The Effect Of Company Size, Profitability, Leverage, And Institutional Ownership On Tax Avoidance With Liquidity As A Moderating Variable In Construction Industry Companies Listed On The Indonesian Stock Exchange For The Period 2018- 2022

Novina Galingging
Master of Accounting Study Programme, Postgraduate Programme, Institute Business and Informatics Kesatuan Bogor

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ABSTRACT

Taxes are one of the primary sources of state revenue and are very important in supporting development and financing state expenditure. However, the achievement of tax revenue in Indonesia still needs to be below the average of Asia Pacific countries, partly due to tax avoidance efforts. Some companies use legal loopholes or take illegal actions to minimize taxes payable, such as shifting income abroad. This study analyzes the effect of company size, profitability, leverage, and institutional ownership on tax avoidance, with liquidity as a moderating variable. The sample comprises 64 construction companies listed on the Indonesia Stock Exchange for 2018-2022, with 320 observations. The research model uses Generalised Least Square (GLS) for direct effects and Two Stage Least Square (TSLS) for indirect effects. The results showed that company size, profitability, and institutional ownership do not significantly affect tax avoidance, while leverage has a positive impact. In addition, liquidity, as measured by the Current Ratio, does not strengthen the effect of firm size, profitability, leverage, or institutional ownership on tax avoidance.

Keywords: *Firm Size; Profitability; Leverage; Liquidity; Institutional Ownership*

INTRODUCTION

Tax is a significant source of state revenue, especially in Indonesia, where it accounts for almost two-thirds of total state revenue. Tax revenue is essential because natural resources such as petroleum have a time limit and cannot be renewed, in contrast to taxes, which continue with population growth. However, companies often seek to reduce their tax liabilities as this directly reduces the financial resources they can utilize. In practice, tax avoidance can occur in legitimate or illicit forms, where legitimate tax avoidance involves using legally permissible techniques. In contrast, illegal avoidance tax includes attempts that are prohibited by law.

Indonesia has experienced continuous growth in tax revenue realization since 2000, except in crisis years such as 2009 and 2020. In 2021 and 2022, tax performance jumped significantly, reaching IDR2,035 trillion 2022. Income tax (PPh) plays a dominant role, accounting for about half of total tax revenue, with a growth of 43.3% in 2022. Even so, Indonesia's tax revenue to GDP ratio is still relatively low compared to other Southeast Asian countries, such as Malaysia, Singapore, and Thailand, with the figure in 2022 only reaching 10.4%, far below the Asia Pacific region average of 19.1%.

While the government has successfully achieved its tax targets over the past 12 years, there are still challenges related to taxpayer compliance. Many companies use tax avoidance to reduce their financial burden, including using available legal loopholes. Some companies even engage in tax evasion, causing losses to the state. For example, PT Bentoel was involved in tax evasion worth US$14 million. Tax avoidance can be influenced by factors, like as firm size, profitability, leverage, and institutional ownership.

Company size is one of the main factors that influence the tendency of tax avoidance.

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The larger the company's size, the greater its assets are, thus attracting the attention of the tax authorities. Large companies tend to be more active in using tax avoidance strategies. In addition, profitability (ROA) is also influential, where more profitable companies are usually better able to manage their tax liabilities effectively. Leverage (DAR), the ratio of corporate debt to capital, can also affect tax avoidance, with higher debt tending to reduce pre-tax profits through interest payments.

Institutional ownership, which involves financial institutions such as banks and insurance companies owning company shares, also affects tax avoidance. The greater the institutional ownership, the tighter the oversight of the company's management, which can reduce the possibility of manipulation in financial statements to reduce tax liabilities. Previous studies show mixed results regarding the influence of these factors on tax avoidance, so further research is needed to clarify the effect of company size, profitability, leverage, and institutional ownership on tax avoidance with liquidity as a moderating variable.

Figure 1 State Revenue Realisation

LITERATURE REVIEW

Agency Theory

According to Scott (2015), agency theory is a branch of game theory that focuses on using contracts to motivate agents to act in the principal's best interest. This theory explains the relationship between shareholders (principals) and management (agents), where management is accountable to shareholders for the company's success and resource management. Conflicts arise when agents and principals have different objectives, making it essential to exercise close supervision over management.

According to agency theory, each individual is motivated by their self-interest. Delegation of authority from the principal to the agent creates information asymmetry, where the agent has more information than the principal. To prevent agents from acting solely in their self-interest, supervision and incentive systems are implemented to keep the agent's actions in line with the principal's objectives.

Signaling Theory

Signal theory explains how companies communicate their financial condition to the market. Brigham and Houston (2019) state that asymmetric information often occurs between managers and investors. Managers have more in-depth information about

the company's prospects, which financial reports convey to investors. Positive signals, such as increased profits, can increase the value of shares, while negative signals can decrease the company's market value. Ross (1977) explains that companies try to provide positive signals to increase investor confidence. This theory is essential in reducing investor uncertainty about company performance, so companies must disclose relevant and accurate information in their financial statements.

Tax Avoidance

Tax avoidance is a legal effort companies make to reduce their tax obligations by utilizing legal loopholes. Simanjuntak (2019) states that tax avoidance differs from illegal tax evasion. Companies can use tax planning strategies to minimize tax payments without breaking the law, such as taking advantage of available tax deductions and tax credits. The effective tax rate ratio (ETR) is often used to measure the extent to which companies engage in tax avoidance. The lower the ETR, the more likely the company will engage in tax avoidance practices. Therefore, ETR analysis is essential in understanding how companies manage their tax obligations.

Company Size

Putri (2019) Company size refers to the company's total assets, sales, or capital. Larger companies tend to have better access to capital markets and can attract more investment. Company size also affects the company's ability to obtain external funding. Large companies are considered more stable and have better prospects in the long term. Therefore, companies with large sizes tend to be have better ability to manage business and are better able to deal with business risks.

Profitability

Profitability shows the company's ability to generate profits. According to Ramdhonah and Solikin (2019), profitability is an indicator of management's success in managing company resources. Profitability ratios such as Return on Assets (ROA) assess a company's efficiency in using its assets to generate profits. A high level of profitability not only attracts investors but also shows the company's effectiveness in running its operations. This ratio is important in evaluating the company's overall financial performance.

Leverage

Leverage measures how much a company uses debt to finance its operations. According to Kasmir (2018), the leverage ratio shows the relationship between debt and company assets. This ratio is essential to assess the company's ability to meet its financial obligations, especially in the long term. A high debt-to-asset ratio indicates a greater risk of financial difficulties. Therefore, leverage is essential in assessing a company's financial health.

Institutional Ownership

Institutional ownership is shares owned by financial institutions or other institutions. According to Kadir (2016), institutional ownership can increase the supervision of company management, thereby reducing the risk of deviation. Institutional investors have better information and the ability to predict future company performance. High institutional ownership can increase firm value due to more effective control over management decisions.

Financial Performance

Financial performance reflects the extent to which the company achieves its profitability and economic stability goals. According to Nirawati and Samsudin (2021), financial performance analysis is based on financial statements such as balance sheets and income statements. Good performance indicates that the company can manage resources efficiently and achieve significant profits. Financial performance evaluation is essential to measure the effectiveness of business strategies and ensure that the company remains competitive in the market. This research hypothesis is based on empirical facts and serves as a temporary solution to existing problems. There are several hypotheses proposed regarding the effect of company size, profitability, leverage, and institutional ownership on tax avoidance in construction industry companies listed on the IDX for the 2018-2022 period. This hypothesis involves testing the direct effect of these variables on tax avoidance and the role of liquidity as a moderating

variable. Company size, leverage, profitability, and institutional ownership are expected to have a positive relationship with tax avoidance,. This study also examines whether liquidity can strengthen the relationship of these variables to tax avoidance. The alternative hypothesis (H1-H8) states a positive influence, while the null hypothesis (H0) states no positive impact on tax avoidance.

RESEARCH METHODS

Researchers in this study used a quantitative research approach, which means that the research results are presented in data with statistical numbers. This study analyzes Company Size, *Profitability*, *Leverage,* and Institutional Ownership on *Tax Avoidance* with *Liquidity* as a Moderating Variable in Construction Industry Companies Listed on the Indonesia Stock Exchange for the 2018-2022 Period. The population of this study was 110 construction companies in the building and infrastructure construction sector listed on the Indonesia Stock Exchange in 2018-2022, of which 64 companies met and met the criteria that had been adjusted in this study. This study used a purposive sampling method, namely a technique based on specific considerations (*judgment sampling*), which involves selecting subjects in the most favorable place or in the best position to provide the necessary information. The researchers determined the research sample with the following criteria: (1) Construction Industry Companies Listed on the Indonesia Stock Exchange for the Period 2018-2022. (2) Sample companies publish complete *annual reports* needed from 2018 to 2022. (3) Sample companies did not experience losses during the observation period 2018- 2022.(4) The company presents its financial statements in rupiah currency.

This study uses independent and dependent variables. *Tax Avoidance* (Y) is the dependent variable. Company Size (X1), *Profitability* (X2), *Leverage* (X3), and Institutional Ownership (X4) are independent variables, and *Liquidity* (Z) is a mediating variable. The data analysis model uses multiple linear regression analysis on panel data to evaluate the direct effect.

RESULTS AND DISCUSSION

A. Research Results

Dependent Variable (Tax Avoidance

From the descriptive statistical analysis in Table 4.1, the *Tax Avoidance* variable, as measured by *Current ETR*, shows an average value of -0.5862378 with a median of 1.835717. This negative mean value indicates that the average level of tax avoidance of the tested construction companies is below zero for five years, which indicates a low level of tax avoidance among these companies. The data distribution shows significant differences, with a minimum value of -15.156 and a maximum value of 15.6966. This indicates a high variation in the level of tax avoidance among the entities, which may influence company policies or other external factors.

Independent Variable

The firm size variable has an average of 28.95974 with a maximum value of 32.2074 and a standard deviation of 1.398836, indicating that firm size is relatively consistent around the average. The distribution of the data shows that the differences in company size are not too significant, indicating stability in company size in the construction sector. For the Profitability (ROA) variable, the mean value is -0.1038625 with a relatively high standard deviation of 1.881042, indicating significant variation in firm profitability. The leverage variable (DAR) shows an average value of 15.82867 with a very high maximum value of 3461.978, indicating extreme values that need to be considered in the distribution of leverage data. Meanwhile, the institutional ownership variable has an average value of 0.5758 with a maximum value of 0.93 and a standard deviation of 0.2227. This shows that institutional ownership in the companies studied is relatively high, with an average of 57%, and small fluctuations are reflected in the low standard deviation.

No.	Variables	Sample	Observation	Mean (π)	Stdev (σ)	Min	Med	Max
1	*Tax Avoidance*	64	320	-0.5862378	1.835717	-15.156	-0.7859	15.6966
2	Company Size	64	320	28.95974	1.398836	21.9068	29.1683	32.2074
3	*Profitability*	64	320	- 0.1038625	1.881042	- 33.1099	0.0181	0.4644
4	*Leverage*	64	320	15.82867	201.5727	0.1085	0.5298	3461.978
5	Institutional Ownership	64	320	0.5758312	0.2227187	0	0.57	0.93
6	*Current Ratio*	64	320	1.607012	1.229188	0.0002	1.2908	7.0456

Moderating Variable (Liquidity/Current Ratio)

Liquidity, as measured by the Current Ratio, shows an average value of 1.607012, which indicates that, in general, companies have sufficient current assets to pay off short-term liabilities. However, the minimum value of 0.0002 indicates entities with serious liquidity problems, while the maximum value of 7.0456 indicates entities with perfect liquidity conditions. The median value lower than the mean suggests that most entities have a lower-than-average liquidity ratio. The high variability in this data indicates that it is essential to analyze further the factors that influence liquidity ratios and their impact on the financial health of firms.

For the estimator in the regression model to be unbiased, the estimator must fulfill the BLUE (best, linear, impartial estimator) assumption. To achieve this, the parameters of the regression results, in addition to being linear, must also have properties that represent the population (best and linear). In addition, so that the minimum number of residual squares is efficient, the variance of the residuals must be constant (homoskedacity) and not correlated between the residuals (no autocorrelation). Classical assumption testing in this study includes multicollinearity and homoscedasticity.

Table 1 Classical Assumption Test Results

Variable Name	VIF	1/VIF
Company Size	7.73	0.129414
Profitability	11.55	0.086603
Leverage	11.66	0.085783
Institutional Ownership	7.79	0.128301
Current Ratio	1.01	0.988256
Mean VIF	7.95	

This study used various models to test the hypothesis that the *Breusch-Pagan/Cook-Weisberg* test results were heteroskedastic. Such violations are addressed by adding the option ",*vce(robust)*," which indicates robust heteroskedasticity when running the regression command in STATA (Cameron & Trivedi, 2009).

To avoid errors in the interpretation of the independent variables in the model, it is essential to ensure no correlation between variables or multicollinearity. For example, the sign is opposite in direction and insignificant due to the correlation between variables (Sutarti, 2020). The classical assumption test for the variable inflation factor, or VIF, indicates the presence of multicollinearity. Results with a mean VIF above 10 indicate the presence of multicollinearity. However, suppose the regression results are used to calculate each variable's VIF difference inflation factor. In that case, the VIF indicator of more than five means that multicollinearity occurs between the independent variables. The Variation Inflation Factor (VIF) test, which is used in testing the classical assumptions for multicollinearity, indicates the presence of multicollinearity if the average VIF value is above 10; based on the VIF test for each test model, there is multicollinearity for some test variables. This study handled multicollinearity violations by imputing mean values centered on some variables (Tanikawa et al., 2017).

The Effect of Company Size on Tax Avoidance in Construction Industry

This study examines the effect of company size on tax avoidance in construction industry companies listed on the IDX. Based on the research results, the significant value for company size is 0.071, with a coefficient of 0.1717348. This means that H0 is accepted, which indicates that company size has no significant effect on tax avoidance because the considerable value is greater than 0.05. These results are in line with the research of Tebiono et al. (2019), Dewi and Jati (2014), and Titisari and Mahanani (2017), who found that company size does not affect tax avoidance practices.

Company size is often associated with the complexity of tax strategies, where large companies are considered to have more resources to minimize the tax burden. However, this study shows that both large and small companies can engage in tax avoidance, so there is no significant correlation between company size and tax avoidance. One factor that could influence this is the company's operational structure, including sales patterns and revenue recognition, which may be more influential in tax avoidance strategies than the size of the company itself.

The Effect of Profitability on Tax Avoidance in Construction Industry

In testing hypothesis H2, this study found that profitability, measured by Return on Assets (ROA), has no significant effect on tax avoidance. The considerable value of profitability is 0.152, with a coefficient of 0.0410898, indicating that H0 is accepted, meaning that profitability does not affect tax avoidance. These results are consistent with the research of Mahpudin et al. (2020); Annisa Fadilla (2015); and Yati Mulyati et al. (2019), which also found that ROA has no significant effect on tax avoidance.

The results of this study indicate that some firms may focus more on operations and growth rather than tax avoidance. This is also influenced by strict taxation policies, where companies with high profitability tend to comply with tax regulations to avoid legal and reputational risks.

The Effect of Leverage on Tax Avoidance in Construction Industry

The results of testing hypothesis H3 show that leverage has a significant positive effect on tax avoidance, with a substantial value of 0.0392 and a coefficient of 0.0009301. This means that H0 is rejected, this research is in line with the findings of Mahpudin et al., (2020); Putra et al., (2017); Nathania et al., (2021); Oktivina et al., (2020); Yati Mulyati et al., (2019), who found that leverage positively affects tax avoidance.

Leverage is a ratio that describes how much a company uses debt to finance its assets. In the context of taxation, companies that have large debts can reduce their tax burden through debt interest that can be deducted from pre-tax income. Using debt to fund large projects is widespread in construction companies, so leverage contributes to tax reduction.

The Effect of Institutional Ownership on Tax Avoidance in Construction Industry

Institutional ownership in this study does not significantly affect tax avoidance, with significant value of 0.426 and a coefficient of -0.2683614. This means that H0 is accepted, and institutional ownership does not affect tax avoidance practices. This finding is consistent with Fathurrahman et al.'s (2021); Ayunanta et al., (2020); Sari et al., (2020) and Tandean & Winnie's (2016) research, which also showed no effect of institutional ownership on tax avoidance.

Although institutional ownership can reduce agency conflicts, this result suggests that institutional owners may be more focused on the company's long-term goals, such as increasing share value, rather than engaging in tax avoidance practices that risk the company's reputation.

The Effect of Company Size on Tax Avoidance with Liquidity as a Moderating Variable

This study also examines the effect of company size on tax avoidance, with liquidity as a moderating variable. The results showed that liquidity does not strengthen the effect company size on tax avoidance, with a significant value of 0.067 and a coefficient of 0.3414222. These results support previous studies such as those by Rejeki

(2019) and Maharani (2019), who state that the liquidity ratio does not significantly affect tax avoidance.

The absence of the moderating effect of liquidity may be due to factors such as effective tax policy or sales growth that influence tax avoidance strategies more than firm size or liquidity.

The Effect of Profitability on Tax Avoidance with Liquidity as a Moderating Variable

Liquidity also does not strengthen the effect of profitability on tax avoidance, with a significant value of 0.350 and a coefficient of 0.8104412. These results are consistent with Yuliesti Rosalia's (2017) research, which shows that liquidity does not affect the relationship between profitability and tax avoidance.

Profitability and liquidity may not be directly related, and more profitable firms do not necessarily rely on liquidity to avoid taxes. Other factors, such as tax complexity or international tax planning, may be more significant in influencing decisions regarding tax avoidance.

The Effect of Leverage on Tax Avoidance with Liquidity as a Moderating Variable

Testing hypothesis H7 shows that liquidity also does not strengthen the effect of the relationship between leverage and tax avoidance, with a significant value of 0.265 and a coefficient of 0.2386751. This suggests that leverage, which is more dominant in influencing tax avoidance strategies, is not influenced by liquidity. Companies with high leverage may focus more on debt management and interest costs rather than short-term liquidity in planning tax avoidance strategies.

The Effect of Institutional Ownership on Tax Avoidance with Liquidity as a Moderating Variable

Finally, liquidity does not strengthen the effect of the relationship between institutional ownership and tax avoidance, with a significant value of 0.202 and a coefficient of 8.442619. This aligns with Putu and Wayan's (2018) research, which shows that liquidity is irrelevant in influencing the relationship between institutional ownership and tax avoidance. Institutional ownership tends to be oriented towards long-term strategies, which may be more influenced by leverage or long-term investment than liquidity in tax avoidance.

CONCLUSIONS

Based on the research results, several factors, such as company size, profitability (ROA), and institutional ownership, have no significant effect on tax avoidance in construction industry companies listed on the IDX for the 2018-2022 period. Company size and profitability show a considerable value greater than 0.05, so the hypothesis stating the positive effect of these two variables on tax avoidance is rejected. In addition, institutional ownership also has no adverse effect on tax avoidance, as evidenced by a significant value of 0.426. These variables do not play an essential role in influencing tax avoidance by construction companies in the study period.

In contrast, leverage (DAR) is proven to have a positive effect on tax avoidance with a significant value of 0.0392 <0.05, which indicates that the higher the leverage, the greater the tendency of companies to do tax avoidance. However, liquidity (Current Ratio) does not moderate the effect of company size, profitability, leverage, or institutional ownership on tax avoidance. A significant value greater than 0.05 indicates that the company's liquidity ratio does not strengthen the relationship between these variables and tax avoidance strategies.

The theoretical suggestions in this study provide direction for future researchers to expand the scope of research. First, it is recommended that future researchers expand the field and type of business study because this study only covers the construction industry sector with 64 companies over five years. By expanding the scope, the research results are expected to be more diverse and relevant to various industrial sectors. In addition, future researchers are also advised to add independent variables such as corporate governance, fiscal loss, and earnings management, which may significantly influence tax

avoidance. Another suggestion is to focus on specific company size categories, such as large or small companies, to get more specific and targeted results.

This research guides companies, investors, and the government in practical implications. For companies, this research can help understand management behavior in taking steps to avoid taxes and provide insights for wiser decision-making regarding tax strategies. Companies are expected to comply with applicable tax regulations to avoid the risk of tax evasion that could harm them. For investors, the results of this study can be a guide in assessing company performance related to compliance with tax regulations before investing. For the government, this research emphasizes the importance of establishing clear and firm tax avoidance rules so taxpayers can plan taxes properly, thus creating a fair and transparent tax system for all parties.

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