previously indicated that the regression coefficient was -0.328 with a significance value of 0.0023, which is lower than 0.05. This shows that the institutional ownership variable has a significant negative influence on tax avoidance. When viewed from an agency theory perspective, this can be interpreted as that institutional owners usually want their companies to operate with high transparency and comply with all applicable regulations, including tax regulations. Significant institutional ownership may encourage firms to avoid tax avoidance, demonstrating their commitment to strengthening corporate legitimacy and reputation in the eyes of shareholders and the public. The results of this study are in line with several previous studies which show that institutional ownership is negatively related to tax avoidance. For example, research conducted by (Balakrishnan et al., 2019), (Hajjariah & Nurhayati, 2020) and (Junaedi et al., 2021), found that companies with higher levels of institutional ownership tend to have lower levels of tax avoidance, where the role of institutional ownership in reducing tax avoidance activities, and supports the view that institutional rights holders can play an important role in supporting corporate tax compliance.

CONCLUSIONS

This research aims to analyze the influence of profitability, company size and institutional ownership on tax avoidance. Based on the results of the analysis and discussion presented in the previous paragraph, the conclusions that can be drawn in this research are:

a. There is sufficient evidence that profitability has a negative effect on tax avoidance, this means the first hypothesis is accepted. In this research, the results show that the higher the company's profitability, the lower the company's level of tax avoidance. This is in accordance with previous theory and research which states that companies that are more profitable tend to have lower motivation to carry out tax avoidance. This can be caused by several factors, such as the company's intention to build a good reputation, the company's dependence on capital providers and other stakeholders, and maintaining good relationships with other related parties.
b. then there is sufficient evidence that company size has a negative effect on tax avoidance, this means the second hypothesis is accepted. The results of this research show that the larger the company, the less likely the company is to carry out tax avoidance. This can be explained by the existence of greater consequences if the company is caught committing this act. Large companies have a greater reputation and are susceptible to reputational risk, and have lower access to companies that provide tax services that allow them to carry out tax avoidance. In addition, large companies are more open in financial reporting and are more encouraged to comply with tax regulations.
c. There is sufficient evidence that institutional ownership has a negative effect on tax avoidance, this means the third hypothesis is accepted. The results of this research indicate that institutional ownership has a negative influence on tax avoidance. Companies owned by institutional investors have stronger control and more supervision, thereby successfully reducing the opportunity for companies to take actions related to tax avoidance. Institutional investors generally prefer long-term investments and care more about reputation, so they tend to avoid companies that practice tax avoidance. Apart from that, tighter supervision by institutional investors can also encourage company management to comply with policies that limit tax avoidance.

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