THE EFFECT OF PROFITABILITY, EXECUTIVE CHARACTER AND COMPANY SIZE ON TAX AVOIDANCE

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Abstract
This study aims to determine the effect of profitability, executive character and company size on tax avoidance in companies in the primary consumer goods sector (consumer noncyclical) listed on the Indonesia Stock Exchange for the period 2018-2022. The population in this study was 70 companies. This study used 40 companies in the primary consumer goods sector (consumer noncyclical) listed on the IDX, the sampling technique used was the proportionate stratified random sampling technique from the period 2018-2022 with a sample number of 200 data. The data used are quantitative data sourced from secondary data, then the data collected are analyzed using descriptive analysis methods and multiple linear regression analysis followed by multicollinearity tests, autocorrelation tests, heteroscedasticity tests, normality tests and correlation analysis. Based on the results of the study shows that simultaneously profitability, executive character and company size have an insignificant effect on tax avoidance. And the test results partially show that profitability has a significant positive effect on tax avoidance, executive character has a positive effect is not significant a n d company size has a negative effect is not significant on tax avoidance.

Keywords: Profitability, Executive Character, Company Size, Tax Avoidance.

1. Introduction

Taxes are one of the huge sources of state revenue. Tax benefits to improve public welfare and national development activities of the Indonesian state, therefore tax collection can be forced based on the applicable Tax Law in Indonesia. The amount of tax benefits for national development encourages the government to continue to maximize state revenue by continuing to evaluate and examine taxpayers, especially corporate or corporate taxpayers because manufacturing companies have great potential to contribute their income tax every year to the state (Winda and Sujana, 2018). However, the government has encountered several obstacles in optimizing revenue from this sector. One of the obstacles faced by the government in optimizing tax revenue is the practice of tax avoidance. According to the company, tax is a burden that will reduce net profit and it is common knowledge that companies always want to pay taxes to a minimum. The larger a company, the more tax burden must be paid (Kurniasih and Sari, 2013).

There are differences in interests between the government and companies, where for the government taxes are a source of revenue to fund the administration of government, while for companies' taxes are a burden that will reduce the profits of the company itself. Therefore, there is a tendency of personal taxpayers, especially corporations, to minimize the amount of tax to be paid. One of the company's steps to minimize the amount of tax to be paid is to do tax avoidance (Mangoting, 1999 in Prakosa, 2014). Tax avoidance is a

method carried out by taxpayers safely and legally because the way done to avoid this tax is in accordance with applicable tax provisions and the ways or efforts made tend to take advantage of loopholes (gray areas) contained in tax laws and regulations that can be used to reduce the amount of tax owed (Pohan, 2013:23). This tax avoidance is deliberately carried out by companies in order to minimize the amount of tax payments that must be paid and increase the company's cash flow. The benefit of tax 3 avoidance is to increase tax saving which has the potential to reduce tax payments so that it will increase cash flow (Guire et al., 2011).

One of the tax avoidance phenomena that occur in Indonesia is at PT. Adaro Energy where PT. Adaro Energy utilized its Singapore subsidiary, Coal trade Services International, to pay US$125 million less than it would have deposited with the Indonesian government. Most of the profits listed in Singapore have been transferred to one of PT. Adaro Energy in the tax haven of Mauritius, where it was not taxed at all before 2017. It is clear that PT. Adaro Energy took advantage of a loophole in Law No. 36 of 2008 article 4 paragraph (1) where any foreign income will be taxed at the prevailing rate, but with the transfer of most of PT. Adaro Energy to Singapore in the tax haven Mauritius means they are not subject to any tax at all until 2017 (https://ekonomi.bisnis.com).

Based on this phenomenon, tax avoidance practices can cause losses and reduced tax revenues received by the state. In addition, tax avoidance practices can also cause injustice, reduce the level of public welfare and reduce the efficiency of the tax system. Therefore, tax contributions must be optimized because tax contributions are increasingly significant and are calculated as the backbone of 3 sources of national financing in order to succeed national development programs that will increase economic growth and the welfare of the nation and society in general (Sarra, 2017).

The occurrence of tax avoidance by companies, one of which can be determined by profitability. Profitability is used in this study because profitability shows the ability of a company to generate profits during a certain period at a certain level of sales, assets and share capital (Dewinta and Setiawan, 2016). Profitability is a financial ratio that can be used to determine the company's ability to generate profits (Vestari and Noor, 2013). Profitability consists of several ratios, including return on assets (ROA). ROA serves to measure the effectiveness of the company in the use of its resources (Siahan, 2004).

The occurrence of tax avoidance by companies can be determined by executive character. Directly, individuals involved in tax decision making are tax directors and corporate tax consultants. However, executives (president directors or president directors) as leaders of the company either directly or indirectly have influence on all decisions that occur in the company, including the decision to do tax avoidance by the company. Executives as individuals certainly have different characteristics in making decisions or making company policies. Thus, executive character is considered as one of the important factors that influence the policies to be taken by executives or company leaders (Hanafi and Harto, 2014). In carrying out their duties as company leaders, executives have two characteristics, namely risk taker and risk averse. 4 Executives with risk taker character dare to commit tax avoidance actions that will result in the company being legally examined and can reduce the company's reputation if tax avoidance is carried out aggressively and unlawfully. However, executives who have a risk averse character tend to try to avoid high risks and do not have the courage to make policies that have a high impact so that they will try to avoid tax avoidance activities (Pratomo and Triswidyaria, 2019).

Then the next variable is the size of the company. The reason why company size is used in this study is because company size is considered capable of influencing the way a company meets its tax obligations and is a factor that can affect tax avoidance measures (Kushariadi and Putra, 2018). According to Machfoedz (1994) in Suwito and Herawati (2005) stated that the size of the company is a scale that can group companies into large and small companies such as the size of the company can be seen from the total assets of the company owned, and the number of sales. In general, the size of the company (organization size) can be interpreted as a comparison of the size and size of an object.

This research is based on theoretical problems over previous research inconsistencies regarding factors affecting tax avoidance. In research conducted by Darmawan and Sukartha (2014), Primasari (2019), stated that profitability has a significant positive effect on tax avoidance. In contrast to research conducted by Winning Arianandini and Ramantha (2018), Rozak et al., (2018), stated that profitability has a significant negative effect on tax avoidance Rangkuti et al., the results of research conducted by Oktamawati (2017) stated that executive character has a significant effect on tax avoidance. While the results of research by Noviani et al., (2018), stated that executive character does not have a significant effect on tax avoidance. Another factor that affects tax avoidance is the size of the company, in research conducted by Darmawan (2014), stated that the size of the company has a significant positive effect on tax avoidance. In contrast to research conducted by Kushariadi and Putra (2018) states that company size has a significant negative effect on tax avoidance.

2. Theoretical Background

Agency theory is a cooperative relationship in a contract where one or more people as owners (principal) and company management (agent), where the principal delegates authority to the agent to manage the company and make decisions Smulowitz et al., (2019). Agency theory explains that the owner provides resources for management to run the company, while management is responsible for all decisions to users of financial statements, including investors, stakeholders, shareholders, and creditors. The difference in interests between agents and principals is what triggers information imbalances commonly called information asymmetry. The existence of information asymmetry will encourage agents to present untrue information to principals, especially if the information is related to measuring agent performance, with the aim of maximizing profits for themselves (agents).

2.1 Theoretical Framework

In this study, the dependent variable is tax avoidance, independent variables or variables that are thought to affect tax avoidance by researchers, including profitability, executive character, and company size. The following researchers outline a theoretical framework in the form of the influence of profitability, executive character, and company size on tax avoidance.

2.1.1 The Relationship between Profitability and Tax Avoidance

Profitability is the company's ability to generate profits in the future and is an indicator of the success of the company's operations. The amount of profitability shows the company's ability to generate a profit, this is an implication that the higher the profit obtained, the higher the income tax that must be paid. So that the level of tax avoidance will be higher.

2.1.2 The Relationship of Executive Character with Tax Avoidance

Executives play an important role in making decisions and strategic policies of a company. Decisions made when a company faces risk reflect the character of that leader. An executive or company leader with a risk taker character will be more courageous to take risks, including by taking tax avoidance actions. The higher the risk taken by the risk taker leader, the more likely the company is to practice tax avoidance.
The Relationship Between Company Size and Tax Avoidance

2.1.3 The Relationship of Company Size with Tax Avoidance

Company Size is a scale that determines the size of the company which can be seen from the value of equity, sales value, number of employees and total value of assets. The larger the size of a company, the greater the total assets it has, the size of the company's total assets shows the level of stability of the company. Companies that have a good level of stability will be able to operate for a long time, and can get large profits as well. The greater the profit obtained by the company, the tax that must be paid by the company will be the same according to the profit and total assets owned by the company.

2.1.4 Hypothesis Development

Based on the theoretical framework above, the following research hypothesis can be put forward.
H_1: Profitability has a positive and significant effect on Tax Avoidance
H_2: Executive Character has a positive and significant effect on Tax Avoidance
H_3: Company Size has a positive and significant effect on Tax Avoidance

3. Methods

The population in this study is primary consumer noncyclical sector companies listed and listed on the Indonesia Stock Exchange (IDX) from 2018-2022. The sample in this study was 70 companies, using proportionate stratified random sampling as a sampling technique. The retrieval technique used refers to the probability sample method with proportionate stratified random sampling techniques. According to Efferin et al., (2012: 88) proportionate stratified random sampling technique divides the population into several segments, then the subject will be taken in proportion according to what is obtained in the population. In this study used Isaac and Michael's table to determine the number of samples. Sugiyono continued that Isaac and Michael developed the determination of the number of samples at significant levels of 1%, 5%, and 10%. Isaac and Michael's table can be used based on the assumption that the population is normally distributed or heterogeneous and the population number is known (Sugiyono, 2017: 70). The analysis in this study used multiple linear regression analysis methods and descriptive statistics. According to Sugiyono (2017: 147), descriptive statistics serves to analyze data by providing a picture of the data that has been collected as it is without intending to make a generally accepted conclusion. In addition, a classical assumption test consisting of normality, multicollinearity, autocorrelation, and heteroscedasticity was also carried out.

The unit of analysis is all things that are examined to get a brief explanation of the entire unit analyzed, this unit of analysis is usually also referred to as the observation unit (Morissan, 2017: 166). The unit of analysis in this study is the financial statements and annual reports of all primary consumer goods sector companies (consumer noncyclical) listed and maintained on the Indonesia Stock Exchange (IDX). Population is a generalized

area consisting of objects or subjects that have certain quantities and characteristics determined by researchers to be studied and drawn conclusions (Sugiyono, 2021: 126).

4. Results and Discussion

Table 1. Descriptive Statistical Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	200	-.58	.61	.0588	.13674
Executive Character	200	.03	.60	.2196	.12679
Company Size	200	18.76	33.50	25.1616	4.12747
TaxAvoidance	200	-13.00	.95	.1233	.94977
Valid N (listwise)	200				

Source: SPSS Output (Processed Data, 2023)

Based on the results of descriptive statistical analysis in the table above, it can be seen that the number of samples (N) was 200 samples in the observation period for 5 years, namely from 2018 to 2022. The explanation of the results of descriptive statistical analysis is as follows.

1. The variable profitability in the primary consumer goods sector companies (consumer noncyclical) listed on the Indonesia Stock Exchange for the period 201 8-2022 that has been studied has a minimum value of -0.58, a maximum value of 0.61, an average value of 0.0588 and a standard deviation of 0.13674.
2. The executive character variables in companies in the primary consumer goods sector (consumer noncyclical) listed on the Indonesia Stock Exchange for the period 201 8-2022 that have been studied have a minimum value of 0.03, a maximum value of 0.60, an average value of 0.2196, and a standard deviation of 0.12679.
3. The variable size of companies in the primary consumer goods sector (consumer noncyclical) listed on the Indonesia Stock Exchange for the 2017-2021 period that has been studied has a minimum value of 18.76, a maximum value of 33.50, an average value of 25.1616 and a standard deviation of 4.12747.
4. The variable tax avoidance in companies in the primary consumer goods sector (consumer noncyclical) listed on the Indonesia Stock Exchange for the period 201 8-202 2 that has been studied has a minimum value of -13.0, a maximum value of 0.95, an average value of 0.1233 and a standard deviation of 0.94977.

Table 2. Multiple Linear Regression Analysis Results

Coefficientsª		Unstandardized Coefficients		Standardized Coefficients		
	Type	B	Std. Error	Beta	t	Sig.
1	(Constant)	.410	.414		.992	.322
	Profitability	1.188	.488	.171	2.434	.016
	Executive Character	.353	.535	.047	.660	.510
	Company Size	-.017	.016	-.075	-1.051	.295
a. Dependent Variable: TaxAvoidance						

Source: SPSS Output (2023)

Based on the table above, it can be seen that the equation of multiple linear regression models is seen as follows.

$$Y = 0.410 + 1.188 X_1 + 0.353 X_2 - 0.17 X_3$$

From these equations, it can be explained that:

1. The constant value is 0.410 which means that if the independent variables namely profitability, executive character and company size are considered constant (value 0), then the dependent variable is tax avoidance will be 0.410.
2. The regression coefficient value of profitability (X_1) is 1.188 which means that if the profitability variable (X_1) increases by one unit with another variable considered constant (value 0), then the tax avoidance variable (Y) will increase by 1,188.
3. The regression coefficient value of the executive character (X_2) is 0.353 which means that if the executive character (X_2) increases by one unit with another variable considered constant (value 0), then the variable company value (Y) will increase by 0.353.
4. The regression coefficient value of the company size (X_3) is -0.0 17 which means that if the company size variable (X_3) increases by one unit with another variable considered constant (value 0), then the company value variable (Y) will decrease by -0.017.

Table 3. Statistical Test Results F (Simultaneous)

ANOVAa						
	Type	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.347	3	2.116	2.395	.070b
	Residuals	173.163	196	.883		
	Total	179.509	199			
a. Dependent Variable: TaxAvoidance						
b. Predictors: (Constant) Profitability, Executive Character, , Company Size						

Source: SPSS Output (2023)

Based on the table above, it can be seen that thecalculated F value is 2.395 and the significance value is 0.070 which means greater than 0.05 or 0.0 70 > 0.05. Thus, it can be concluded that Ho is accepted and Ha is rejected which means that profitability, executive character and company size together have an insignificant effect on tax avoidance.

Table 4. Statistical Test Results t (Partial)

Coefficientsa						
		Unstandardized Coefficients		Standardized Coefficients		
	Type	B	Std. Error	Beta	t	Sig.
1	(Constant)	.410	.414		.992	.322
	Profitability	1.188	.488	.171	2.434	.016
	Executive Character	.353	.535	.047	.660	.510
	Company Size	-.017	.016	-.075	-1.051	.295
a. Dependent Variable: TaxAvoidance						

Source: SPSS Output (2023)

Based on the table above, it can be explained that:

1. Profitability shows a calculated t value of 2.434 with a significance value of 0.016 and is less than 0.05 or 0.016 < 0.05. Thus, it can be concluded that Ho is rejected and H1 is accepted which means that profitability has a significant positive effect on tax avoidance, where if the value of profitability increases, the value of tax avoidance also increases significantly.

2. The executive character shows a calculated t value of 0.660 with a significance value of 0.510 and greater than 0.05 or 0.660 > 0.05. Thus, it can be concluded that Ho is accepted and H2 is rejected which means that executive character has a positive and insignificant effect on tax avoidance, where if the executive character increases, the value of tax avoidance also increases and is not significant.

3. The Company Size shows a calculated t value of -0.051 with a significance value of 0.295 and greater than 0.05 or 0.295 > 0.05. So, it can be concluded that Ho is accepted and H3 is rejected which means that the size of the company has a negative and insignificant effect on tax avoidance, where if the size of the company increases, tax avoidance will decrease but not significantly.

Table 5. Coefficient of Determination Test Results

Model Summaryb				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.188a	.035	.021	.93994
a. Predictors: (Constant), Profitability, Executive Character, Company Size				
b. Dependent Variable: Tax Avoidance				

Source: SPSS Output (2023)

Based on the table above, it can be seen that the value of the coefficient of determination (R Square) is 0.035, meaning that the influence of the independent variable on the dependent variable is 3.5%, while the remaining 96.5% is influenced by other variables that are not studied.

4.1 Effect of Profitability on Tax Avoidance

Based on the test results, it shows that profitability has a significant positive effect on tax avoidance. This indicates that H1 has been rejected, so it can be interpreted that the higher the level of profitability of a company, the higher the tax avoidance carried out by the company. Conversely, when the lower the level of profitability of a company, the lower the level of tax avoidance carried out by the company. Companies that have high profitability tend to choose to seek legal tax avoidance to reduce the tax rates they pay. Companies with high profitability levels tend to do tax avoidance. the higher the profitability obtained, the higher the tax to be paid.

4.2 The Effect of Executive Character on Tax Avoidance

The results of the t-test analysis showed that executive variables had a positive insignificant effect on tax avoidance. This result is not in accordance with the hypothesis proposed, namely the character of the executive has a significant positive effect on tax avoidance, so the hypothesis of H2 is rejected and cannot be confirmed. The significant effect of executive character on tax avoidance in this study may be because the principal still has a greater influence than executives in making company decisions and policies,

including tax avoidance. Executives will be required to always follow the wishes of the principal, either to carry out tax avoidance actions or not to carry out tax avoidance actions. This is supported by stewardship theory as explained by Donaldson and Davis (1991) which states that executives are motivated to act according to the wishes of the principal and have a behavior where he is formed to always be able to work together in the organization, have collective or group behavior with high utility than individuals and are always willing to serve the principal (Kartana and Wulandari, 2018). In addition, in this study executives who are proxied with a risk taker character tend to take high risks in decision making related to the company's profit receipts. Executives prefer to look for ways for companies to have higher profits or profits, as opposed to trying to reduce corporate tax payments that have been set by the government through tax regulations. Therefore, the higher the risk taken by the risk taker leader, the lower the possibility of the Company to carry out tax avoidance. Because executives only want a large increase in profits and still pay taxes according to a predetermined amount.

4. 3 The effect of Company's Size on Tax Avoidance

Based on the hypothesis that has been formulated in this study, it shows that the variable company size measured using SIZE has a positive effect on tax avoidance. However, in the test results, it was found that the size of the company had a negative effect not significantly on tax avoidance. This shows that the higher the size of the company, the lower the profit management action against tax avoidance. So that tax avoidance will decrease or be smaller because with a large enough company, the level of public trust, investors and also the government will be higher so that companies are more careful to take actions related to taxation. So that the bigger the company, the good name of the company must be maintained so that it is not tarnished with profit management actions or tax avoidance actions, even though this has a negative effect, not significant.

5. Conclusion

Based on the first hypothesis (H_1) that has been formulated in this study that profitability has a positive effect on tax avoidance. However, the test results show that profitability has a positive and insignificant effect on tax avoidance. This shows that the higher the profitability, the higher the tax avoidance, meaning that a positive profit will affect tax avoidance. So, the greater the profit owned by the company will affect tax payments so that the company will take profit management actions.

Based on the   second hypothesis (H_2) formulated in this study that executive character has a positive effect on tax avoidance. However, the test results show that the executive character partially has a positive and insignificant effect on tax avoidance in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. This is likely because executives follow the principal's desire to increase company profits which will increase dividends and improve the welfare of shareholders, but still pay taxes in accordance with government regulations.

Based on the third hypothesis (H_3) that has been formulated in this study that the size of the company has a positive effect on tax avoidance. However, the test results show that the size of the company has a negative effect not significantly on tax avoidance. This shows that the higher the size of the company, the lower the profit management action against tax avoidance. So that tax avoidance will decrease or be smaller because with a

large enough company, the level of public trust, investors and also the government will be higher so that companies are more careful to take actions related to taxation.

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