

The Effect of Profitability, Executive Character, and Company Size on Tax Avoidance: A Case Study of Manufacturing Companies on The IDX

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ABSTRACT

This study aims to analyze the effect of profitability, executive character, and company size on tax avoidance with leverage as an intervening variable. The population of this study consisted of 220 companies listed on the Indonesia Stock Exchange (IDX) during the period 2020-2024, with a sample of 61 companies selected through a purposive sampling method. The data used are secondary data that are quantitative in nature. The analysis method used is path analysis to identify direct and indirect effects using SPSS 22 software. The data was processed using path analysis, and the results showed that executive character, company size, and profitability did not affect the company's tax avoidance with leverage as an intervening variable. Given the existence of tax avoidance practices that are still carried out by companies, it is hoped that the results of this study can be used by companies to avoid tax avoidance practices, by investors to assess tax avoidance before making decisions, and also by policymakers to detect tax avoidance.

Keywords: Tax Avoidance, Executive Characteristics, Company Size, Leverage, Manufacturing Companies

1. INTRODUCTION

Tax avoidance is a complex issue that significantly impacts both corporate behavior and national revenue, particularly in developing economies like Indonesia. The country's tax revenue, a substantial portion of which comes from corporate taxes, is crucial for funding national development projects. However, tax avoidance, which occurs when companies seek to minimize their tax liabilities through legal means, presents a challenge to the tax authorities. This behavior, driven by a variety of factors, can undermine the effectiveness of taxation systems and influence public finance [1].

Previous studies have highlighted the role of profitability, executive character, and company size in shaping corporate tax strategies. However, the existing literature offers conflicting conclusions. Some studies suggest that higher profitability leads to increased tax avoidance, while others argue the opposite. Similarly, executive risk-taking tendencies and the size of the company have been shown to influence tax avoidance, but these relationships remain inconsistent across industries and regions. The focus of this study is to address these gaps in the literature, specifically in the context of Indonesian manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period.

By analyzing these factors in the Indonesian context, this study aims to clarify how they interact with tax avoidance behavior. Understanding the role of profitability, executive characteristics, and company size can provide important insights for policymakers seeking to design more effective tax regulations and corporate governance frameworks [2].

This research also contributes to the broader academic discussion by examining leverage as an intervening variable in the tax avoidance process, adding complexity and depth to existing models.

Regulation of the Minister of Finance of the Republic of Indonesia No. 40 of 2023 explains the definition of a taxpayer, namely an individual or entity that makes payments, deductions, and collection of taxes and has rights and obligations in terms of taxation in accordance with the applicable tax provisions and laws and regulations. A Limited Liability Company (PT) that has deposited or traded at least 40% of its shares on the IDX from the total number of shares it owns and has met certain requirements is one example of a domestic corporate taxpayer. Companies, particularly limited liability companies that have entered the capital market or the Indonesia Stock Exchange, have become taxpayers and are required to pay, withhold, and collect taxes. Taxes are well managed by the state because the state's largest source of revenue comes from taxes and almost all corporate and community activities are subject to tax, such as when conducting sales or purchase transactions, paying employee salaries, and so on [3].

Tax avoidance is caused by differences in interests between the tax authorities and companies. The tax authorities want large and sustainable tax revenues for the implementation of national development. Conversely, companies as corporate taxpayers consider taxes to be a pure burden that does not contribute directly to profits and reduces the company's net income. There are several factors that influence the practice of *tax avoidance* in a company,

including the character of executives [4], company size [5], profitability [6], and *leverage* [7].

The relationship between profitability and tax avoidance has been the subject of extensive research, with mixed results. The higher profitability leads to lower tax avoidance, as companies with strong financial performance tend to comply more with tax laws [8]. Conversely, other studies, the more profitable companies engage in tax avoidance to maintain competitive advantages by reducing their tax burden [9]. The contradictory nature of these findings underscores the need for further exploration, particularly in specific contexts like Indonesia.

Similarly, the role of executive character in tax avoidance has been debated. Executives who are risk-takers may be more inclined to pursue aggressive tax strategies to enhance short-term profits [10]. However, executives who are risk-averse might avoid aggressive tax practices to minimize the potential negative consequences of legal scrutiny or reputational damage. This study builds on these insights by examining how different executive behaviors impact tax avoidance in Indonesian firms, particularly in light of the country's evolving tax policies.

Company size is another factor that has been found to influence tax avoidance. Larger companies, due to their complex operations and higher revenues, may have more opportunities to engage in tax avoidance strategies. However, larger firms also face greater regulatory scrutiny, which could reduce their willingness to engage in aggressive tax avoidance. The highlight these conflicting dynamics, suggesting that company size's effect on tax avoidance may vary depending on the regulatory environment and industry sector [11].

The first factor is profitability, which is the company's ability to earn profits. Profitability consists of several ratios, one of which is *return on assets* (ROA), which reflects the company's financial performance. If the ROA achieved by the company is higher, then the financial performance and asset management of the company can be categorized as good. The profitability has a negative effect on *tax avoidance* in manufacturing companies [12], ability has a positive effect on *tax avoidance*. The profitability has a positive effect on *tax avoidance* in financial companies [13].

The second factor is executive character. Executive character consists of two types, namely *risk takers* and *risk averse* [14]. Executives who are *risk takers* will be more courageous in making business decisions by taking advantage of available opportunities even though these opportunities carry high risks [15]. while executives with *risk-averse* characteristics will consider every available opportunity and choose business opportunities that have the lowest risk [16].

The next factor is company size, which is used to classify companies into small and large companies in various ways, such as total company assets, average sales, sales volume, and stock market value. Company size is generally divided into three categories, namely large firms, medium firms, and small firms. The company size has a negative effect on *tax avoidance* practices in manufacturing companies [17].

2. RESEARCH SIGNIFICANCE

This study can broaden the understanding of the relationship between variables such as profitability, executive characteristics, company size, and *tax avoidance*. Existing theories can be updated or further developed to explain the complex interactions between these variables and their impact on the quality of reported financial information. By considering the role of *intervening* variables such as *leverage* in the analysis model, this study can provide new insights for academics to explore and expand their understanding of the factors that influence *tax avoidance* practices.

3. RESEARCH METHODS

This study utilizes a quantitative approach, analyzing secondary data from 61 manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2024. The sample was selected using purposive sampling to ensure the inclusion of companies with comprehensive financial data for the entire study period. The data were analyzed using SPSS 22 software, employing path analysis to examine both direct and indirect effects among the variables of interest.

The use of path analysis allows for a comprehensive understanding of how profitability, executive character, and company size influence tax avoidance, with leverage acting as an intervening variable. Path analysis is particularly suitable for this study, as it can model complex relationships between multiple independent and dependent variables. However, to ensure the robustness of the findings, the model assumptions, including normality, linearity, and homoscedasticity, were tested before proceeding with the analysis. Furthermore, goodness-of-fit indices, such as the Chi-square and RMSEA, were calculated to evaluate the model's adequacy in representing the data.

Table 1: Research Sample

No	Description	Number
1	Manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2024	220
2	Companies not listed on the Indonesia Stock Exchange consecutively during the years 2020-2024	(39)
3	Companies that did not publish audited annual financial reports during the years 2020-2024	(20)
4	Companies that did not generate profits during the years 2020-2024	(100)
	Sample size	61
	Total sample (5 x 61)	305

4. RESULTS

4.1 Research Results

Table 2: t Test

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1,591	,262		-6,068	,000
ROA	-,147	,149	-,774	-7,013	,000
Risk	,148	,165	,774	6,974	,000
Size	,376	,049	,376	7,665	,000

a. Dependent Variable: DAR

1) The effect of profitability on *leverage*

Table 2 shows that the significance level (Sig.) of the profitability variable is 0.000 and has a regression coefficient (Beta) value of -0.774. The significance level of the executive character variable is smaller than alpha (α) 0.05 and the regression coefficient value is negative, which means that profitability has a negative effect on *leverage*.

2) The effect of executive character on *leverage*

Table 2 shows that the significance level (Sig.) of the executive character variable is 0.000 and has a regression coefficient (Beta) value of 0.774. The significance level of the executive character variable is smaller than alpha (α) 0.05, which means that partially, executive character affects *leverage*.

3) The effect of company size on *leverage*

Table 2 shows that the significance level (Sig.) of the company size variable is 0.000 and has a regression coefficient (Beta) value of 0.376. The significance level of the company size variable is smaller than alpha (α) 0.05, which means that partially, company size affects *leverage*.

level of the executive character variable is smaller than alpha (α) 0.05 and the regression coefficient value is negative, which indicates that the higher the profitability, the lower the CETR value. A low CETR value indicates a high level of *tax avoidance* by the company, which means that profitability partially affects *tax avoidance*. Thus, the fourth hypothesis (H1) is accepted. The results of this study are in line with the results of research, which states that companies with high profitability tend to engage in *tax avoidance* because if a company wants to engage in *tax avoidance*, it must be more efficient in terms of expenses so that it does not have to pay large amounts of tax [18]. There is a negative relationship between profitability and *tax avoidance* [19].

2) The influence of executive character on *tax avoidance*

Table 3 shows that the significance level (Sig.) of the executive character variable is 0.000 and has a regression coefficient (Beta) value of 0.524. The significance level of the executive character variable is smaller than alpha (α) 0.05, which means that executive character partially influences *tax avoidance*. Thus, the fifth hypothesis (H2) is accepted. The results of this study are in line with the research, which states that the higher the level of company risk, the more executives dare to take risks, indicating that these executives are *risk takers* [20].

3) The effect of company size on *tax avoidance*

Table 3 shows that the significance level (Sig.) of the company size variable is 0.000 and has a regression coefficient (Beta) value of 0.046. The significance level of the profitability variable is less than alpha (α) 0.05, which means that company size partially influences *tax avoidance*. Thus, the sixth hypothesis (H3) is accepted. The results of this study are in line with the results of studies, which state that the larger the company size, the higher the *tax avoidance* [21].

4) The effect of *leverage* on *tax avoidance*

Table 3 shows that the significance level (Sig.) of the *leverage* variable is 0.000 and has a regression coefficient (Beta) value of 0.065. The significance level of the *leverage* variable is smaller than alpha (α) 0.05, which means that *leverage* partially affects *tax avoidance*.

Table 3: T-Test Results 2

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-,151	,414		-,365	,000
ROA	-1,416	,413	-,788	-3,431	,000
Risk	,922	,406	,524	2,273	,000
Size	,061	,080	,046	,765	,000
DAR	,086	,094	,065	,910	,000

a. Dependent Variable: CETR

1) The effect of profitability on *tax avoidance*

Table 3 shows that the significance level (Sig.) of the profitability variable is 0.000 and has a regression coefficient (Beta) value of -0.788. The significance

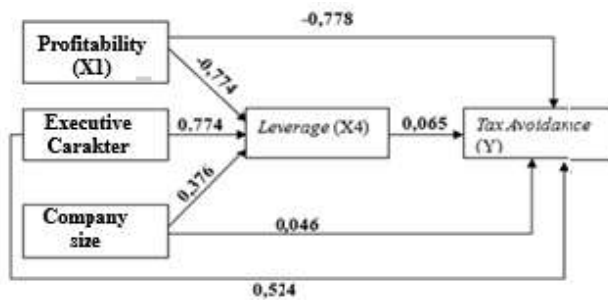


Figure 1: Path Analysis Test Results

- a. Profitability on *tax avoidance* with *leverage* as an *intervening variable*

The direct effect of profitability on *tax avoidance* is -0.778. Meanwhile, the indirect effect of profitability through *leverage* is the product of the *beta* value (profitability on *leverage*) and the *beta* value (*leverage* on *tax avoidance*), which is: $-0.774 \times 0.065 = -0.05$

The above calculation shows that the direct effect is -0.778 and the indirect effect is -0.05, which means that the indirect effect is greater than the direct effect. Therefore, it can be concluded that indirectly, profitability through *leverage* affects *tax avoidance* (H4) is accepted. This is in line with the research, which states that profitability indirectly affects *tax avoidance* through *leverage* as an *intervening variable* [22].

- b. Executive characteristics on *tax avoidance* with *leverage* as an *intervening variable*

The direct effect of executive character on *tax avoidance* is 0.774. Meanwhile, the indirect effect of executive character through *leverage* is the product of the *beta* value (executive character on *leverage*) and the *beta* value (*leverage* on *tax avoidance*), which is: $0.774 \times 0.065 = 0.05$

The above calculation shows a direct effect of 0.774 and an indirect effect of 0.05, which means that the indirect effect is smaller than the direct effect. Therefore, it can be concluded that indirectly, executive characteristics through *leverage* do not affect *tax avoidance* (H5) and is rejected. The results of this study are not in line with the results, which state that *leverage* is an *intervening variable* that connects executive character with *tax avoidance* [23].

- c. Company size on *tax avoidance* with *leverage* as an *intervening variable*

The direct effect of company size on *tax avoidance* is 0.376. Meanwhile, the indirect effect of company size through *leverage* is the multiplication of the *beta* value (company size on *leverage*) by the *beta* value (*leverage* on *tax avoidance*), which is: $0.376 \times 0.065 = 0.02$

The above calculation shows that the direct effect is 0.376 and the indirect effect is 0.02, which means that the indirect effect is smaller than the direct effect. Therefore, it can be concluded that indirectly, company size through *leverage* does not affect *tax avoidance* (H6) is rejected. This is not in line with the research, which states that company size indirectly affects *tax avoidance* through *leverage* as an *intervening variable* [24].

5. DISCUSSION

The study's findings indicate that profitability negatively affects tax avoidance, which aligns with some previous research, suggesting that more profitable companies are less likely to engage in aggressive tax strategies. However, the interpretation of this finding needs to be considered within the context of Indonesian corporate behavior, where a strong emphasis on compliance and reputation may discourage aggressive tax practices despite higher profitability.

Regarding executive character, the study found that executives with a risk-taking profile were more likely to engage in tax avoidance. This finding supports the idea that executives motivated by performance incentives or short-term profit goals may choose aggressive tax strategies. The results highlight the importance of considering individual managerial traits when examining corporate tax behavior.

For company size, the study shows a positive relationship with tax avoidance, suggesting that larger companies may have more resources and opportunities to engage in such practices. However, it is essential to recognize that larger firms are also under greater regulatory scrutiny, which might temper the intensity of their tax avoidance efforts.

Leverage, as an *intervening variable*, demonstrated an indirect effect on tax avoidance via profitability but not through executive character or company size. This finding indicates that while leverage may play a role in amplifying the effect of profitability on tax avoidance, it does not necessarily mediate the relationship between executive behavior or company size and tax avoidance. The implications of these results suggest that further research is needed to understand the varying roles of financial leverage in different corporate environments.

6. CONCLUSIONS

This study offers valuable insights into the factors influencing tax avoidance in Indonesian manufacturing companies, particularly the roles of profitability, executive characteristics, and company size. The findings highlight the complex dynamics between these variables and suggest that regulatory frameworks should consider both firm-specific factors and individual managerial behaviors when addressing tax avoidance. Moreover, the indirect effect of leverage on tax avoidance emphasizes the importance of financial structure in shaping corporate tax strategies. Future research could further explore the moderating effects of corporate governance, external market conditions, and policy changes in the Indonesian context.

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8. AUTHOR CONTRIBUTIONS

- Conceptualization: Aditya Ramadhani Kurniawan
- Data curation: Sugiharto
- Formal analysis: Hedi Pandowo
- Funding acquisition: Aditya Ramadhani Kurniawan
- Investigation: Hedi Pandowo
- Methodology: Aditya Ramadhani Kurniawan

- Project administration: Aditya Ramadhani Kurniawan
- Resources: Sugiharto, Hedi Pandowo
- Writing – original draft: Aditya Ramadhani
- Writing – review & editing: Aditya Ramadhani

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