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The Effect of Profitability, Sales Growth, and Good Corporate Governance on Tax Avoidance (Empirical Study on Banking Companies Listed on the Indonesia Stock Exchange in 2018-2021)

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ABSTRACT

Purpose: This study aims to analyze the effect of profitability, sales growth, institutional ownership, and independent board of commissioners on tax avoidance in banking companies listed on the Indonesia Stock Exchange (IDX) during 2018–2021. Furthermore, it examines whether leverage functions as an intervening variable in these relationships.

Methodology: The research applies a quantitative approach with a descriptive-verificative method. Secondary data were obtained from the financial statements of banking companies listed on the IDX in 2018–2021, selected through purposive sampling. Data were analyzed using descriptive statistics, classical assumption tests, multiple linear regression, and mediation testing with SPSS.

Findings: The results show that simultaneously, profitability, sales growth, institutional ownership, and independent board of commissioners significantly influence tax avoidance. However, partial tests indicate that none of these variables have a significant effect when examined individually. Leverage also does not mediate the relationship between any of the independent variables and tax avoidance.

Conclusion: The findings suggest that tax avoidance in the banking sector is influenced more collectively by firm characteristics and governance variables rather than by individual factors. The mediating role of leverage is not significant, indicating its limited explanatory power.

Implication: This study highlights the importance of collective governance oversight in minimizing tax avoidance. For investors, tax avoidance can be considered as a proxy for governance quality in banking firms. For regulators, especially the Directorate General of Taxes, enhanced supervision in the banking sector is recommended. Future studies should expand the analysis by including additional variables such as audit committees or corporate social responsibility to provide a more comprehensive understanding.

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1. INTRODUCTION

Taxes play a central role in financing development in Indonesia, but tax avoidance practices still occur frequently and reduce the potential for state revenue. The report 'Tax Justice in the Time of Covid-19' notes that Indonesia could lose about Rp68.7 trillion per year due to tax avoidance, the majority of which comes from the corporate sector. This phenomenon indicates that efforts to improve tax compliance still face serious challenges, including in the banking sector, which plays an important role in the national economy.

The Bank Permata case is one example of how tax avoidance practices can be carried out through complex financial transactions. The lawsuit involving PT Pelita Cengkareng Paper and the alleged use of overseas affiliate companies shows the potential for engineering to take advantage of tax treaties and avoid tax burdens in Indonesia. This case underscores the need for stricter oversight in the banking sector, considering its role not only as a significant contributor to tax revenues but also as a party vulnerable to avoidance practices.

Based on this phenomenon, this research formulates the following questions:

1. Do profitability, sales growth, institutional ownership, and independent board of commissioners affect tax avoidance both partially and simultaneously in banking companies listed on the IDX during the period of 2018–2021?
2. Does leverage have a direct effect on tax avoidance in banking companies?
3. Does leverage act as an intervening variable in the relationship between profitability and sales growth with tax avoidance?
4. Does leverage act as an intervening variable in the relationship between institutional ownership and independent board of commissioners with tax avoidance?

The purpose of this research is to provide empirical evidence regarding the determinants of tax avoidance in the Indonesian banking sector by examining financial factors (profitability, sales growth, leverage) and corporate governance mechanisms (institutional ownership and independent board of commissioners). The relevance of this study lies in its contribution to enriching the literature on tax avoidance in the banking sector, which is still relatively limited, while also providing practical insights for management, investors, and regulators in minimizing tax avoidance practices.

2. LITERATURE REVIEW

Profitability and Tax Avoidance

Profitability reflects a company's ability to generate profits. Dewinta and Setiawan (2016) found a positive influence between profitability and tax avoidance, where increasing profits encourage companies to exploit tax loopholes. Similar results were also shown by Praditasari and Setiawan (2017). However, the study by Maulana and Mujiyati (2019) obtained different results, indicating a negative influence, which means that companies with high profits are actually more compliant in fulfilling their tax obligations to avoid the risk of sanctions. These differing findings indicate that the relationship between profitability and tax avoidance remains inconsistent and relevant to be tested again in the banking sector.

Sales Growth and Tax Avoidance

Sales growth reflects the increase in the operational capacity of the company over time (Kumayas, 2018). Dewinta and Setiawan (2016) explain that there is a positive influence of sales growth on tax avoidance, because the higher the sales volume, the greater the management's incentive to reduce tax burdens. This finding is supported by Zulfikri and Nabilla (2018). However, Hidayat (2018) presents a negative influence, arguing that companies that have achieved cost efficiency tend to no longer need tax avoidance practices. The differences in these research results open opportunities to re-examine the influence of sales growth on tax avoidance in banking companies.

Institutional Ownership and Tax Avoidance

Institutional ownership is one of the mechanisms of good corporate governance that serves to strengthen supervision over management (Sumi Handayani, 2013; Low, 2006). Carolina and Purwantini (2020) found a positive effect, where institutional investors encourage tax payment efficiency through tax avoidance. Conversely, Praditasari and Setiawan (2017) showed a negative effect, namely that the higher the institutional ownership, the tighter the supervision, leading to a potential decrease in tax avoidance practices. The inconsistency of these findings emphasizes that institutional ownership still has the potential to influence tax avoidance in different ways, making it important to be tested further.

Independent Board of Commissioners and Tax Avoidance

Dewi (2019) found a positive influence between independent commissioners and tax avoidance, because difficult coordination with a larger number of independent members can weaken oversight. On the other hand, Sandy and Luviarman (2015) stated a negative influence, where a higher proportion of independent commissioners can suppress tax avoidance practices and improve transparency. This indicates that the effectiveness of the independent board of commissioners in curbing tax avoidance is still a matter of debate, thus it needs to be tested again in the banking context.

Leverage as an Intervening Variable

Leverage indicates the extent to which a company uses debt-based financing. Interest expenses on debt can be utilized as a tax deduction, so theoretically, leverage has a positive relationship with tax avoidance. Research by Praditasari and Setiawan (2017) found that leverage has a positive effect, while Dewinta and Setiawan (2016) showed a negative effect because high debt burden tends to make companies more cautious and compliant. With differing results, leverage in this study is positioned as an intervening variable to explore whether factors such as profitability, sales growth, institutional ownership, and independent board of commissioners can influence tax avoidance through leverage.

Hypotheses Development

Based on theoretical studies and previous research, the hypotheses of this study are formulated as follows:

H1: Profitability positively affects tax avoidance.
H2: Sales growth negatively affects tax avoidance.
H3: Institutional ownership positively affects tax avoidance.
H4: Independent board of commissioners negatively affects tax avoidance.
H5: Leverage positively affects the relationship between profitability and tax avoidance.
H6: Leverage negatively affects the relationship between sales growth and tax avoidance.
H7: Leverage positively affects the relationship between institutional ownership and tax avoidance.
H8: Leverage negatively affects the relationship between independent board of commissioners and tax avoidance.

3. METHODS

This research uses a quantitative approach with a descriptive-verificative method, aimed at testing the effect of profitability, sales growth, institutional ownership, and independent board of commissioners on tax avoidance, with leverage as an intervening variable.

The research population comprises 47 banking companies listed on the Indonesia Stock Exchange (IDX) during the period of 2018–2021. The sample was determined using purposive sampling based on the criteria of the availability of annual financial statements and the completeness of the required data. Based on these criteria, 46 companies were obtained as research samples. After the data selection process, the number of observations used in the analysis is 128 observations.

The research data consists of secondary data obtained from annual reports and financial statements of banking companies listed on the Stock Exchange. Data analysis was carried out using descriptive statistics to describe the characteristics of the research variables, classical assumption tests to ensure model feasibility, and multiple linear regression analysis to assess the direct effects between variables. Additionally, mediation tests were used to examine the role of leverage as an intervening variable, with data processing conducted using SPSS software.

4. RESULTS AND DISCUSSION

A. Descriptive Analysis and Classical Assumption Testing

Descriptive statistical analysis was conducted to provide an overview of the research variables, namely profitability, sales growth, institutional ownership, independent board of commissioners, leverage, and tax avoidance in banking companies during the period of 2018–2021. Descriptive results indicate that these variables have minimum, maximum, average, and standard deviation values that fall within a reasonable range.

In addition, classical assumption testing is also conducted to ensure the model's suitability before regression testing. The test results indicate that the research model meets the requirements and can be used in the subsequent analysis stage.

B. Linear Regression Analysis

Multiple linear regression testing is used to examine the effect of independent variables on tax avoidance. A summary of the regression test results is shown in Table 1.

Table 1. Results of Multiple Linear Regression Test

Variable	Coefficient (B)	t	Sig.	Interpretation
Profitability (X1)	-0,305	-0,315	0,753	Not Significant
Sales Growth (X2)	-0,560	-0,038	0,970	Not Significant
Institutional Ownership (X3)	-0,511	0,716	0,475	Not Significant
Independent Board of Commissioners (X4)	-0,384	1.020	0.310	Not Significant

Source: Author's Data Processing (SPSS 25)

The results show that partially, profitability, sales growth, institutional ownership, and independent board of commissioners do not have a significant effect on tax avoidance. However, simultaneously, all independent variables have been proven to affect tax avoidance.

Leverage Mediation Analysis

Leverage is tested as an intervening variable in the relationship between independent variables and tax avoidance. A summary of the results is shown in Table 2.

Table 2. Results of the Leverage Mediation Test

Connection	t	Sig.	Interpretation
Profitability with Tax Avoidance through Leverage	1,075	0,285	Not Significant
Sales Growth with Tax Avoidance through Leverage	-0,038	0,970	Not Significant
Institutional Ownership with Tax Avoidance through Leverage	-1,020	0,310	Not Significant
Independent Board of Commissioners with Tax Avoidance through Leverage	-1,27	0,262	Not Significant

The results show that leverage does not mediate the relationship between profitability, sales growth, institutional ownership, or independent board of commissioners with tax avoidance.

This finding reinforces that profitability does not drive tax avoidance practices, consistent with the research by Aulia and Mahpudin (2020). High profits actually reflect the company's ability to meet tax obligations (Fauzia, 2021). Sales growth is also not significantly related to tax avoidance; companies with high growth tend to be able to pay taxes (Payanti & Jati, 2020; Janatin & Pardi, 2022).

Institutional ownership has not been proven to suppress tax avoidance, although theory suggests that institutions can act as a monitoring mechanism (Anggraeni & Febrianti, 2019). Similarly, independent boards of commissioners do not have a significant impact, supporting the findings of Amin and Susyono (2020) that the effectiveness of independent commissioners in monitoring practices is still limited.

Leverage does not function as a mediating variable, in line with Indrawati's (2017) findings that leverage is not always an intervention mechanism in the relationship between governance and tax avoidance. Overall, the research results emphasize that the corporate governance mechanisms in the banking sector still face limitations in preventing tax avoidance practices, as explained by agency theory related to conflicts of interest between managers and shareholders (Armstrong et al., 2010).

5. CONCLUSION

This research found that simultaneously, profitability, sales growth, institutional ownership, and independent board of commissioners affect tax avoidance in banking companies. However, partially, none of the four variables have a significant effect. Additionally, leverage as an intervening variable does not mediate the relationship between the independent variables and tax avoidance. These findings address the research objective that tax avoidance practices in the banking sector are not entirely influenced by financial performance or the governance mechanisms tested.

Theoretically, this research enriches the literature on tax avoidance and corporate governance in the Indonesian banking sector. Its practical implications suggest that investors, independent commissioners, and tax authorities need to enhance their oversight functions to prevent management from exploiting governance weaknesses for tax avoidance. This study has limitations regarding the variables tested and the observation period from 2018 to 2021. Future studies may consider other variables, such as audit committees or corporate social responsibility, as well as extend the analysis period to obtain a more comprehensive picture.

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