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THE EFFECT OF PROFITABILITY, LEVERAGE, AND COMPANY SIZE ON TAX AVOIDANCE IN MANUFACTURING COMPANIES LISTED ON THE IDX

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Abstract

This research is to look at the influence of profitability, leverage and company size on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange. 2017-2021 period. Research data can be accessed on the official website www.idx.co.id. The sampling method used purposive sampling and obtained 34 companies. The data analysis technique in this research uses the Panel Data Regression method with the Eviews 10 software tool. This type of research is quantitative research. The data used in this research is secondary data. The data collection technique used in this research using the documentation method was carried out using annual financial report data from manufacturing companies listed on the Indonesian stock exchange. The research results found that the profitability and leverage variables had no effect on tax avoidance, and the company size variable had a positive and significant effect on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange.

Keywords: tax avoidance, profitability, leverage, company size

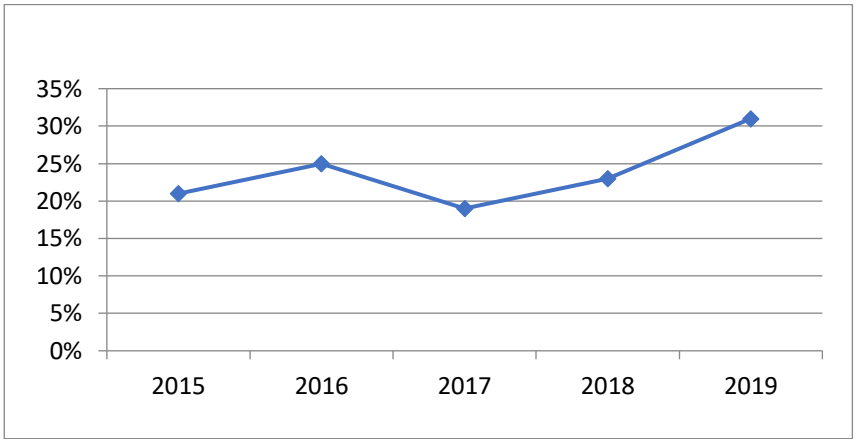
INTRODUCTION

According to WorldMatters (2020), Indonesia is the fourth most populous country in the world, with a population of 274.9 million. Due to its strategic geographic location along major international trade routes, Indonesia possesses abundant natural resources. Furthermore, Indonesia's high level of consumer spending encourages both foreign and domestic investors and entrepreneurs to open businesses in Indonesia. The presence of these investors can help Indonesia increase government revenue, particularly in the tax sector. Because taxes are crucial for driving development, their existence is also crucial for a country. As a primary source of funding for the government, taxes are used to pay for various expenditures, such as infrastructure and other development projects. The significance of these taxes is outlined in Article 21 of Law of the Republic of Indonesia Number 28 of 2007, which states that individuals or organizations subject to legal coercion must make mandatory contributions to the state without receiving direct compensation and must be allocated for the benefit of the state to maximize the prosperity of the people. Therefore, taxes are a crucial phenomenon that is constantly evolving in Indonesia and must be managed properly and appropriately.

In practice, the government and taxpayers typically have different objectives in taxation. Taxes represent a burden that can reduce net profits for taxpayers or businesses. Income tax remitted to the state treasury will be high if the business generates significant profits. The government is intensifying and expanding efforts to increase tax revenues to maximize tax revenues (Director General of Taxes Letter No. S14/PJ.7/2003, 2003). In this industry, efforts to maximize profits are not without obstacles. Tax avoidance practices by business actors pose a challenge to maximizing tax revenue. However, tax avoidance is not considered illegal, as taxpayers' actions to minimize tax payments are regulated by the applicable Tax Law. According to Sutanto (2022), one way taxpayers, both individuals and legal entities, reduce their tax obligations in accordance with the law is by engaging in tax avoidance. In 2005, a tax avoidance incident occurred, where 750 international companies conducting foreign investment reported losses for five years and thus failed to pay taxes (Bappenas, 2005). Based on tax reports submitted by the Directorate General of Taxes in 2012, there were approximately 4,000 foreign investment companies (PMA) that reported no tax payable. These companies admitted to having suffered losses for seven consecutive years, especially those engaged in manufacturing and raw material processing. (DGT, 2013).

Figure 1 Manufacturing company that

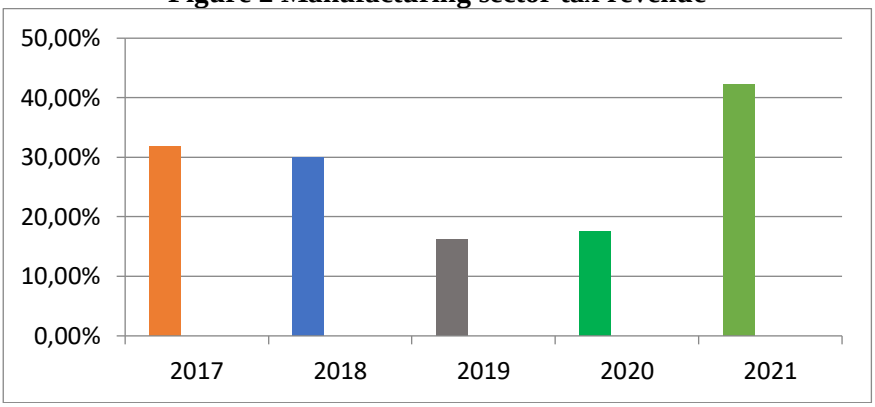
engage in tax evasion



Source:http://kemenperin.go.id

Based on figure 1,The number of manufacturing companies engaging in tax avoidance has increased. In 2015, the percentage of tax avoidance in manufacturing companies was 21%, in 2016 it increased to 25%, then in 2017 it was 19%, and in 2018 it increased again to 23%, then increased again in 2019, to 31%. The manufacturing sector provides the largest contribution to state tax revenue, followed by the trade, finance, and agriculture sectors.

Figure 2 Manufacturing sector tax revenue



Source:http://kemenperin.go.id

Based on Figure 2,In 2017, tax revenue from the manufacturing sector was recorded at 31.8%. It rose to 30% in 2018, then dropped to 16.2% in 2019. This was due to the Covid-19 pandemic, which caused many manufacturing companies to experience losses. In 2020, tax revenue from manufacturing companies reached 17.6%, then increased in 2021 to 42.24%.http://kemenperin.go.id) Consequently, tax evasion has become a complex issue. Tax avoidance practices in the business world are usually a consequence of management decisions and do not occur randomly. The government strives to combat rampant tax avoidance through the tax authorities as much as possible. However, uncertainties or loopholes in a number of tax laws still allow taxpayers to avoid paying taxes. Taxpayers must comply with legally enforced regulations if they wish to avoid taxes. Therefore, the government does not have the authority to impose legal sanctions on those who evade taxes, even though this can lead to a decrease in state revenue.

Tax avoidance can be triggered by various factors, such as profitability, leverage, and company size. According to Wahyuddin & Ahyuni (2022), a business's ability to generate profits by utilizing its assets is known as profitability. A company's profitability serves as the basis for evaluating its situation. Therefore, an analytical approach is needed to evaluate it. The analytical tool in question is a financial ratio, a ratio that displays a company's profit or earnings over a specific period. The size of the company's profits determines the amount of corporate tax payable. Return on Assets (ROA) is a measuring tool often used to evaluate profitability. An indicator of a company's success or financial health is return on assets. A company's financial condition or performance is considered positive if it achieves a higher ROA value. The ROA value is influenced by the company's net profit and the company's income tax (PPh) obligations. Numerous studies have been conducted to establish the relationship between a

business's financial health and tax avoidance, with a particular emphasis on business profitability. According to Anggraeni & Oktaviani (2021), profitability positively influences tax avoidance. This contrasts with research conducted by Arianandini & Ramantha (2018), which found that profitability negatively influences tax avoidance. In addition to profitability,*leverage*It can also be predicted as a factor influencing tax avoidance. According to Nanda, Muchtar, & Bahri (2022), leverage describes the extent to which a company is able to cover all its debts using its existing capital. Companies use leverage to achieve profits that exceed the cost of assets and funding sources used, thereby increasing returns for investors. However, financial risk can also be associated with leverage. If a company's profits are lower than its fixed costs, leverage will impact shareholder profits.

One ratio used to evaluate a company's debt burden is the Debt to Equity Ratio (DER). The DER indicator illustrates how much of a company's financing comes from debt compared to its equity capital. Research by Pratiwi, Mahaputra, & Sudiartana (2021) explains that tax avoidance is positively influenced by leverage, so the amount of corporate debt can influence the company's tendency to avoid taxes. However, research by Wardana & Wulandari (2021) shows the opposite, namely that leverage has a negative effect on tax avoidance. Company size is another factor influencing tax avoidance. According to findings by Rantika, Mursidah, Yunina, and Zulkifli (2022), the size of a company is determined by its size. A company's assets increase in proportion to its total assets. The stability and capacity of a company to carry out its economic activities are indicated by its size. Larger businesses attract more government attention, which increases the likelihood that company executives will comply with tax laws or take aggressive action.Company size is measured using the SIZE indicator, where Ln (Natural Logarithm) is multiplied by Total Assets. Wafirli (2017) found that company size has a positive effect on tax avoidance. Conversely, research by Kelline, Evana, and Niken (2022) found that tax avoidance is negatively affected by company size.

The 2013 tax evasion case by PT Toyota Motor Manufacturing Indonesia (TMMIN) is just one of several ongoing tax fraud cases in Indonesia. The reason for this TMMIN case is that its distribution and marketing divisions are under the TAM banner, while the car assembly (manufacturing) corporation is under the TMMIN brand. First, TAM buys four-wheeled vehicles from TMMIN, then TAM resells them to Auto 2000. The cars are sold to customers starting with Auto 2000. The gross profit margin dropped by 7% due to this division, which should have increased to 14% if combined. The Director General of Taxes began to wonder where the 7% gross profit margin went. (Kontan.co.id, 2013). PT Kalbe Farma Tbk is another company caught up in a tax evasion case in Indonesia, which resulted in the issuance of a 2017 Income Tax Underpayment Assessment Letter (SKPKB) for Rp 527.85 billion for Income Tax and VAT for the 2016 Fiscal Year (Kalbe Farma, 2017). The Directorate General of Taxes' SKPKB indicates that the corporation is attempting to engage in tax evasion to reduce the amount of tax owed.

LITERATURE REVIEW

The Relationship Between Profitability and Tax Avoidance

According to Kasmir (2019), the profitability ratio is a ratio used to assess a company's capacity to generate profits within a certain period. Profitability is a measure of how well a company's management performs in overseeing and managing its assets, as indicated by the profits earned. Susanti (2018) states that a high profitability ratio indicates efficient management operations. Business profitability increases with profits. Profit growth increases tax liabilities or indicates the potential for a company to engage in tax avoidance. Ardianti (2019) defines profitability as a ratio that describes the amount of profit (gain) generated by a business over a certain period. Company profits are used as the basis for calculating the company's tax liabilities.

Handayani (2018) emphasized that tax avoidance is significantly influenced by profitability. The test showed that medium and high levels of tax payments can lower ROA, as ROA is influenced by the significant costs associated with research and development incurred by companies as part of business development.Similarly, research by Mahendra Jaya Wardana and Sartika Wulandari (2021) found that tax avoidance has a positive effect on profitability. Their research demonstrated that the likelihood of a business engaging in tax avoidance increases with its profit ratio. When a business generates significant revenue, the amount of tax payable also increases. Managers may avoid paying taxes to minimize tax liability and optimize company profitability. Based on the previous statement, the following hypothesis is generated:

H_1: From 2017 to 2021, Profitability has a positive effect on tax avoidance in manufacturing companies listed on the IDX.

The Relationship between Leverage and Tax Avoidance

Sjahrian, (2017) defines*leverage*Leverage is defined as the utilization of assets and credit-based financing sources (debt) by a business. According to Sinaga and Suardikha (2019), leverage is one way a company reflects its funding decisions. According to Oktaviani et al. (2021), a company will take on more debt if its debt ratio is higher,

which can result in higher interest costs. This can lead to higher levels of tax avoidance. According to Rahayu & Virgantara (2020), financial ratios can be used to explain the relationship between a company's debt and its capital and assets. The leverage ratio can be used to measure how much a business is funded by debt. One way to measure a company's level of debt financing is by looking at the leverage ratio. According to Lilis Apriliyani and Andi Kartika (2021), the level of tax avoidance carried out by a business increases along with its debt burden. The higher the debt ratio, the more money the business uses for debt financing, and the higher the interest rate on the loan. The impact of increasing interest rates is to reduce the tax burden on the business world. A company's CETR value decreases as its debt value increases.

According to Mahdiana & Amin, (2020)*leverage*negatively impacts tax avoidance. Taking on more debt can lower the interest a company must pay. Companies use debt because interest expenses can reduce the tax burden a company will bear. According to Lisa Indriyani (2017), leverage negatively impacts tax avoidance. The tax burden will decrease as a company's debt increases.The higher the interest rate, the greater the profit the company will obtain from using the debt.The more money a company generates from using debt, the higher the interest rate. Increasing debt use by a company can be influenced by profits or tax savings from interest. Based on the previous statement, the following hypothesis is generated:

H_2: From 2017 to 2021, leverage has a negative effect on tax avoidance in manufacturing companies listed on the IDX.

The Relationship between Company Size and Tax Avoidance

According to Putu Ayu and Gerianta (2018), company size is a categorization of a company's size. A company's size can be determined by, among other things, its asset value. Companies will utilize their resources to increase revenue. However, significant or high profits also require greater tax responsibilities. According to Lilis Apriliyani and Andi Kartika, (2021) Large companies usually have large total assets, which may indicate an increase in corporate income. Due to large profits, companies must pay more taxes, so companies are encouraged to try to avoid taxes. According to Annisa, (2016) the size of a company can be measured or categorized using a scale that takes into account factors such as total assets, sales, and so on. If the company is large, then the assets owned by the company are also large. Dewinta & Setiawan (2016) explain that tax avoidance can positively impact company size. Because companies with relatively high total assets tend to be more profitable and therefore aim to minimize their tax liabilities, tax avoidance increases with company size. According to Wafirli (2017), tax avoidance has a positive impact on company size.Based on the previous statement, the following hypothesis is generated:

H_3: From 2017 to 2021, tax avoidance in manufacturing companies listed on the IDX is positively influenced by company size.

Conceptual Framework

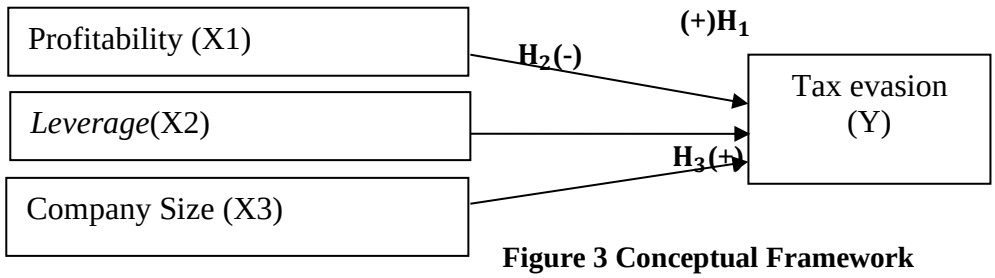


Figure 3 Conceptual Framework

METHOD

Research Location and Object

This study examines the relationship between tax avoidance and profitability, leverage, and firm size. The study was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The Indonesia Stock Exchange served as the research location, and its official website can be accessed at*www.idx.co.id*.

Population and Sample

Population is a concept used in research. According to Sugiyono (2019), a population is a large group consisting of objects or subjects with certain characteristics selected by researchers to be studied and subsequently drawn conclusions. The population of this study was 108 manufacturing companies listed between 2017 and 2021 on the Indonesia Stock Exchange (IDX). The selected companies were companies that were already listed before the 2017-2021 observation period and had complete data based on the variables to be studied. The population size in manufacturing companies was selected based on the consideration that the data obtained was homogeneous, thus describing the specificity of the results in one type of company.

Sample

According to Handayani (2020), sampling technique is the process of selecting a portion of a population to be sampled by understanding the differences in the characteristics of the individuals to be sampled, which can then be extrapolated to the elements of the population. Purposive sampling is the sampling method used in this investigation. Sugiyono (2018) defines purposive sampling as the process of selecting how many samples will be examined while still taking into account various specific elements that meet the desired criteria.
The following are the sampling criteria used in this study:

1. Manufacturing companies listed between 2017 and 2021 on the Indonesia Stock Exchange.
2. Companies that have positive profit values
3. Companies that publish financial reports in rupiah currency.

There are 34 manufacturing companies listed on the Indonesia Stock Exchange that meet the criteria studied using a sample formed based on the sampling criteria and covering the years 2017 to 2021.

Data Types and Sources

Sugiyono, (2016) said there are 3 types of data based on the time dimension in the quantitative research model, namely:

1. Time series data
   Data with one object but consisting of several time periods, such as daily, monthly, and yearly, is called time series data (*Time series data)*.
2. Cross-data
   Different from the data*time series*which covers several time periods, cross-section data (cross-section series) is data that includes one object and various subjects related to or within the parent object at one point in time.
3. Panel data
   Data*time series*and cross-section data are combined to produce panel data (pooled data), also known as aggregated data. Because this data includes many objects from different time periods, it is called aggregated data.

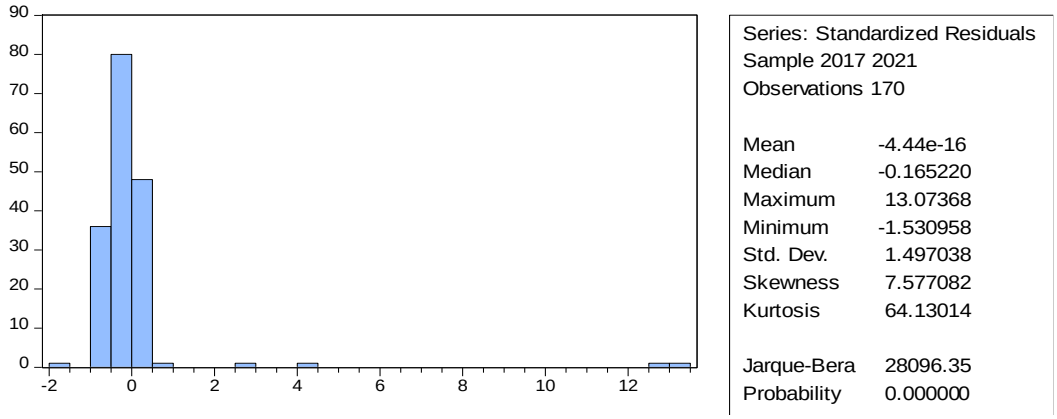
For this study, the researcher used panel data. Panel data is information generated by combining data.*time series*and cross-section. Cross-section data comes from 34 manufacturing companies listed on the Indonesia Stock Exchange (IDX), and the research time series data covers the years 2017-2021. This type of research uses secondary data and is quantitative in nature. Secondary data is defined by Sugiyono (2018) as information sources, such as documents or other individuals, that do not directly provide data for data collection. The data used in this study were taken from the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2017-2021. Information was taken from www.idx.co.id, the official website of the Indonesia Stock Exchange.

Data collection technique

The researcher used a documentation approach to collect data for this study. Books, journals, dissertations, the internet, and other sources related to the research topic were used to gather information on the problem under study. The data for this study was collected from secondary sources. Third-party data using manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021 as research subjects is referred to as secondary data (IDX).

RESULTS AND DISCUSSION

Normality Test



Source:Data processing results with Eviews 10, (2024)

As seen from the graph above, the test yielded a probability value of 0.0000, meaning it is <0.05. Therefore, it can be concluded that the data is not normally distributed. The assumption of normality can be ignored because the data in this study is panel data, meaning each cross-section or research subject has a unique data pattern and fluctuates each year (Gujarati & Porter, 2012).

Multicollinearity Test

Table 1 Multicollinearity Test

	ROA	DER	SIZE
ROA	1,0000	0.0261	-0.3256
DER	0.0261	1,0000	0.0274
SIZE	-0.3256	0.0274	1,0000

Source:Ereviews Panel Data Regression Output Results 10, (2024)

Based onTable 1shows that this model is free from multicollinearity problems by looking at the output between independent variables in the regression.tercan output that exceeds 0.9.

Heteroscedasticity Test

Table 2 Heteroscedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.2814Prob. F(3,30)	0.8384
Obs*R-squared	0.9306Chi-Square Prob.(3)	0.8180
Scaled explained SS	10,3061Chi-Square Prob.(3)	0.0161

Source: Data processed using Eviews 10,(2024)

Based on Table 2 shows the Obs*R-squared value of 0.9306 and the Chi-square Prob. value of 0.8180. These values> 0.05, so it can be concluded that in the regression model above there is no heteroscedasticity.

Autocorrelation Test

Table 3 Autocorrelation Test

R-squared	0.4018Mean dependent var	0.4550
Adjusted R-squared	0.2399SD dependent var	1.5306
SE of regression	1.3344Akaike info criterion	3.6047
Sum squared residual	236.84Schwarz criterion	4.2872
Log likelihood	-269.40Hannan-Quinn criter.	3.8817
F-statistic	2.4816Durbin-Watson stat	1.1951
Prob(F-statistic)	0.0000	

Source: Data processed using Eviews 10,(2024)

The Durbin Watson value in Table 3 is 1.1951, where the value is below -2 and above 2, so it can be concluded that this research is free from autocorrelation symptoms, meaning that in this research model there is no correlation disturbance between time durations for each variable used.

Chow Test

Table 4 Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Cross-section fixed effects test

Effects Test	Statistics	df	Prob.
Cross-section F	2.4146	(33,133)	0.0002
Cross-section Chi-square	79,808	33	0.0000

Source: Data processed using Eviews 10,(2024)

In Table 4 above, the probability value is 0.0000. Because the probability value of 0.0000 < 0.05. Gujarati and Porter, (2012) stated that if the Chi Square Probability value is < 0.05 then the selected model is the Fixed Effect Model (FEM).

Hausman test

Table 5 Hausman Test

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	2.5452	3	0.4672

Source: Data processed using Eviews 10,(2024)

The probability value is 0.4672, which is > 0.05, as seen in Table 4.7 above. Based on the Hausman test above, the most effective model in this study is the Random Effect Model (REM).

Lagrange Multiplier Test

Table 6
Lagrange Multiplier Test

Lagrange multiplier (LM) test for panel data
Date: 11/16/24 Time: 16:11
Sample: 2017 2021
Total panel observations: 170
Probability in ()

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	14.04796 (0.0002)	0.305580 (0.5804)	14.35354 (0.0002)

Source: Data processed using Eviews 10,(2024)

Based on Table 6,markproblemability in lagr testmultiplier of 0.0002.where the value is <0.05. Therefore, it can be concluded that the most appropriate model in this study is the Random Effect Model (REM). The probability value in the Lagrange multiplier test is 0.0002 < 0.05 according to Table 4.8. It can be concluded that the best model that can be used in this study is the Random Effect Model (REM).

Panel Data Regression Estimation

Table 7
Regression Results Using REM

Dependent Variable: CTER
Method: Panel EGLS (Cross-section random effects)
Date: 11/16/24 Time: 21:03
Sample: 2017 2021
Periods included: 5
Cross-sections included: 34
Total panel (balanced) observations: 170
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.3997	1.6083	-1.4920	0.1376
ROA	-0.0749	0.4794	-0.1563	0.8760
DER	0.1489	0.1562	0.9533	0.3418
SIZE	0.1042	0.0604	1.7250	0.0464

R-squared	0.0256	Mean dependent var	0.2838
Adjusted R-squared	0.0080	SD dependent var	1.3380
SE of regression	1.3326	Sum squared residual	294.80
F-statistic	1.4545	Durbin-Watson stat	0.9331
Prob(F-statistic)	0.2288		

Source: Data processed using Eviews 10,(2024)

In Table 4.9, the regression results using the modelREM, the following equation can be made:

PP = -2.3997 - 0.0749Pr + 0.1489Lv + 0.1042Sz + e

The equation shows the constant valuePP, namely-2.3997. can be interpreted that Pr, Lv, and Sz have no value (value 0), then the PP value remains at -2.3997. Pr has a negative influence on PP with a regression coefficient of -0.0749, this shows that every 1% increase in PP, PP will decrease by 0.0749%. Lv has a positive influence on PP with a regression coefficient of 0.1489, this shows that every 1% increase in PP will increase by 0.0148%. Sz has a positive influence on PP with a regression coefficient of 0.1042, this shows that every 1% increase in CETR will increase by 0.0104%. while for Adjusted R-square the value is 0.0080 or 00.800%. This study shows that Pr, Lv, and Sz are able to explain PP by 0.800%, while the remaining 99.200% can be explained by other components or factors not examined in this study.

Persian Test (t-Test)

Table 8 t-Statistic Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.3997	1.6083	-1.4920	0.1376
ROA	-0.0749	0.4794	-0.1563	0.8760
DER	0.1489	0.1562	0.9533	0.3418
SIZE	0.1042	0.0604	1.7250	0.0464

Source: Data processed using Eviews 10,(2024)

Markt_{tabel}obtained in this study, namely1.6972. Meanwhile, in table 4.10, ROA obtained a value of -0.1563. This means that the value (-0.1563) < (1.6972). DER obtained a value of $t_{hitung}t_{hitung}t_{tabel}$ t_{hitung} 0.9533. can be interpreted thatt_{hitung}(0.9535) < (1.6972). while for SIZE, the value is 1.7250.t_{tabel} t_{hitung} can be interpreted t_{hitung}(1.7250) > (1.6972).t_{tabel}

Model Fit Test (F Test)

Table 9 F-Statistic Test

R-squared	0.0256Mean dependent var	0.2838
Adjusted R-squared	0.0080SD dependent var	1.3380
SE of regression	1.3326Sum squared residual	294.80
F-statistic	1.4545Durbin-Watson stat	0.9331
Prob(F-statistic)	0.2288	

Source: Data processed using Eviews 10,(2024

Panel Data Regression Estimation using the Random Effect Model in Table 9 shows that the value is (1.4545) <2.92 and the significance probability value is 0.2288 > 0.05, so the hypothesis is rejected. Therefore, it can be concluded that together the independent variables, namely ROA, DER, and SIZE, have a negative and insignificant effect on the dependent variable, namely tax avoidance (CETR). F_{hitung} $F_{tabel}F_{hitung}$

The Effect of Profitability (ROA) on Tax Avoidance

In manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021,Profitability has an insignificant negative effect on tax avoidance. This contradicts the first hypothesis which assumes that profitability has a positive effect on tax avoidance.Tax avoidance is influenced by profitability because the more profitable a business is, the less tax avoidance it engages in. High profitability can reduce a company's tax burden because the company uses large profits first to pay obligations such as debt, employee wages, and other liabilities. Consequently, the company's profit after fulfilling its obligations is reduced. This can reduce the amount of tax the company must pay. Therefore, companies are less likely to engage in tax avoidance due to the lower tax burden. Besides that,tax avoidance will decrease incompany withWith high profits, companies can fulfill their tax commitments. Slemrod (1989) emphasized that profitable companies typically disclose their tax information more transparently than less profitable companies. Businesses with low profitability typically face financial difficulties and are more likely to evade taxes. In other words, tax evasion is less likely if a company has a high ROA. This is because companies with

proper management and tax planning can utilize funding sources to pay taxes effectively, eliminating the need for tax avoidance efforts.This study is similar to the study by Arianandini & Ramantha (2018), which stated that profitability has no effect on tax avoidance. However, this study contradicts the findings of Anggraeni & Oktaviani (2021), which found that profitability has a positive effect on tax avoidance.

The Effect of Leverage (DER) on Tax Avoidance

In manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021, Leverage (DER)has an insignificant negative effect on tax avoidance. This is in accordance with the second hypothesis which assumes that leverage (DER) has a negative effect on tax avoidance.*Leverage*has no effect on tax avoidance because a higher debt ratio will have a smaller impact on tax avoidance activities within the company. The higher a company's debt, the more careful the company's management will be in preparing financial reports on the company's operations.Essentially, companies with high debt levels can use this to reduce taxable profits. This is regulated by Law of the Republic of Indonesia Number 36 of 2008 concerning Income Tax. Therefore, companies with debt will receive a reduction in the form of interest.

Furthermore, leverage's insignificant effect is due to the fact that most manufacturing companies across various sectors have lower debt than equity, indicating that they are less reliant on long-term debt for capital. Manufacturing companies tend to have substantial short-term and long-term assets. It can be concluded that manufacturing companies tend to increase assets as capital for company development. Manufacturing companies have sectors and several subsectors with high inventory turnover rates. Companies with high turnover generally do not have large long-term liabilities, thus making the level of manufacturing company leverage insignificant in tax avoidance.This research aligns with research by Mahdiana & Amin (2020), which found that leverage has no effect on tax avoidance. However, this study contradicts the findings of Pratiwi, Mahaputra & Sudiartana (2021), which showed that leverage has a positive impact on tax avoidance.

The Effect of Company Size (SIZE) on Tax Avoidance.

In manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2021, company size (SIZE) had a positive and significant effect on tax avoidance. This is in line with the third hypothesis, which shows that company size (SIZE) has a positive effect on tax avoidance. This indicates that large companies typically have many assets overall, and these total assets can indicate an increase in company profits or revenue. Therefore, companies must pay more taxes due to large company profits. This can provide an incentive for companies to avoid taxes. Nicodeme (2007) stated Companies tend to avoid taxes because large profits increase the tax burden. Due to a shortage of tax professionals, small businesses are unable to manage their tax burden as efficiently as possible. However, if a company can manage its finances properly and utilize its resources as opportunities to increase profits, tax issues can be addressed and everything runs smoothly, eliminating the need for tax avoidance. This research supports the findings of Wafirli (2017), who found that tax avoidance has a positive impact on company size. However, this study contradicts the findings of Tesa and Rachmawati (2021), who showed that tax avoidance has a negative impact on company size.

CONCLUSION

The conclusions that can be drawn based on the results of the panel data analysis and hypothesis testing that have been carried out are as follows:

1. Based on the results of the partial influence test, profitability (Pr) does not have a significant effect on tax avoidance (PP) in manufacturing companies listed on the Indonesia Stock Exchange.
2. Based on the results of the partial influence test, Leverage (Lv) has no effect on tax avoidance (PP) in manufacturing companies listed on the Indonesia Stock Exchange.
3. Based on the results of the partial influence test, SIZE (Sz) has a significant influence on tax avoidance (PP) in manufacturing companies listed on the Indonesia Stock Exchange.

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