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Pengaruh Managerial Ability dan Karakteristik Perusahaan Terhadap Praktik Penghindaran Pajak

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ABSTRACT

This study aims to determine the effect of managerial ability and company characteristics proxied by profitability, leverage, and company size on tax avoidance. The population is manufacturing companies listed on Indonesia Stock Exchange 2020-2022. Hypothesis testing in this study uses the Panel Data regression statistical test with the Fixed Effect Model (FEM). The results of the analysis show that partially the managerial ability variable and company characteristics proxied by profitability, leverage, and company size have a negative effect on the Effective tax rate (ETR). This means that the higher the profitability, the smaller the ETR. The smaller the ETR indicates the higher the tax avoidance. So managerial ability, profitability, leverage, and company size have a positive influence on tax avoidance. Simultaneously the variables of managerial ability, profitability, leverage, and company size affect tax avoidance practices.

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1. INTRODUCTION

The tax ratio in Indonesia to Gross Domestic Product (GDP) over the past 5 years, namely 2018, 2019, 2020, 2021, and 2022, stood at 10.24%; 9.77%; 8.33%; 9.12%; and 10.39%, respectively. Although the tax ratio in Indonesia has tended to increase in the last two years due to economic recovery from the pandemic, Indonesia's taxation ratio still remains below the average compared to countries following the OECD. It is noted that out of 24 countries in the Asia Pacific region, Indonesia ranks third-lowest in tax ratio (OECD, 2023). This is evidenced by the comparison data of tax ratios of ASEAN countries presented in Figure 1 below:

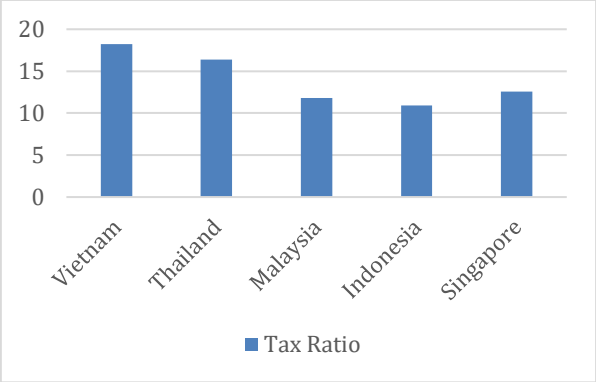

Figure 1. *Tax Ratio of ASEAN Countries*
Source: OECD (2023)

Based on the above Figure 1, the tax ratio to GDP in Indonesia in 2021 was 10.9%, which is the lowest compared to countries in the ASEAN region with relatively similar economic sizes, such as Malaysia at 11.8%, Singapore at 12.6%, Thailand at 16.4%, and even Vietnam at 18.2%. The tax ratio can be assessed from the tax revenue collected by the government. A high tax ratio in a country indicates good government performance in collecting taxes. Conversely, a low tax ratio indicates poor government performance in tax collection. The low tax ratio in Indonesia can occur because many taxpayers are not compliant with their tax obligations. The OECD assesses that Indonesia has poor compliance (OECD, 2021). This poor compliance is caused by differences in interests between taxpayers and tax regulators being contradictory in terms of tax payments.

These differences in interests drive taxpayers to minimize tax burdens through non-compliance with tax regulations such as tax avoidance. Tax avoidance is an effort to evade taxes by exploiting weaknesses in tax regulations to reduce the amount of tax payable legally, as it does not violate tax regulations. In measuring tax avoidance practices, Effective Tax Rates (ETR) are used. ETR is measured to determine the amount of tax burden imposed. Effective tax rates can assess companies in tax avoidance; if a company obtains a low ETR, the level of tax avoidance by the company is higher, conversely, if a company obtains a high ETR, the level of tax avoidance by the company is low.

To reduce tax burdens, managerial expertise as the company's administrator, namely managers, is required. Managers, with their managerial ability, optimize management through tax avoidance strategies to minimize the company's tax burden (Koester et al., 2017). Managerial ability is the manager's skill in efficiently utilizing limited resources throughout the business operations to enhance the company's value (Demerjian et al., 2012).

According to Park et al., (2016), increasing the company's value can be achieved through tax avoidance by reducing resources transferred to tax authorities. A company's tax avoidance

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can be observed from managerial policies in selecting accounting methods (Harnovinsah & Mubarakah, 2016). Arham et al., (2020) reveal that typically, companies through managerial policies will seize available opportunities to minimize tax burdens by setting transfer prices.

H_1: Managerial Ability has a positive influence on tax avoidance

Another factor that can cause a company to engage in tax avoidance practices is company characteristics. Company characteristics indicate a company's inclination to engage in tax avoidance. Research by Yahaya & Yusuf (2020) yields results that company characteristics influence tax avoidance. The company characteristics in the study are profitability, leverage, and company size. Additionally, other research indicates that company characteristics such as company size, profitability, and leverage have a significant impact on tax avoidance strategies (Aulia et al., 2020).

Profitability is a ratio used to measure a company's ability to generate optimal profits. In determining the level of profitability ratio measurement, Return on Assets (ROA) can be used. Return on Asset is a ratio that assesses the return on the amount of assets used in the company. Arswendy Danardhito (2023) in his research proves that profitability has a significant positive relationship with tax avoidance. Additionally, Zhang et al., (2022) reveal that profitability results are indirect and imply that when ROA increases, tax payments decrease.

H_2: Profitability has a positive influence on tax avoidance.

Leverage is the total debt of a company used for financing and can evaluate the amount of assets financed by debt. The leverage measurement used in this study is LDER. Long-term Debt to Equity Ratio (LDER) is a ratio used to measure the portion of equity used as collateral for long-term debt. Companies can use the proportion of long-term debt to implement tax avoidance because companies financing with debt will have a lower effective tax rate compared to companies financing with equity. Supported by research conducted by Jingga & Lina, (2017) companies with higher debt will have a lower Effective Tax Rate (ETR) because interest expenses will reduce the company's tax burden.

H_3: Leverage has a positive influence on tax avoidance.

Company size refers to the concept divided into the largeness and smallness of a company. There is a relationship between agency theory and company size. The larger a company, the more frequent the occurrence of asymmetric information between principal and agent. The principal wants the company to generate large profits, so the agent, who has access to internal information, fulfills their responsibility, one of which is the possibility of tax avoidance. Companies classified as large or possessing large assets tend to have the capability and stability to generate profits better than small companies. Thus, with the increase in company size, the magnitude of tax avoidance actions undertaken by the company also increases. Research conducted by Eddy & Angela (2020) indicates that company size significantly influences tax avoidance, implying that the larger the organization (company), the more prominent the assets owned by the organization to address its tax rate.

H_4: Company size has a positive influence on tax avoidance.

2. RESEARCH METHODOLOGY

This research utilizes secondary data, which is information collected by researchers from various available sources. Financial reports of manufacturing companies listed on the Stock Exchange for the years 2020-2022 are used as the research data source. These reports are obtained from the official websites of the companies and the Indonesia Stock Exchange. The study employs a population of all manufacturing companies in the consumer goods industry sector listed on the

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Indonesia Stock Exchange (IDX) from 2020 to 2022. The sampling method used is purposive sampling, resulting in 87 research samples.

Dependent Variable: Tax Avoidance

This study employs the dependent variable of tax avoidance practice measured through indicators constructed based on previous phenomena and research. Tax avoidance is measured using indicators related to the Effective Tax Rate (ETR) in practicing tax avoidance. A lower ETR value indicates tax avoidance by the company. According to Lanis & Richardson (2013), the Effective Tax Rate depicts the percentage of the total income tax expense divided by the pre-tax income of the company. The formula for Effective Tax Rate (ETR) is as follows:

ETR = Income Tax Expense / Pre-tax Income

Independent Variable: Managerial Ability

Managerial ability measurement in this research is conducted through accounting method policies and transfer pricing practices. Managers can choose policies that affect profits. Thus, accounting methods provide managers the opportunity to select accounting policies through profit reduction methods (Harnovinsah & Mubarakah, 2016). The accounting policies used as indicators of managerial ability are the choice of accounting basis alternatives, inventory valuation, and depreciation methods. Additionally, another indicator is seen management policies in conducting transfer pricing. Each indicator is given a score of 1 for indicating tax avoidance and a score of 0 for not indicating tax avoidance. The scores of each indicator are summed and multiplied by one hundred.

Independent Variable: Profitability

Profitability is a measure of management success in conducting business. Profitability is measured using Return on Assets (ROA). ROA is used to measure a company's ability to profit through its total assets. ROA is calculated by comparing net income after interest and taxes with the total assets of the company with the following formula:

ROA = Net Income After Tax / Total Assets

Independent Variable: Leverage

Leverage is a ratio used to determine how much debt balances a company's assets. Long-term Debt to Equity (LDER) is used in measuring leverage. The interest costs arising from long-term debt result in a decrease in the company's gross income. When the interest costs are higher, they will reduce the company's tax burden (Wang et al., 2020). To measure leverage, Long-term Debt to Equity is calculated using the following formula:

LDER = Long-term Debt to Equity / Total Equity

Independent Variable: Company Size

Company size is the classification of companies based on their scale, whether large or small, by considering factors such as revenue, assets, and equity. To determine the size of a company, the natural logarithm of the number of employees can be used (Adikara, 2011) with the following formula:

Size = LN (Total Employees)

Data Analysis Method

The hypothesis testing of this research employs statistical tests on panel data. Model parameters through panel data can be estimated using three methods: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). In selecting panel data regression, the Chow Test, Hausman Test, and Lagrange Multiplier Test (LM) are conducted. Panel data analysis does not require classical assumption testing, as this method can minimize bias and provide informative results. The software used for data analysis in this study is Eviews 13.

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3. RESULTS AND DISCUSSION

Descriptive Statistics

Based on the data processing conducted, the following are the results of descriptive statistics for the research variables in the sample of manufacturing companies for the period 2020-2022.

Var.	N	Max.	Min.	Mean.	St. Dev.
ETR (Y)	87	86,32	0,38	23,97	10,78
MANA (X1)	87	75	25	59,48	17,15
ROA (X2)	87	30,99	0,01	9,99	6,61
LDER (X3)	87	157,16	0,38	23,30	31,06
SIZE (X4)	87	11,43	4,62	7,50	1,66

Table 1. Descriptive Statistics Results
Source: Data processed by the author, 2024

The average managerial ability of all sample companies is 59.483. The research results indicate thatvon average, thevsample companies have relatively high managerial abilities. With an average value of 9.991, ROA shows that, on average, the sample companies have good profitability. Leverage, with an average value of 23.303, indicates that the sample companies have long-term debt amounting to 23.303% of their total capital. Size has an average value of 7.49, indicating that the sample companies are classified as large companies as they exceed the minimum threshold.

Regression Results Analysis

The regression model uses panel data consisting of Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Testing is conducted using the Chow Test, Hausman Test, and Lagrange Multiplier Test. Data processing is done using Eviews 13.

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.699519	(28,54)	0.0000
Cross-section Chi-square	119.630042	28	0.0000

Table 2. Chow Test
Source: Panel data output results, Eviews 13

The Chow test analysis results show a prob. value for the Cross-section Chi-square of 0.000, which is smaller than the 5% significance level. Therefore, according to decision-making

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criteria, H0 is rejected, indicating that this research is better suited using the Fixed Effect model than the Common Effect model. Thus, the Hausman Test is subsequently conducted.

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	79.750402	4	0.0000

Table 3. Hausman Test Results
Source: Panel data output results, Eviews 13

Based on the Hausman Test results, the prob. value for the Cross-section random is 0.0000, which is smaller than the 5% significance level. Thus, according to decision-making criteria, H0 is rejected, indicating that this research is better suited using the Fixed Effect model than the Random Effect model. Hence, this research employs the Fixed Effect model.

Table 4. Regression Equation Results

Dependent Variable: ETR
Method: Panel Least Squares
Date: 01/06/24 Time: 23:13
Sample: 2020 2022
Periods included: 3
Cross-sections included: 29
Total panel (balanced) observations: 87

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MANA	-2.135880	0.262347	-8.141424	0.0000
ROA	-0.692257	0.272096	-2.544161	0.0138
LDER	-0.198187	0.085194	-2.326300	0.0238
SIZE	-34.68736	7.099723	-4.885734	0.0000
C	422.6036	62.64138	6.746397	0.0000

R-squared	0.798428	Mean dependent var	23.96506
Adjusted R-squared	0.678978	S.D. dependent var	10.78438
S.E. of regression	6.110299	Akaike info criterion	6.739525
Sum squared resid	2016.131	Schwarz criterion	7.674870
Log likelihood	-260.1693	Hannan-Quinn criter.	7.116159
F-statistic	6.684207	Durbin-Watson stat	2.302511
Prob(F-statistic)	0.000000		

Source: Hasil output data panel, *Eviews* 13

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Based on the statistical test results, it is found that, partially, managerial ability harms ETR with a regression coefficient value of -2.136 and a p-value of 0.000 < 0.05; profitability harms ETR with a regression coefficient value of -0.693 and a p-value of 0.014 < 0.05; leverage harms ETR with a regression coefficient value of -0.198 and a p-value of 0.024 < 0.05; company size harms ETR with a regression coefficient value of -34.687 and a p-value of 0.0000 < 0.05. The F-statistic test indicates an F-value of 6.684207 with a prob. (F. statistic) of 0.000000 < 0.05. These results indicate that H0 is rejected, meaning that Managerial Ability, Profitability, Leverage, and Company Size collectively influence tax avoidance. R-square indicates a value of 0.6789 or 67.89%. This suggests that 67.89% of tax avoidance, as proxied by ETR, is influenced by Managerial Ability, Profitability, Leverage, and Company Size. The remaining 32.11% is explained or influenced by other unexamined variables.

Impact of Managerial Ability on Tax Avoidance

The research findings are consistent with the research objective, which is that managerial ability influences tax avoidance. The hypothesis in this research is supported by statistical results showing a regression coefficient value of -2.136 and a p-value of 0.000 < 0.05, thus rejecting H0, meaning that managerial ability harms ETR. The higher the managerial ability, the lower the ETR. As previously explained, a low ETR indicates a higher level of tax avoidance. The conclusion drawn from this hypothesis test result is that managerial ability positively influences tax avoidance.

One of the managerial tasks is making decisions related to tax avoidance practices. The company management's policy to engage in tax avoidance depends on managerial ability. Another assumption supporting this research is the belief that executives with higher managerial ability have a better understanding of the company's operational environment (Demerjian et al., 2012). This understanding allows for alignment between business decisions and tax strategies, making it easier for managers to identify and exploit tax planning opportunities.

Impact of Profitability on Tax Avoidance

The hypothesis in this research indicates a regression coefficient value of -0.693 and a p-value of 0.014 < 0.05, thus rejecting H0, meaning that ROA harms ETR. The higher the ROA value, the lower the ETR. Because the ETR value is inversely related to tax avoidance, as tax avoidance increases, the ROA value also increases. Higher profitability of a company indicates better performance, allowing for more opportunities to engage in tax avoidance to minimize the tax burden. The research findings align with studies conducted by Arswendy Danardhito (2023) and Putu & Gunaasih (2021) indicating that profitability influences tax avoidance.

Impact of Leverage on Tax Avoidance

The hypothesis in this research indicates a regression coefficient value of -0.198 and a p-value of 0.024 < 0.05, thus rejecting H0, meaning that leverage harms ETR. The higher the LDER, the lower the ETR. Because the ETR value is inversely related to tax avoidance, as tax avoidance increases, the LDER value also increases. Therefore, leverage positively influences tax avoidance. The research findings align with studies conducted by Jingga & Lina, (2017) and Adegbite & Bojuwon (2019) indicating that leverage has a positive effect on tax avoidance.

Impact of Company Size on Tax Avoidance

The research findings indicate that company size influences tax avoidance. This is demonstrated by the statistical results showing a regression coefficient value of -34.687 and a p-value of 0.0000 < 0.05, thus rejecting H0, meaning that size harms ETR. The higher the size value, the lower the ETR. A low ETR value indicates a higher level of tax avoidance. Therefore, the hypothesis test results indicate that company size positively influences tax avoidance.

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This research has findings consistent with studies conducted by Zhang et al., (2022) and Fernández-Rodríguez & Martínez-Arias, (2012) indicating that company size positively influences tax avoidance. Larger companies with good resources can support tax avoidance efforts.

4. CONCLUSION

Based on the analysis results, it is found that each variable, namely managerial ability, profitability, leverage, and company size, influences tax avoidance practices. Managerial ability has a positive influence on tax avoidance. Managers play a crucial and strategic role in decision-making, especially in tax avoidance practices to minimize the tax burden borne by the company. Furthermore, profitability has a positive influence on tax avoidance. The higher the profitability, the more mature the company's tax planning, leading to optimal tax outcomes. Leverage has a positive influence on tax avoidance. Companies with higher leverage have more opportunities for tax planning. Additionally, company size has a positive influence on tax avoidance. Larger companies with good resources are better positioned to engage in tax avoidance practices.

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