

Original Research Article

Analysis of the Influence of Institutional Ownership, Sales Growth, Profitability, and Company Size on Tax Avoidance

Aims: To determine and examine the effect of institutional ownership, sales growth, profitability, and company size on tax avoidance in Industrial Sector Companies listed on the Indonesia Stock Exchange.

Studi design: quantitative research.

Place and Duration of Study: Industrial Sector companies listed on the Indonesia Stock Exchange for the period 2019 to 2021.

Methodology: The population used in this study are industrial sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021, with a total of 54 companies. The data is collected using the documentation technique, then sampling is carried out using the purposive sampling method, meaning that the sample selection is based on certain criteria, 15 companies are obtained which will be analyzed over 5 years, totaling 75. However, there are 18 outlier data after the normality test is carried out so the number of samples is 57, and data analysis uses multiple linear regression analysis using SPSS version 24.

Result: institutional ownership, sales growth, and company size do not have an impact on tax avoidance. This means that the scale of institutional ownership, sales growth, and company size, whether large or small, will not influence companies in adopting aggressive tax management strategies. However, profitability has a negative effect on tax avoidance. This implies that a high level of profitability indicates a decrease in tax avoidance practices by businesses, as some companies tend to prioritize profitability and cash flow over complex tax strategies.

Keywords: Institutional Ownership, Sales Growth, Profitability, Company Size, Tax Avoidance.

1. INTRODUCTION

The largest source of revenue for the country, especially in Indonesia, comes from tax collections. That is why the government always strives to optimize the tax sector to continually increase each year. Based on detailed reports on tax misuse, Indonesia is estimated to incur losses of up to \$2.2 billion, or 32 trillion rupiah, in 2021. This is due to the presence of multinational companies engaging in tax avoidance and a \$59 million loss due to global tax evasion by private individuals[1]. The persistent aggressiveness in tax practices by some businesses, where they fail to report accurate profit figures, is one of the practices aimed at reducing the amount of taxes that should be paid. This poses a challenge to the Directorate General of Taxes (DJP) in suppressing tax avoidance practices through taxpayer compliance. The low level of compliance and awareness among taxpayers remains a significant issue that needs immediate attention. Companies employ tax avoidance strategies by exploiting gaps in existing legal provisions. This is considered a legitimate technique to avoid tax payments[2].

The number of companies that are still involved in tax avoidance practices, including large companies such as the case in Indonesia itself from PT Adaro Energy Tbk, in 2019, fell into a case of tax avoidance activities involving transfer pricing, where a significant amount of profit was transferred from Indonesia to their other business entities in low or no tax countries. This practice reportedly occurred from 2009 to 2017[3]. Although tax avoidance is still considered legal in the eyes of the law, if carried out excessively by many taxpayers, it can have adverse effects on the state's tax revenue. Taxes are a crucial instrument in the State Budget (APBN), serving as a source of revenue that the government will use for the development and management of the country[4].

Several factors that can trigger the occurrence of tax avoidance practices include institutional ownership, sales growth, profitability, and company size. Institutional ownership will have a negative impact on tax avoidance, supported by the research of Merslythalia & Lasmana[5] dan Pujiningsih & Salsabya[6] which reveals that an increase in institutional ownership in the entity will have an impact on reducing aggressive practices in taxation, it also applies vice versa if institutional ownership in a small company will have an impact on a large level of tax aggression, due to lack of supervision, which means that it illustrates that institutional ownership will also suppress the practice of tax avoidance in a company. Then there is a conflict of interest between management and the government, where management will tend to minimize the cost of the tax burden borne, to maximize company profits[6].

Tax avoidance practices can also be influenced by sales growth. The higher the sales growth, the greater the profit, and this will align with the level of tax payable by the company[7], so that it will trigger the entity to carry out a tax avoidance strategy. Sales growth will have a positive impact on tax avoidance, this fact is in line with the results of research by Wahyuni et al[8] dan Wulandari & Purnomo[4].

Next, there is a role for financial conditions measured through the return on assets ratio to assess profitability values reflecting the financial performance of business entities with the extent of the company's asset influence in optimizing operations for profit acquisition from sales[9]. From the results of research by Mahdiana & Amin [10] dan Fadila [11] some findings show that there is a positive correlation between profitability and tax avoidance. This means that the possibility of companies avoiding taxes will increase along with their ability to generate profits.

Another factor that will influence tax avoidance is company size. Large-scale companies will bear a high tax burden due to having more resources, and the government will expect these business entities to make a significant contribution through high tax payments. This can encourage businesses to implement tax management strategies by engaging in tax avoidance practices through existing loopholes[10]. This phenomenon is in line with the results of research by Wulandari & Purnomo [4], Silvia [12] dan Desideria [13] which states that company size has a positive effect on tax avoidance.

This study, also sees that there are inconsistencies in the results of previous studies on tax avoidance as a reason for further research, and tax avoidance becomes a serious enough case, if it is carried out continuously and excessively to exceed reasonable limits. Even though it is done with a legal strategy, because the impact will also be felt to the detriment of state revenue. The purpose of this study is to determine and test whether institutional ownership, sales growth, profitability, and company size as independent variables will affect tax avoidance as the dependent variable measured by cash effective tax rate (CETR) to see

the amount of tax that has been paid by the company. Industrial Sector companies on the Indonesia Stock Exchange 2017-2021 which are used as research objects.

2. THEORETICAL BASIS AND RESEARCH HYPOTHESIS

2.1 Theoretical Basis

2.1.1 Agency Theory

Agency theory outlines the link between management and company owners. Jensen & Meckling [14] revealed that agency relations can be interpreted as an agreement involving several parties acting as principal and agent. This theory exists due to differences between the principal (company owner) and the agent (who is responsible for management). The relationship with agency theory from the side when viewed regarding tax avoidance, can be seen from the tax authorities acting as principals or tax officials, who want maximum tax collection from corporate taxpayers, while companies as agents only want to deposit the smallest possible tax payments.

2.1.2 Taxes

Siti Resmi [15] puts forward the definition of tax, which is a contribution or revenue collected from the people and paid to the state, based on a law that is mandatory without obtaining a return in cash to be managed as a source of funding for the state to seek welfare at large.

2.1.3 Tax Avoidance

Tax avoidance techniques can be done because of tax planning. Tax avoidance is one of the steps or efforts to shrink the tax burden legally without violating tax laws by using existing opportunities [16]. The approach of business entities in utilizing tax avoidance practices can indicate their level of aggressiveness towards taxes. The higher the effort an entity makes in tax avoidance, the more aggressive the entity is towards tax [17].

2.1.4 Institutional ownership

Institutional ownership refers to shareholdings with a majority stake that have strong financial power. Darsani & Sukartha [18] stated Institutional Ownership, is the scale of share ownership by institutions that have the ability to monitor, influence and instruct managers to direct to the right behavior.

2.1.5 Sales Growth

Sales growth reflects the annual growth rate; however, the taxes paid do not align with its sales growth. Fahmi [19] stated that sales growth is a ratio that calculates the difference between the current and previous sales periods, then divides it by the previous year's sales period. It is possible that if sales growth in a company increases every year it can have an impact on the company's tax liability.

2.1.6 Profitability

Fachrudin [20] revealed that profitability is the ability possessed by a business entity to make a profit at a certain time which may come from sales, total assets or personal equity that has been managed by the business entity. In this study, the company's assessment can measure its profitability by considering the return on assets (ROA).

2.1.7 Company Size

Company size is a measure used to show how big or small a company is based on various factors, such as the amount of company assets, sales obtained by the entity, market value, and so on [21]. Several large and complex companies have numerous opportunities to avoid taxes due to existing loopholes in transactions [4].

2.2 Research Hypothesis

2.2.1 The influence of institutional ownership on tax avoidance.

Institutional ownership is the scale of stock ownership by institutions that have the capacity to play a supervisory role. The magnitude of institutional ownership, whether large or small, will impact a company's aggressive tax strategies. According to Merslythalia & Lasmana [5] revealed that the greater the institutional ownership of the company, it will reduce the practice of tax aggressiveness, it also applies vice versa if institutional ownership in a small company will have an impact on the level of aggressive tax due to lack of supervision. Institutional ownership can reduce existing agency problems because it includes strategic decision makers who will oversee tax management practices within the company. Research by Maisaroh & Setiawan [22] and Pujiningsih & Salsabya [6] shows the existence of institutional share ownership has a negative impact on tax avoidance. And research results in Merslythalia & Lasmana [5] stated that institutional ownership affects tax avoidance. Therefore, the first hypothesis that can be formulated in this research is: institutional ownership has a negative effect on tax avoidance.

2.2.2 The influence of sales growth on tax avoidance

Sales growth plays a significant role in Cash Effective Tax Rate (CETR), which serves as an indicator of the existence of tax avoidance practices. If sales growth increases, it indicates that businesses are more likely to implement tax avoidance practices because higher profits can lead to an increase in the taxes payable [23]. That is also proven through the research conducted by Wahyuni et al [8] and research by Wulandari & Purnomo [4] sales growth has a positive impact on tax avoidance. Therefore, the second hypothesis that can be formulated in this research is: sales growth has a positive effect on tax avoidance.

2.2.3 The influence of profitability on tax avoidance

Widyastuti et al [24] reveal that companies already operating on a large scale are likely to manage profitability effectively because these companies tend to have a high tax impact. This is based on research conducted by Mahdiana & Amin [10] and Fadila [11] state that profitability has a positive impact on tax avoidance. This is because profitability is used to assess a company's potential in terms of controllable economic assets in the future, meaning the likelihood of a company avoiding taxes will increase in line with its ability to generate profits. Therefore, the third hypothesis that can be formulated in this research is: that profitability has a positive effect on tax avoidance.

2.2.4 The influence of company size on tax avoidance

Company size is a parameter used to assess the size of a business entity based on its total assets. Companies with substantial assets can enhance their profits, motivating them to implement tax management strategies. This is also supported by research conducted by Wulandari & Purnomo [4], Silvia [12] and Desideria [13] that company size has a positive impact on tax avoidance. Business entities have more room to avoid taxes when the company size is larger. Therefore, the fourth hypothesis that can be formulated in this research is: company size has a positive effect on tax avoidance.

The figure below shows the framework obtained from elaborating the theoretical basis and phenomena that describe this research:

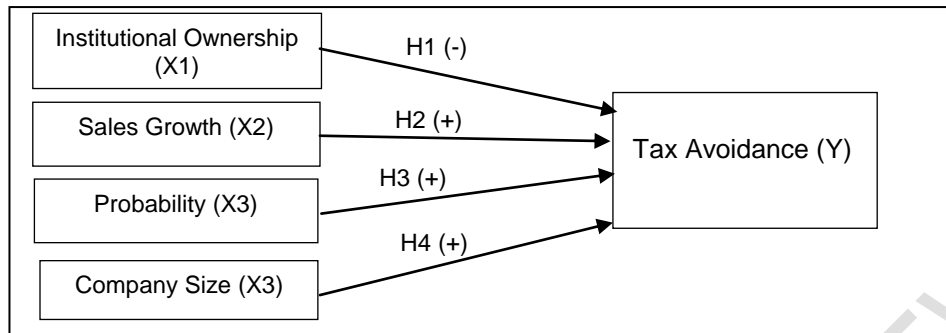


Figure 1. Conceptual Framework
Source: Secondary data processed (2023)

3. METHODS

This research uses quantitative research methods to know the effect of institutional ownership, sales growth, profitability, and company size on tax avoidance. This study uses secondary data from the annual reports of industrial companies. The population used in this study were 54 industrial companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. This study uses non-probability sampling with the use of a purposive sampling method, after selecting a sample based on certain criteria, 15 industrial companies are obtained with a five-year observation period of 75, however, there are 18 outlier data after the normality test is carried out so that the total final data to be used is 57. To assist in data analysis, SPSS version 24 software is used. In this study, the test was implemented using multiple linear regression analysis methods, to measure the variables of this study, the following indicators were used:

- a. Institutional ownership(X1)
 $KI = \text{Total Institutional Shares} / \text{Total Shares Outstanding}$ [25].
- b. Sales Growth (X2)
 $SG = (\text{Sales}_t - \text{Sales}_{t-1}) / \text{Sales}_{t-1}$ [19].
- c. Profitability (X3)
 $\text{ROA (return on assets)} = \text{net income} / \text{total assets}$ [26].
- d. Company Size (X4)
 $\text{SIZE} = \text{Ln total asset}$ [4].
- e. Tax Avoidance (Y)
 $\text{CETR (cash effective tax rate)} = \text{cash tax paid} / \text{pretax income}$ [8].

4. RESULTS AND DISCUSSION

4.1 Results of Descriptive Statistics

Descriptive analysis reveals a description of the data which includes the amount of research data, maximum value, minimum value, average value, and standard deviation contained in the research data[27]. Based on the results of descriptive statistical analysis in this study, for the variable Institutional Ownership (X1) with 75 sample data (N), the lowest value obtained is 0.14, the highest is 0.99, and the average is 0.6364 with a standard deviation of 0.20734. For the variable Sales Growth (X2) with 75 sample data (N), the lowest value obtained is -0.45, the highest is 1.11, and the average is 0.0936 with a standard deviation of 0.22266. Then, for the Profitability variable (X3) with 75 sample data (N), the lowest value is 0.00064,

the highest is 0.36, and the average is 0.0852 with a standard deviation of 0.06569. For the Company Size variable (X4) with 75 sample data (N), the lowest value is 26.15, the highest is 33.54, and the average is 29.0325 with a standard deviation of 2.12233. Finally, for the dependent variable (Y), Tax Avoidance, measured using CETR with 75 sample data (N), the lowest value is 0.06, the highest is 2.81, and the average is 0.3854. This indicates that the average tax payment of the sample companies is 38.54% of pre-tax profit, with a standard deviation of 0.38645.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KI	75	.14	.99	.6364	.20734
SG	75	-.45	1.11	.0936	.22266
ROA	75	.00	.36	.0852	.06569
SIZE	75	26.15	33.54	29.0325	2.12233
CETR	75	.06	2.81	.3854	.38645
Valid N (listwise)	75				

Source: Secondary data processed (2023)

4.2 Classical Assumption Test

4.2.1 Test of Normality

The normality test is used with the consideration that it can measure whether or not the data is distributed normally[28]. Based on the SPSS output for the normality test results from Table 2, it can be observed that the Asymp. Sig. (2-tailed) value is 0.200. This indicates that the significance level is > 0.05 , meaning that the data used by the researcher is normally distributed.

Table2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		57
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.59902672
Test Statistic		.103
Asymp. Sig. (2-tailed)		.200 ^{c,d}

Source: Secondary data processed (2023)

4.2.2 Multicollinearity Test

The multicollinearity test is used to evaluate the correlation level to detect whether there is a multicollinearity issue in the regression model. Referring to Table 3, it can be observed that the tolerance values for the independent variables exceed 0.10, while the VIF values are below 10. This means that multicollinearity is not found.

Table3. Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
KI	.919	1.088

SG	.714	1.400
ROA	.619	1.615
SIZE	.660	1.515

a. Dependent Variable: CETR

Source: Secondary data processed (2023)

4.2.3 Heteroscedasticity Test

Heteroscedasticity test can be detected through the Spearman's Rho test through a significance level of 0.05 and a two-sided approach. Referring to the Spearman's rho test results in Table 4 shows that the significant value is greater than 0.05, which means that there are no symptoms of heteroscedasticity in the research.

Table 4. Correlations

			ABS_RES
Spearman's rho	KI	Sig. (2-tailed)	.095
	SG	Sig. (2-tailed)	.066
	ROA	Sig. (2-tailed)	.554
	SIZE	Sig. (2-tailed)	.560
	ABS_RES	Sig. (2-tailed)	.

Source: Secondary data processed (2023)

4.2.4 Autocorrelation Test

The autocorrelation test is used to determine whether there is autocorrelation. In a good regression model, the absence of autocorrelation is expected.

Table 5. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.479 ^a	.229	.154	.49442	1.776

a. Predictors: (Constant), SIZE, KI, SG, ROA

b. Dependent Variable: CETR

Source: Secondary data processed (2023)

Based on Table 5, it can be determined that the Durbin Watson (DW) value in this test is 1.776. In this study, it is known that k is 4, and n is 57. Therefore, with dL having a value of 1.4264 and dU having a value of 1.7253, and the value of 4-dU being 2.2747. Thus, it means that there is no autocorrelation in this study. This is because the autocorrelation test result is following the established formula, namely $dU < dW < 4 - dU$ ($1.7253 < 1.776 < 2.2747$).

4.2.4 Multiple Linear Regression Analysis

The purpose of conducting testing with multiple linear regression analysis is to examine whether there is an influence between independent variables (X), namely institutional ownership, sales growth, profitability, and company size, with the dependent variable (Y), namely tax avoidance. Based on the output in Table 6, the regression equation formulated in this study is:

$$\text{CETR} = -0,848 + 0,085\text{KI} + 0,162\text{SG} - 0,126\text{ROA} + 0,022\text{SIZE}$$

Table6.Coefficients^a

Model	Unstandardized Coefficients	
	B	Std. Error
(Constant)	-.848	.687
1 KI	.085	.222
SG	.162	.219
ROA	-.126	.055
SIZE	.028	.022

a. Dependent Variable: CETR

Source: Secondary data processed (2023)

4.3 Results of Hypothesis Test

4.3.1 Test Coefficient of Determination (R^2)

The R^2 test calculates the extent to which the independent variables can show the difference that occurs in the dependent variable. From Table 7, it can be seen that if the correlation coefficient test is obtained the R Square number is 0.154. This shows that the independent variables, namely institutional ownership, sales growth, profitability, and company size, affect the dependent variable or tax avoidance by 15.4%. While the remaining 84.6% is attributed to other variables not listed in this study.

Table7. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.479 ^a	.229	.154	.49442

a. Predictors: (Constant), SIZE, KI, SG, ROA

b. Dependent Variable: CETR

Source: Secondary data processed (2023)

4.3.2 Accuracy Test (F test)

The accuracy test or F test is used to evaluate whether all independent variables (X) included in the research have a collective influence on the dependent variable (Y). This study uses a significant level of 0.05 with a total of 57 research data with 4 independent variables. The results of the F test reveal that if the significant value is 0.022, it shows that this research model is worth testing and can be used to predict tax avoidance because the F test results have met the criteria with a significance value below 0.05.

Table8. ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.862	4	1.216	3.146	.022 ^b
Residual	20.095	52	.386		
Total	24.957	56			

a. Dependent Variable: CETR

b. Predictors: (Constant), SIZE, KI, SG, ROA

Source: Secondary data processed (2023)

4.3.3 Variable Significance Test (T-test)

In the variable significance test, the criteria used are if $t_{count} > t_{table}$ or the significance value is lower than the error tolerance level of 5 percent ($\alpha = 0.05$), therefore, the initial hypothesis is rejected, while the alternative hypothesis is accepted and it also applies otherwise.

Table9. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.848	.687		-1.235	.221
1 KI	.085	.222	.045	.382	.704
SG	.162	.219	.093	.741	.461
ROA	-.126	.055	-.291	-2.299	.024
SIZE	.028	.022	.155	1.305	.196

a. Dependent Variable: CETR

Source: Secondary data processed (2023)

- a) Hypothesis testing for the first hypothesis, the institutional ownership variable (X1) has a significance value of $0.704 > 0.05$, and the calculated t-value is 0.382. This means there is no significant influence of institutional ownership on tax avoidance. Therefore, the first hypothesis (H1) stating that "institutional ownership has a negative effect on tax avoidance" is rejected. The results of this study do not support the findings of previous research by Pujiningsih & Salsabya [6], Merslythalia & Lasmana [5] and Maisaroh & Setiawan [22]. It implies that the magnitude of institutional ownership in a business entity does not influence the entity in practicing tax avoidance. This is consistent with the research by Rista Diantari & Agung Ulupui [29] which suggests that institutional shareholders, acting as supervisors of business entities, do not always have effective control over management practices that may be opportunistic in tax avoidance. This could be because institutional ownership often relies on the supervisory board to oversee and manage the business, as part of their duties. In other words, the presence or absence of institutional ownership may not necessarily prevent tax avoidance practices.
- b) Hypothesis testing for the second hypothesis, the sales growth variable (X2) has a significance value of $0.461 > 0.05$, and the calculated t-value is 0.741. This means there is no significant influence of sales growth on tax avoidance. Therefore, the second hypothesis (H2) stating that "sales growth has a positive effect on tax avoidance" is rejected. The results of this study do not support the findings of previous research by Wahyuni et al [8] including the study conducted by Wulandari & Purnomo [4]. The research results indicate that the level of sales growth, whether high or low, does not have a significant impact on the level of company tax avoidance. This is because the contribution provided by the business entity remains the same in fulfilling its tax obligations. This study aligns with the findings of research conducted by Mahdiana & Amin [10] and Turyatini [30].
- c) Testing the third hypothesis, the profitability variable (X3) has a sig value of $0.024 < 0.05$ and the result of t count of -2.299, it means that there is a significant effect of profitability on tax avoidance so that the third hypothesis (H3) which states that "profitability has a positive effect on tax avoidance" is not supported or rejected. Because the results of this study show the opposite that the profitability variable has a negative effect on tax avoidance practices. The results of this study do not support the results of research conducted by Mahdiana & Amin [10] and Fadila [11] As well as research results by Wahyuni et al [8]. In this study, the profitability of the company is measured by comparing the net profit owned by the entity with the total assets of the business entity. This means that the high level of profit earned by the company does not encourage the company to

try to take advantage of opportunities for tax avoidance. Instead, companies are more likely to comply with legal regulations and avoid tax avoidance practices. This research is in line with research from Mulya & Anggraeni[31]. In addition, the business objectives of business entities that have high profitability allow them to focus more on the growth development and operations of their business entities rather than complex tax avoidance practices.

- d) Testing the fourth hypothesis, the company size variable (X4) has a sig value of 0.196 > 0.05 and the t count result is 1.305, it means that there is no significant effect of company size on tax avoidance so that the fourth hypothesis (H4) which states that "company size has a positive effect on tax avoidance" is rejected. The results of this study do not support the research results of Silvia [12] and Desideria [13] as well as the research of Turyatini [30] which reveals that company size has a significant effect on tax avoidance. Large or small-scale company size does not have a significant impact on the level of corporate tax avoidance. Business entities with a large scale must attract government attention related to the profits they generate. This can expose business entities to the risk of inspection and tax collection in sync with applicable legal regulations. As a result, companies will tend not to want to bear the risks associated with the audit stage or accept other penalties that could damage their reputation in the long run. So, both large and small companies are equally compliant with tax regulations.

5. CONCLUSION

This study is intended to determine and examine the effect between independent variables, namely institutional ownership, sales growth, profitability, and company size with the dependent variable, namely tax avoidance in industrial sector companies listed on the Indonesia Stock Exchange with the observation period 2017 to 2021. Based on the results of testing and data analysis using multiple linear regression analysis, the conclusions drawn from this research are as follows: the analysis indicates that institutional ownership, sales growth, and company size do not significantly affect tax avoidance. This implies that the scale of institutional ownership, sales growth, and company size, whether large or small, does not impact a company's decision to engage in aggressive tax management strategies. However, the variable of profitability measured by Return on Assets has a negative influence on tax avoidance. This means that higher profitability levels indicate a decrease in the practice of tax avoidance by businesses, as some companies tend to prioritize profitability and entity cash flow over complex tax strategies. This research could serve as a guide for companies or corporate taxpayers in decision-making, especially concerning tax planning in their organizations.

The researchers are recommended to consider expanding the research period and incorporating more diverse variables beyond the two independent variables used in this study. For example, variables such as audit committee, business strategy, leverage, independent commissioners, company age, management intensity, fiscal loss compensation, corporate social responsibility (CSR), and others could be included. It is also recommended to use companies from different sectors as samples in future research.

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