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THE EFFECTS OF PROFITABILITY, MANAGERIAL OWNERSHIP, AND FIRM SIZE ON TAX AVOIDANCE

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Abstract

This research aims at evaluating the impact of profitability, managerial ownership, and firm size on tax avoidance of energy sector firms listed in the Indonesia Stock Exchange from 2022 to 2024. The sample of the study was purposively chosen and consisted of 232 firm-year observations. Multiple linear regression analysis was used to analyze the data. In this study, tax avoidance is considered not just an activity aimed at reducing taxes but also the company's way to effectively deal with its tax obligation. The efficiency of such activity can help the company optimize its cash flow and improve the overall performance. Based on the results of this research, the companies with higher profitability, larger firm size, and higher managerial ownership tend to engage in tax planning activities to be able to make effective use of their resources.

Keywords: tax avoidance; profitability; managerial ownership; firm size.

1. INTRODUCTION

Taxes constitute one of the most significant sources of revenue for governments, which finance development and administration through them. Tax avoidance has received growing concern in recent times. There has been considerable effort on the part of the government as well as international agencies to counter this practice because it may impair the tax base and result in a loss of revenue for the government, especially in developing nations like Indonesia. As per a survey by the World Bank, one out of every four corporate taxpayers in Indonesia does not fulfill its tax obligations. Tax avoidance continues to be a relevant area of research since despite being legal, it results in losses of government revenue. The firms may take advantage of loopholes in the tax code through tax planning. Conflicts arising out of the conflicting interest of both parties may be analyzed using agency theory. Another factor that can affect tax avoidance is managerial ownership. It is defined as the percentage of ownership of managers within a company. When there is an increase in managerial ownership, there will be an increase in the interests of managers in the sustainability of the business. This situation might affect the decisions of managers and even decisions on corporate taxation. The decisions of managers who act as shareholders will become more conservative and risky, especially on tax avoidance strategies. With an increased percentage of managerial ownership, managers' interests would be similar to those of the company. Therefore, the level of information asymmetry in financial reporting from the perspective of creditors would be reduced (Asmawati & Amanah, 2013). Hartadinata and Tjaraka (2013) found that high levels of managerial ownership lead to an increase in tax aggressiveness. Managerial ownership aside, firm size could also affect tax avoidance. Large firms normally have enough financial power and experience in tax planning. On the other hand, large companies receive more attention from both public and government agencies.There exist variations in terms of the tax management of each company. The bigger the size of the company, the bigger the capability in managing taxes; nonetheless, larger firms attract more attention from the tax agencies. Therefore, firm size can be said to have an impact on tax management. Irianto et al. (2017) found out that there was a positive correlation between firm size and tax avoidance, while Tristianto and Oktaviani (2016) found out that the relationship was negative. Merslythalia and Lasmana (2016) did not find any relationship between the two variables. Profitability can be another variable influencing tax avoidance. The greater the profitability of the firm, the stronger the capability of the firm in generating income. As a result, higher profitability implies higher tax payment, and this can motivate management to undertake tax management strategies, including tax avoidance, to minimize tax expenses and ensure optimal earning. Mahdiana and Amin (2020) found out that the highly profitable firms recorded high tax liabilities. In the present study, profitability will be measured by return on asset (ROA). From the above, managerial ownership, firm size, and profitability can influence corporate tax avoidance. Nevertheless, previous researches yield mixed results. The findings are expected to contribute to taxation and accounting research and provide useful considerations for policymakers and other stakeholders.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Framework

Agency Theory

According to agency theory, it refers to how the relationship between shareholders (principal) and managers (agents) works, where managers are allowed to conduct business operations on behalf of the shareholders. The relationship is characterized by conflict of interests since the two parties have differing goals and unequal information. Management usually has more information than shareholders, and thus may decide in favor of its own interest. According to agency theory in taxation, management may be involved in tax avoidance for the purpose of reducing the company's tax liability and increasing its after-tax income. Even though there are some economic advantages in tax avoidance, the firm might suffer from reputation risk and fiscal risk.

Managerial Ownership

Managerial ownership refers to the percentage of shares owned by the management of the firm, which includes directors and commissioners. Suteja (2015) posits that managerial ownership can be used as a control tool that links the interest of management with that of the stockholders. As managerial ownership increases, the management becomes actively interested in protecting the value of the firm because the gain or loss will be shared between them. Under agency theory, managerial ownership can limit agency problems by aligning the interest of the owners and management. However, when managerial ownership is very high, managerial ownership may push management towards implementing actions to enhance their income.

Company Size (Firm Size)

The size of a firm refers to the size of a business and is normally measured by total assets, total sales, or market value. As noted by Brigham & Houston (2010), larger firms are better endowed with resources, enjoy more avenues for raising finances, and have a high ability to control business risk. In terms of taxation, large firms possess the resources and expertise necessary to effectively plan for taxes. Nonetheless, such firms are under more scrutiny from both the government and the general public.

Profitability

The profitability aspect shows how much profits a firm can make from its assets and other sources of wealth. According to Brigham & Houston (2010), profitability measures how well the management of an organization performs the operating tasks of the business. The profitability ratio considered in this study is the return on asset ratio (ROA). Firms that record high profitability are bound to incur higher taxes. This situation can lead managers to adopt tax planning techniques.

Tax Avoidance

Tax avoidance involves the measures taken by an organization in an attempt to reduce its tax payments via legal methods. Tax avoidance is performed legally according to the tax rules and is achieved by the use of tax planning techniques. Despite the fact that tax avoidance is legal, it may lead to reduced tax collection for the government.

2.2 Hypothesis Development

The Effect of Firm Size on Tax Avoidance

Big firms have access to better resources when it comes to tax planning. Furthermore, bigger assets and higher profits may bring about bigger tax burdens. Studies by Harjanto and Tjahjono (2025) and Richie and Triyani (2021) reveal that firm size positively impacts tax avoidance. Thus, the bigger the firm is, the higher the probability that it engages in tax avoidance.
H1: Firm size positively impacts tax avoidance.

The Effect of Profitability on *Tax Avoidance*

Firms with profitability will have high tax liability, which might result in engaging in tax planning by firms to decrease their tax liability. As revealed by Suhendra (2024), profitability positively influences tax avoidance. This means that with increasing levels of profitability in a firm, the likelihood of tax avoidance becomes higher.
H2: Profitability positively influences tax avoidance.

The Effect of Managerial Ownership on *Tax Avoidance*

According to agency theory, managerial ownership may serve as a means of harmonizing management and shareholder interests. In the process of increasing the firm's value, managers having ownership in the business may be motivated to make more use of their tax efficiency. Meliani and Lesmana (2022) and Nuriyah and Wahyudin (2022) discovered the positive impact of managerial ownership on tax avoidance. Thus, the larger is managerial ownership, the higher is tax avoidance practice of the firm.
H3: Managerial ownership has a positive effect on tax avoidance.

3. RESEARCH METHODS

3.1 Population and Sample

According to Bareksa (2025), various energy firms, such as coal mining firms and other mineral miners, experienced significant increase in their net profits in 2025. ANTM and INCO are examples of firms that have shown significant increase in profits in 2025 within the first quarter. This shows that energy companies have the capacity to produce high profits when commodity prices are increased. High profits could be one of the motivating factors for tax evasion. Consequently, the population for this study includes all energy firms listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024, which amounted to 46 firms. The selection of the sample was done using purposive sampling following some criteria. In this study, secondary data were used, which included financial statements and annual reports from energy firms listed on the IDX within the period of observations. Data were gathered using literature and document review from the web pages of www.sahamu.com and www.idx.co.id. Purposive judgment sampling was used to select the data that are related to the purpose of this research. As explained by Sugiyono (2015), purposive judgment sampling is a sampling technique that involves setting up certain criteria by the researcher. Table 1 presents the sample-selection process for energy-sector companies.

Table 1. Sample Selection

Description	2022	2023	2024	Total
Publicly listed companies in the energy sector	75	83	89	247
Companies without complete financial reports for the three-year period	(3)	(8)	(5)	(15)
Final sample	72	75	84	232

Accordingly, the final sample comprised 232 observations.

3.2 Operational Definitions and Variable Measurement

Managerial Ownership

Managerial ownership refers to the proportion of shares owned by managers in relation to the outstanding shares of a firm (Zahirah, 2017, p. 3546). Managerial ownership is calculated based on the division of shares owned by managers by the outstanding shares of a company in the following equation:

Managerial ownership = Shares owned by managers / Outstanding shares

Company Size

In this research, firm size will be quantified by using the natural log of total sales. Logarithm is used since there is much variability in total sales among the firms that may give rise to outliers. Total sales data will be collected from the financial records of the firms.

Firm size = ln(Total sales)

Profitability

Return on asset (ROA) is used to measure the profitability of the firm. Return on asset measures a firm's ability to earn profits using its total assets. Therefore, the ratio reveals the efficiency of managing assets by the firm (Wardana, 2020).

ROA = Net profit / Total assets

Tax Avoidance

Tax avoidance means the attempts of a firm to decrease, avoid, or reduce its taxes through the techniques that are legal as far as the taxes are concerned, but taking into account the implications of their actions in terms of the taxes (Zain, 2008, p. 49, as cited in Andriani & Sinabutar, 2020, p. 77). In this research, the ETR method is applied for tax avoidance:

ETR = Income tax expense / Profit before tax

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	*Standard Deviation*
managerial ownership	33	.0000	.7500	.103976	.1945746
firm_size	72	12.20	29.98	20.9792	4.33209
profitability	72	-.50	.62	.0934	.19415
tax_avoidance	72	.00	.82	.1676	.17191
Valid N (listwise)	33				

According to the descriptive statistics, the range for managerial ownership goes from 0.0000 as minimum value to 0.7500 as maximum value; mean is 0.103976 and standard deviation is 0.1945746. The range for firm size goes from 12.20 as minimum value to 29.98 as maximum value; mean is 20.9792 and standard deviation is 4.33209. The range for profitability goes from -0.50 to 0.62; mean is 0.0934, which means 9.34%. This means that, based on these sample companies, they have produced a mean profit equal to 9.34% of their assets. Given that the maximum is 0.62, or 62%, the mean profitability can be considered low to medium. Tax avoidance as measured by the ETR ranges from 0.00 to 0.82, with an average of 0.1676 or 16.76%. This implies a wide variability in the ETR among the companies that have been sampled. The managerial ownership, profitability, and ETR exhibit significant variability, while the firm size is relatively homogenous. In summary, the information provides some insights about the nature of the energy sector companies under consideration.

Classical Assumption Test Results
Normality Test

Table 3. Tests of Normality

	Kolmogorov-Smirnov [a]			Shapiro-Wilk		
	Statistics	df	Sig.	Statistics	df	Sig.
Unstandardized Residual	.051	162	.200 *	.984	162	.060

*. This is a lower bound of the true significance.
a. *Lilliefors Significance Correction*

As a result of the normality test, after the removal of outliers, there were 162 data points. The values obtained from the Kolmogorov-Smirnov and Shapiro-Wilk tests were 0.200 and 0.060, respectively. As both of these values are greater than 0.05, the conclusion can be made that residuals are normally distributed.

Multicollinearity Test

Table 4. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.073	.045		1.598	.112		
	firm_size	.004	.002	.154	2.025	.045	.988	1.012
	profitability	.040	.017	.184	2.433	.016	.996	1.004
	managerial ownership	.237	.101	.179	2.353	.020	.987	1.013

a. Dependent Variable: *tax_avoidance*

According to the multicollinearity test, the tolerance for firm size is 0.988 and VIF is 1.012; the tolerance for profitability is 0.996 and VIF is 1.004; and the tolerance for managerial ownership is 0.987 and VIF is 1.013. In this case, all the tolerance values are greater than 0.10, while all VIF values are less than 10. Hence, the absence of multicollinearity is confirmed by this model.

Heteroscedasticity Test

Table 5. ANOVA

Model		Sum of Squares	df	*Mean Square*	F	Sig.
1	Regression	.014	3	.005	2.267	.083 b
	Residual	.328	158	.002		
	Total	.342	161			

a. *Dependent Variable: abs_res*
b. Predictors: (Constant), managerial_ownership, profitability, firm_size

Glejser test generated 0.083 as the level of significance, which is greater than 0.05. Therefore, the regression model is free from heteroscedasticity. The variation in residuals is hence considered to be homogeneous.

Hypothesis Testing

Table 6. Regression Coefficients

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.073	.045		1.598	.112
	firm_size	.004	.002	.154	2.025	.045
	profitability	.040	.017	.184	2.433	.016
	managerial ownership	.237	.101	.179	2.353	.020

a. Dependent Variable: *tax_avoidance*

The Effect of *Firm Size* on *Tax Avoidance*

The results reveal that the regression coefficient for firm size is 0.004 with a level of significance of 0.045. Since the level of significance is less than 0.05, firm size has a significant impact on tax avoidance. The positive coefficient reveals that firms with large sizes perform higher levels of tax avoidance. It can be inferred that large firms are better capable and have ample resources to plan their taxes effectively. In addition, the complexity associated with operations and transactions in large organizations might give such organizations an opportunity to reduce tax liability within legal limits. Tax avoidance in large-sized firms within the energy industry with large assets and investment might be employed as a tool for improving cash flows and maximizing firm value.

Therefore, H1 is supported: firm size has a positive and significant effect on tax avoidance.

The Effect of Profitability on *Tax Avoidance*

The regression coefficient for profitability is 0.040 and the significance level is 0.016. As the significance level is less than 0.05, the effect of profitability on tax avoidance is statistically significant. The positive value of the coefficient shows that profitability has an effect on the level of tax-avoidance activities. Higher profitability will lead to an increase in taxable income and will motivate firms to avoid taxes through legitimate means. In the energy industry, increased operating profit and increasing prices of commodities may lead to high taxes. Profitable firms may thus indulge in tax avoidance for financial efficiency and after-tax profitability as per agency theory.

Therefore, H2 is supported: profitability has a positive and significant effect on tax avoidance.

The Effect of Managerial Ownership on *Tax Avoidance*

Results show that there is a regression coefficient of 0.237 and significance of 0.020 of managerial ownership. Since the significance is less than 0.05, managerial ownership has an impact on tax avoidance. Positive coefficient means that high ownership of managers increases likelihood of tax avoidance practices. Managers, who at the same time are shareholders of the firm, can enjoy after-tax profits directly. As a result, they can support tax planning policies. In case of energy firms, which need a lot of money for investments and running the business, tax avoidance is useful to protect internal financing.

Therefore, H3 is supported: managerial ownership has a positive and significant effect on tax avoidance.

Based on the output of the regression analysis, it is clear that all the independent variables; firm size, profitability, and manager shareholding have significance levels less than 0.05. This means that each independent variable has a positive impact on tax avoidance.

CONCLUSION AND IMPLICATIONS

In this research, the impact of company size, profitability, and managerial ownership on tax avoidance is analyzed among energy sector firms listed at the Indonesia Stock Exchange for 2022-2024. According to the regression analysis, all independent variables exhibit positive and significant impact on tax avoidance. First, company size has a positive impact. This implies that large companies have sufficient skills and resources to do tax planning and make use of tax saving methods allowed by law. Second, profitability has a positive influence. High-profit firms are inclined to do tax planning and decrease their tax burden. Third, managerial ownership has a positive influence. As managerial ownership ratio increases, managers might be motivated to increase company profit through tax avoidance.

This evidence is consistent with agency theory, where managers are encouraged to enhance the performance of their firms, as agents, in order to increase the value of the firm. Among the practices to be used is that of tax management. This research provides several recommendations for both firms and regulatory authorities. Firms should plan for taxes using good corporate governance practices. Regulatory agencies may also scrutinize large and highly-profitable firms with high managerial ownership since such firms are more likely to practice tax avoidance. There are various limitations of this research. First, the sample is limited to companies operating in the energy sector. Also, the observation period is quite short, with few variables and one measure of tax avoidance, which is ETR. Future researchers need to consider other industries, a longer period, other determinants, and various measures of tax avoidance.

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