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Corporate Governance Mechanisms and Tax Avoidance Behavior: The Role of Firm Profitability

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Abstract

This study aims to analyze the effect of corporate governance on tax avoidance and profitability as a mediating variable in property and real estate. The results show that institutional ownership and the composition of the independent board of commissioners affect profitability and simultaneously institutional ownership and the composition of the independent board of commissioners and profitability affect tax avoidance. Institutional ownership affects profitability and profitability affects tax avoidance. However, the composition of the independent board of commissioners does not affect profitability and neither institutional ownership nor the composition of the independent board of commissioners has an effect on tax avoidance. Profitability can mediate institutional ownership on tax avoidance. Independent board composition on tax avoidance cannot be mediated by profitability. The mediating variable of profitability on corporate governance and tax avoidance with the research location in the property and real estate sector is the originality of this research. The practical implications of this research illustrate in the property and real estate sector, that increasing the level of profit will be influenced by corporate governance which has an impact on the level of tax avoidance. As well as a reference for the tax authorities to make policies.

Keywords: Corporate governance, tax avoidance, profitability

1. Introduction

Tax avoidance practices are one of the many risky investment opportunities that management can undertake because a company has a greater chance of retaining larger funds for investment. After all, cash flow from tax avoidance can be an important source of capital. This is because tax avoidance can increase the company's value if the expected marginal benefits exceed the marginal costs (Grindratama & Rudiarwarni, 2022). Thus, this is an incentive for companies to reduce their tax burden through tax avoidance strategies (Chen et al., 2010), which are carried out by companies legally and safely without violating applicable tax provisions because the methods and techniques used are by exploiting weaknesses in tax laws and regulations (Napitupulu et al., 2020). Tax avoidance activities that companies can carry out by tax regulations are by exploiting loopholes in tax regulations such as costs that are deductible expensive (costs that are allowed to reduce gross income) or income obtained by the company, both those whose tax is subject to final tax and income that is not a tax object.

One of the methods used by the government through the Directorate General of Taxes (DGT) when a company practices tax avoidance is by calculating the effective tax rate (ETR), which is the company's effective tax rate through the formula of income tax burden divided by profit before tax. The closer the result is to 0, the stronger the taxpayer is in avoiding tax (very aggressive), and vice versa; the closer the result is to 1, the weaker the taxpayer's tax avoidance is (less aggressive). This is by Rizki & Darsono (2015), who stated that companies carrying out tax avoidance activities are assessed from the value of the effective tax rate (ETR), which is between $0 - 1$, where the lower the ETR value (closer to 0) the higher the company's tax avoidance rate is considered, while the higher the ETR value (closer to 1) the lower the company's tax avoidance rate is considered. The following is the average effective tax rate from various sectors in 2019-2023.

Table 1: List of average effective TAX rates for each sector in 2019-2023

No.	Sector Type	Effective Tax Rate
1.	Basic Materials Sector	-0.32
2.	Energy Sector	-0.29
3.	Consumer Non-Cyclicals Sector	-0.26
4.	Healthcare Sector	-0.24
5.	Industrials Sector	-0.22
6.	Financials Sector	-0.19
7.	Infrastructure Sector	-0.16
8.	Transportation & Logistics Sector	-0.13
9.	Technology Sector	-0.05
10.	Cyclicals Sector	0.01
11.	Property & Real Estate Sector	0

Table 1. shows that the less aggressive level of tax avoidance is carried out by the basic materials sector, namely with an ETR level of -0.32. Meanwhile, the property and real estate sector aggressively avoids taxes with an ETR level of 0.00. The property and real estate sector still needs to pay taxes correctly. However, this sector takes advantage of the loopholes in tax regulations where companies can avoid taxes such as sales tax incentives or income tax. Thus, the tax payments that have been made become more efficient, which is very beneficial for the company.

The main key to tax avoidance is finding weaknesses in tax law products (loopholes). The practice of tax avoidance is assumed to be a goal desired by the company to reap greater profits and have a positive impact (Li et al., 2021). Many factors influence companies to avoid taxes, including institutional ownership, the composition of the independent board of commissioners, and profitability.

Based on the background that shows inconsistency in the research results, the purpose of this study is to analyze the direct and indirect impacts, the influence of institutional ownership, and the composition of the independent board of commissioners on tax avoidance through profitability as a mediating variable in the property and real estate sector listed on the IDX for the period 2019-2023.

2. Literature Review

2.1. The Effect of Institutional Ownership and Profitability

Institutional ownership has a substantial role in influencing management in proportion to the percentage of shares owned by investors (Syadeli & Sa'adah, 2021). Large institutional ownership can minimize opportunistic management actions and reduce agency costs to increase company profitability. The high number of institutional shareholders can lead to increased control efforts by institutional investors, which can prevent managers from engaging in opportunistic behavior (Purnama, 2017). Institutional ownership supports management control over increasing profits because their rights are greater than those of individual investors so that they can carry out stricter supervision than other shareholders. One function of institutional ownership is supervising all company management's activities in running their business; it can also help companies increase profitability by providing capital (Nasution et al., 2023). Large institutional ownership can provide an influence that can produce high asset turnover values and minimize agency costs that occur in the opportunistic behavior of managers to find loopholes for fraud to gain personal gain (Armansyah & Aprilia, 2022). Previous studies have tested institutional ownership on company profitability conducted by Haryono et al. (2017) and Putri et al. (2021) which stated that there is a positive effect of institutional ownership on profitability and the negative effect of institutional ownership can increase the value of company profitability (Ratnasari et al., 2016). Other researchers also concluded that institutional ownership significantly positively affects company profitability (Solikhah & Suryandani, 2021; Wijaya & Al 'Adawiyah, 2021).

2.2. Independent Board of Commissioners Composition and Profitability

Efficient corporate governance practices protect investors from getting returns on their investments fairly and effectively and will ensure the management of public interest companies (Maharani & Soewarno, 2018). According to agency theory, improving corporate governance is the right strategy for reducing conflicts between agents and principals (Musallam, 2020). More independent board members will be able to control managers' opportunistic actions and protect stakeholders' interests (Mardianto & Feeny, 2021). The higher the proportion of independent commissioners, the greater the objectivity of deciding the provisions taken by the board of commissioners (Suhadak et al., 2020). The presence of independent commissioners can increase the usefulness of the control role in the company (Ruslim & Ieneke, 2018).

Research conducted by Puni & Anlesinya (2020) and Malau et al. (2018) proves that independent commissioners positively affect profitability. Likewise, other studies conclude that the composition of the independent board of commissioners affects the profitability value (Pratiwi & Noegroho, 2022; Darwis, 2019).

2.3. The Effect of Institutional Ownership and Tax Avoidance

Fadhilah (2014) argues that companies with large institutional ownership will have greater monitoring and supervision authority and managers who will later be able to minimize conflicts of interest on both parties, thereby reducing the company's chances of avoiding taxes owed. Research by Krisna (2019), Khurana & Moser (2013), and Chan et al. (2013) found that institutional ownership hurts tax avoidance practices. Khurana and Moser (2013) stated that ownership greatly influences its aggressive tax policy, and the greater the concentration of short-term institutional ownership, the higher the level of tax aggressiveness, and the greater the concentration of long-term stakeholders can reduce aggressive tax actions. This research is reinforced by Mappadang (2021), Marlinda et al. (2020), and Utami (2023), which states that large institutional ownership will improve the quality of good corporate governance. According to Damayanti and Susanto (2016), a company with high institutional ownership can be bolder in minimizing its tax reporting or increasing tax avoidance. In other words, the higher the institutional ownership, the better the governance mechanism in the tax avoidance system. Other studies have shown that institutional ownership affects tax avoidance, also conducted by Lestari & Ariyani, 2023 Nahri et al., 2024; Melyaningrum et al., 2022; Sari & Mariadi, 2024; Parso, 2023; Sukartha & Darsani, 2022.

2.4. Independent Board of Commissioners Composition and Tax Avoidance

Commissioners represent the interests of minority shareholders or public shareholders. Public shareholders tend to comply with tax regulations because they expect the company to participate in community development (Puspita & Harto, 2014). Agency theory assesses that the greater the number of independent commissioners, the higher their influence in supervising management performance (Arianti, 2020). Meanwhile, from stakeholder theory, the existence of independent commissioners will support the principles of good governance and the function of the independent board of commissioners will protect the interests of parties with interest in the company (Napitupulu et al., 2020). This study is supported by Wijayanti & Merkusiwati (2017) who show that independent commissioners negatively affect tax avoidance. Winata (2014) stated that independent commissioners are part of the board of commissioners; the greater the percentage of independent commissioners, the more independent they are, so lower tax payments can be made. Likewise, the low percentage of independent commissioners owned by the company and low independence can trigger high tax avoidance. Independent commissioners function as balancers to increase their performance's effectiveness. This is in line with the disclosure by Mappadang (2021); Putri & Lawita (2019) stated that independent commissioners positively impact tax avoidance. Other studies that state the results that the composition of the independent board of commissioners affects tax avoidance were conducted by Nurhaliza and Sari, 2023 Lestari and Ariyani, 2023 Sari and Mariadi, 2024; Cristan & Poniman, 2024; Natalina, 2023.

2.5. Profitability and Tax Avoidance

Return on assets (ROA) is a measure of profitability. A higher ratio indicates effective asset management that produces optimal profits (Bandaro & Ariyanto, 2020). The higher the return on assets, the higher the company's profit, so the taxes imposed will be higher. The theory of profitability explains that when a company wants to maximize its profits, there will be a conflict of interest between the tax authority (principal) and the company or taxpayer (agent). Based on the theory of the shoulder of interest, another interest is the government, which expects large tax revenues to finance national development (Hidayat, 2018). A high profitability value means a higher income tax burden must be paid (Dwiyanti & Jati, 2019). A high tax burden will follow companies that have a level of profitability. Therefore, corporate managers who are more aware of corporate conditions carry out planning and make decisions by taking advantage of tax breaks that continue to reduce their tax burdens so that later, the funds can be used for corporate operational activities to increase the compensation received by management (Fadhila & Andayani, 2022). Research conducted by Sulkartha and Darsani (2021) and Pangaribulan et al. (2021) shows that profitability affects tax avoidance. Likewise, other studies state that tax avoidance is influenced by tax performance (Kristiani et al., 2024; Yusri et al., 2023; Cahyaningrulm & Wulandari, 2024; Rahmayani et al., 2021; Nahri et al., 2024; Putri & Gustinya, 2023; Muslim & Nengzih, 2021; Sitanggang & Leulsiana, 2023; Nurrobani, 2023; Sukartha & Darsani, 2021).

2.6. Hypothesis

Based on the description of the framework of thought and literature review, the hypothesis developed in this research are:

H1: Institutional ownership has a positive and significant effect on profitability
H2: The composition of the independent board of commissioners has a positive and significant effect on profitability
H3: Institutional ownership has a positive and significant effect on tax avoidance
H4: The composition of the independent board of commissioners has a positive and significant effect on tax avoidance
H5: Profitability has a positive and significant effect on tax avoidance
H6: Profitability mediates the effect of institutional ownership on tax avoidance
H7: Profitability mediates the effect of the composition of the independent board of commissioners on tax avoidance

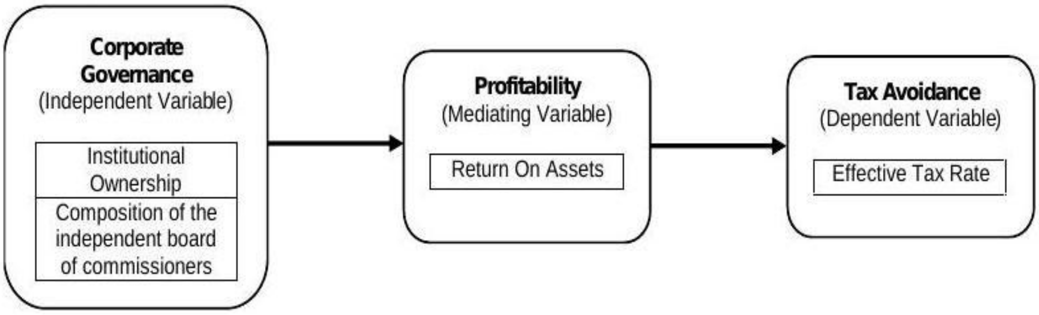

Figure 1: Conceptual framework

3. Research Method

This type of quantitative research is used to determine the impact or relationship between two or more variables (Sugiyono, 2019). This research was conducted in the property and real estate sectors, where the sector was chosen because of the still high level of tax avoidance. The population in the study was 92 issuers from 2019 to 2023 but after purposive sampling. So, the sample used in the study was 45 and included five years of data.

For the analysis method in this study, the researcher used multiple linear regression analysis using Eviews software. Multiple linear regression analysis is carried out to see whether the independent variable (X) affects the dependent variable (Y). Multiple linear regression analysis in this study was conducted on the influence of independent variables, namely INS (X1) and DKI (X2), on the dependent variable (Y), namely ETR (Y), and also conducted on independent variables, namely INS (X1), DKI (X2) and PRO (X3) on the dependent variable (Y), namely ETR (Y). Then, the researcher also used the Sobel Test Online software to see the role of the mediating variable (Z), namely PRO (Z), on the relationship between the independent variables (X), namely INS (X1), DKI (X2) and the dependent variable (Y), namely ETR (Y).

4. Result and Discussion

4.1. First Equation Test - Regression Model Selection

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

Table 2: Chow test

Results Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.611.325	-43.162	0.0000
Cross-section Chi-square	109.528.357	43	0.0000

Based on the results of the Chow test above, which is $0.0000 < 0.05$, the FEM model is selected, so it is necessary to carry out a Hausman test.

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

Table 3: Hausman test results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.565999	2	0.7535

Based on the results of the Hausman test above, which is $0.7535 > 0.05$, the REM model was selected, so it is necessary to continue with the Lagrange test.

3. Legrange Multiple Test
   Lagrange Multiplier Tests for Random Effects
   Null hypotheses : No effects
   Alternative hypotheses : Two-sided (Breusch-Pagan) and one-sided
   (all others) alternatives

Table 4: Lagrange multiplier test results

	Test Hypothesis		
Breusch-Pagan	24.30747	0.060870	24.36834
	(0.0000)	(0.8051)	(0.0000)
Honda	4.930260	-0.246719	3.311764
	(0.0000)	(0.5974)	(0.0005)
King-Wu	4.930260	-0.246719	1.225976
	(0.0000)	(0.5974)	(0.1101)
Standardized Honda	5.285665	0.068070	-1.183093
	(0.0000)	(0.4729)	(0.8816)
Standardized King-Wu	5.285665	0.068070	-1.646817
	(0.0000)	(0.4729)	(0.9502)
Gourieroux	--	--	
			24.30747 (0.0000)

Based on the Lagrange multiplier test results, it is 0.0000 <0.05, so the REM model is selected. So, the first equation model selected is the REM model.

4.2. First Equation Test - Hypothesis Testing

1. T-test (partial effect)
   Dependent Variable : ROA
   Method : Panel EGLS (Cross-section random effects)
   Sample : 20192023
   Periods included : 5
   Cross-sections included : 44
   Total panel (unbalanced) observations : 208
   Swamy and Arora estimator of component variances

Table 5: t-Test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.838691	0.525157	1.597.029	0.1118
INS	0.000118	$5.57E-05$	2.111.521	0.0359
DKI	-0.000147	9.10E-05	-1.609.300	0.1091

Based on the t-test results above show that the INS prob. value is $0.0359 < 0.05$, which means that institutional ownership has a positive and significant effect on profitability. The DKI prob. value is $0.1091 > 0.05$, which means that the composition of the independent board of commissioners does not affect profitability.

2. F test (Simultaneous effect)

Table 6: F test results

R-squared	0.031568
Adjusted R-squared	0.022120
S.E. of regression	1.045147
F-statistic	3.341154
Prob(F-statistic)	0.037334

Based on the results of the F test above, the probability value is $0.037334 < 0.05$, which means that institutional ownership and the composition of the independent board of commissioners have a joint effect on profitability.

3. R Square

Table 7: F Test results

R-squared	0.031568
Adjusted R-squared	0.022120
S.E. of regression	1.045147
F-statistic	3.341154

Prob(F-statistic) 0.037334

The results of the R Square test above show that the institutional ownership variable and the independent board of commisioners composition variable can explain the profitability variable by 0.02 or 2%. In comparison, other variables explain the remaining 98%.

Panel Data Regression Equation

ROA $= 0.838690723105 + 0.000117685731458 *$ INS 0.000146520765098*DKI + e

a) The explanation is as follows:
The regression coefficient of the institutional ownership variable is 0.000 with a positive coefficient direction. This shows that every 1% increase in the number of institutional owners can increase the level of profitability by 0.0%.

b) The regression coefficient of the independent board of commissioner composition variable is 0.000 with a positive coefficient direction. This shows that every 1% increase in the number of independent board of commissioners composition can increase the level of profitability by 0.0%.

4.3. Second Equation Test - Regression Model Selection

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

Table 8: Chow test results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.725821	(43,161)	0.0000
Cross-section Chi-square	193.008480	43	0.0000

Based on the results of the Chow test above, which is $0.0000 < 0.05$, the FEM model is selected, so it is necessary to carry out a Hausman test.

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

Table 9: Hausman test results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

Cross-section random	6.622529	3	0.0850

Based on the results of the Hausman test above $0.0850 > 0.05$, the REM model was selected, so it is necessary to continue with the Legrange Test.

3. Legrange Test

Table 10: Lagrange multiplier results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	(0.0000)	(0.3068)	(0.0000)
Honda	(0.0000)	-1.022031	(0.0000)
King-Wu	(0.0000)	-1.022031	(0.0355)
Standardized Honda	(0.0000)	-0.792752	(0.0446)
Standardized King-Wu	(0.0000)	-0.792752	-0.987188
Gourieroux, et al.	--	--	(0.0000)

Based on the Lagrange multiplier test results, it is $0.0000 < 0.05$, so the REM model is selected. So, the second equation model selected is the REM model.

4.4. Hypothesis Testing

1. t-test (Partial effect)
   Dependent Variable: ETR
   Method : Panel EGLS (Cross-section random effects)
   Sample : 20192023
   Periods included : 5
   Cross-sections included : 44
   Total panel (unbalanced) observations : 208
   Swamy and Arora estimator of component variances

Table 11: t-Test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.725634	0.292888	-5.891778	0.0000
ROA	-0.375541	0.033590	-11.18030	0.0000
INS	$-3.55\mathrm{E}-06$	$3.17\mathrm{E}-05$	-0.111985	0.9109
DKI	$-4.77\mathrm{E}-05$	$4.86\mathrm{E}-05$	-0.980410	0.3280

Based on the results of the t-test above, it shows that the value of the prob. ROA prob. value $0.0000 < 0.05$, which means that profitability positively and significantly affects tax avoidance, is the value of the INS prob. $0.09109 > 0.05$ means that institutional ownership does not affect tax avoidance and the value of the DKI prob. $0.3280 > 0.05$, which means that the composition of the independent board of commissioners does not affect tax avoidance.

2. F test (Simultaneous effect)

Table 12: F-Test results

R-squared	0.379028
Adjusted R-squared	0.369896
S.E. of regression	0.480476

F-statistic	41.50577
Prob(F-statistic)	0.000000

Based on the results of the F test above show that the probability value is $0.000000 < 0.05$, which means that institutional ownership, the composition of the independent board of commissioners, and profitability affect tax avoidance together.

3. R Square

Table 13: R Square results

R-squared	0.379028
Adjusted R-squared	0.369896
S.E. of regression	0.480476
F-statistic	41.50577
Prob(F-statistic)	0.000000

The results of the R Square test above show that the institutional ownership variable, the independent board of commissioners composition variable, and the profitability variable can explain the tax avoidance variable by 0.38 or 38%. In comparison, other variables explain the remaining 62%.

4. Regression Equation

$\text{ETR} = -1.72563368096 - 0.375541498024 * \text{ROA} - 3.5526621455e - 06 * \text{INS}$ - 4.76721841752e-05*DKI + e

a) The explanation is as follows:
The regression coefficient of the profitability variable is -0.376 with a negative coefficient direction. This shows that every 1% decrease in profitability can reduce the level of tax avoidance by 37.6%

b) The regression coefficient of the institutional ownership variable is -3.553 with a negative coefficient direction. This shows that every 1% decrease in the level of institutional ownership can reduce the level of tax avoidance by 355.3%

c) The regression coefficient of the independent board of commissioners composition variable is -4.767 with a negative coefficient direction. This shows that every 1% decrease in the level of an independent board of Commissioners composition can reduce the level of tax avoidance by 476.7%

- Mediation Test

The mediation test is conducted to determine whether the relationship through a mediating variable can significantly become a mediator in the relationship (Ghozali, 2015). The mediating or intervening variable in this study is profitability (ROA). The researcher used the Sobel Test Online, where the test results are shown in the following figure:

Table 14: Sobel Test INS on ETR through ROA

	Input:		Test statistic:	Sta. Error:	p-value:
⇒	0.000113	Subel Leal:	-2.00145301	0.00002129	0.03739239
s	-0.375541	Aroing tast:	-2.07346255	0.00002137	0.03812925
$s_{s,}$	5.5/t-Us	Goodman test:	-2.0895.3819	0.00002121	0.0366593
z_4	0.033590	Reset all		Calculate	

Source: Data Processing Results (2024) Based on the online Sobel test results, the P -value is 0.037 , which is smaller than 0.05 or 5%. So, it can be concluded that profitability (ROA) significantly mediates the effect of institutional ownership (INS) on tax avoidance (ETR).

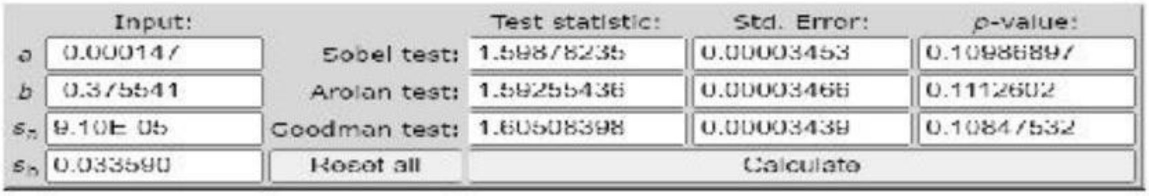

Figure 2: Sobel Test DKI on ETR through ROA

Based on the online Sobel test results, the P-value was obtained at 0.110 , where this value is greater than 0.05 or 5%. So, it can be concluded that profitability (ROA) does not mediate the effect of the composition of the independent board of commissioners on tax avoidance (ETR).

4.5. Discussion

The Effect of Institutional Ownership on Profitability

Based on the results of the tests, institutional ownership has a positive and significant effect on profitability. This is because the higher the level of ownership owned by the institution, the profit generated will increase and impact the level of profitability. So that the number of shares owned by institutions will increase the company's profit. Institutional ownership supports management control over increasing profits because their rights are greater than individual investors, so they can easily carry out stricter supervision than other shareholders. One function of institutional ownership is to oversee the activities of all company management in running their business; it can also help companies increase profitability by providing capital (Nasution et al., 2023). This study is supported by previous studies that have tested institutional ownership affecting company profitability conducted by Haryono et al. (2017), Putri et al. (2021), Ratnasari et al. (2016), Solikhah & Suryandani (2021), Wijaya & Al 'Adawiyah (2021).

The Effect of Independent Board of Commissioners Composition on Profitability

Based on the results of the tests and analyses carried out, the composition of the independent board of commissioners has no effect on profitability. The higher the proportion of independent commissioners, the more objective the ability to decide on the provisions taken to increase profitability (Suhadak et al., 2020; Puni & Anlesinya, 2020). The presence of independent commissioners can also increase the usefulness of the control role in increasing profits for the company (Ruslim & Ieneke, 2018). The results of the study on the composition of the independent board of commissioners do not affect profitability, contrary to research conducted by Puni & Anlesinya (2020) and Malau et al. (2018), proving that the composition of the independent board of commissioners has a positive effect on profitability. Likewise, other studies conclude that the composition of the independent board of commissioners affects the profitability value (Pratiwi & Noegroho, 2022; Darwis, 2019; Leatemia et al., 2019).

The Influence of Institutional Ownership on Tax Avoidance

The results of the tests and analyses carried out show that institutional ownership has no influence on tax avoidance. Institutional ownership has yet to be able to contribute to company owners carrying out their operational performance to avoid tax avoidance. However, the greater ownership of institutions or companies does not guarantee that companies will avoid taxes. The results of the study on institutional ownership do not affect tax avoidance, this is by research conducted by Kristiani et al. (2024); Nurhaliza & Sari (2023); Cahyaningrum & Wulandari (2024); Muslim & Nengzih (2021); Ridwan & Pekerti (2022); Srimindarti et al. (2022); Arham & Firmansyah (2020); Sibarani et al. (2023), the results of which show that tax avoidance cannot be influenced by institutional ownership.

The Effect of the Composition of the Independent Board of Commissioners on Tax Avoidance

The test and analysis results show that the composition of the independent board of commissioners does not affect tax avoidance. The presence of independent representatives in the company is expected to minimize the potential for fraud in tax management actions. Its independence can help companies allocate resources to develop corporate tax management strategies by providing valuable experience and knowledge to help companies become more proactive in their tax planning (Ismawati & Fauzan, 2022). However, the results of the study showed that the composition of the independent board of commissioners could not influence companies in carrying out tax avoidance actions. This is in line with research conducted by Astuti et al. (2023), Cahyaningrum & Wulandari (2024), Candra & Febyansyah (2023), Palupi et al. (2023), Ardiansyah et al. (2023), which stated that the composition of independent commissioners did not affect tax avoidance.

The Effect of Profitability on Tax Avoidance

The results of the testing and analysis show that profitability affects tax avoidance. Profitability shows the company's financial performance in generating profits from asset management, known as return on assets (ROA); the higher the ROA, the greater the profit obtained by the company, and vice versa, the higher the tax imposed by the company will be. This makes companies take tax avoidance actions (Hidayat, 2018). With the higher profits obtained by the company, the company tends to try to avoid taxes; this is because the income tax burden that must be paid will also be higher (Sopiyana, 2022), so the company tries to plan its taxes to reduce these taxes (Prabowo, 2020). A company can be categorized as good if its ROA value increases so that the company's profitability also increases, which is what drives the company to take tax avoidance actions (Noveliza & Crismonica, 2021; Dewinta & Setiawan, 2016; Darmawan & Sukartha, 2014). This is in line with several researchers who conducted profitability tests with tax avoidance, the results of which showed an effect of profitability on tax avoidance (Kristiani et al., 2024; Yusri et al., 2023; Cahyaningrum & Wulandari., 2024; Muslim & Nengzih, 2021; Sitanggang & Leusiana, 2023; Nurrobani, 2023; Sukartha & Darsani, 2021; Qin et al., 2023).

Profitability Mediates the Effect of Institutional Ownership on Tax Avoidance

Based on the results of the tests and analysis, profitability can positively and significantly mediate the effect of institutional ownership on tax avoidance. Companies whose shares are majority-owned by other institutions can control so that company policies in terms of increasing profitability can be realized, and they can also control effective and efficient tax payments from the profits obtained.

Profitability Mediates the Effect of the Composition of the Independent Board of Commissioners on Tax Avoidance

Based on the results of the tests and analysis that have been carried out, it shows that profitability can positively and significantly mediate the effect of the composition of the independent board of commissioners on tax avoidance. Companies that have many independent commissioners will be able to control the company's activities in increasing profits. Large profits will certainly impact high profitability levels, and high profits can be influenced by the number of independent commissioners making more effective and efficient tax payments.

5. Conclusion

Based on the results and discussions that have been carried out, it is concluded that simultaneously, institutional ownership, the composition of the independent board of commissioners, and profitability affect tax avoidance. Partial institutional ownership has a positive and significant effect on profitability, and profitability has a positive and significant effect on tax avoidance. However, the composition of the independent board of commissioners does not affect profitability, and both institutional ownership and the composition of the independent board of commissioners do not affect tax avoidance.

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