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Profitability and leverage on tax avoidance with company size as moderation in IDX manufacturing companies

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ABSTRACT

This study aims to analyze the effect of profitability and leverage on tax avoidance moderated by company size. This research is a quantitative study with tax avoidance as the dependent variable. Tax avoidance is measured using Effective Tax Rate (ETR), while profitability is assessed based on Return on Assets (ROA). Leverage is determined by Debt to Equity Ratio (DER), and company size is calculated by total assets. The sample of this study amounted to 17 companies in the textile and garment sector for the period 2018-2022 listed on the Indonesia Stock Exchange. The sampling technique used purposive sampling method based on certain criteria. The data analysis technique was carried out by Multiple Linear Regression Hypothesis Test and Moderated Regression Analysis (MRA) Test. Based on the data analysis conducted, profitability has a positive effect on tax avoidance, leverage has no effect on tax avoidance, company size is able to positively strengthen the effect of profitability on tax avoidance, and company size is able to positively strengthen the effect of leverage on tax avoidance.

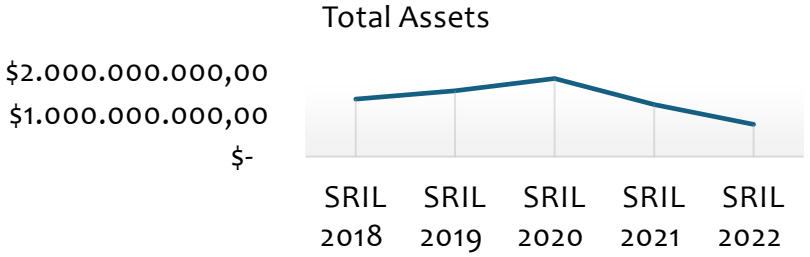
INTRODUCTION

Taxes are funds that individuals and companies must pay to the government without receiving direct reciprocity from them (Halim et al., 2020). In Indonesia, the Self Assignment System is applied, which means that taxpayers take the initiative to calculate, pay, and report their own taxes in accordance with "Law of the Republic of Indonesia Number 9 of 1994 concerning Amendments to Law Number 6 of 1983 concerning General Provisions and Tax Procedures". This method allows taxpayers to choose the lowest tax amount to lower their tax burden (Panjaitan, 2016).

This method is utilized by some taxpayers to practice tax avoidance by using loopholes in the tax system through dishonest means (Suandy, 2016). Tax avoidance is a legal effort made by optimally utilizing tax provisions, including taking advantage of things that are not regulated and weaknesses in the applicable tax regulations (Alhaydan et al., 2021). Tax avoidance has become a serious concern in Indonesia, especially after the disclosure of various cases that include the practice of issuing fictitious tax invoices. One prominent case example is the involvement of PT Gemilang Sukses Garmindo, a garment company in 2020, which was involved in the practice with losses reaching 9 billion rupiah (Sukmana, 2020). This phenomenon indicates a difference in interests between the government and taxpayers, which encourages tax avoidance practices by companies. Companies are encouraged to take advantage of tax law loopholes to maximize after-tax profits, while tax authorities seek to enforce regulations to maintain state revenues (Putri, 2015).

In this context, awareness of the potential for abuse of the tax system is becoming increasingly important, especially given the significant contribution of companies in the textile and garment sector compared to other industrial sectors in international trade with export values reaching around 12 billion US dollars according to data from BPS in 2020. Indonesian textile and garment companies tend to use tax avoidance strategies to manage their tax obligations, as global competition in the textile and garment market encourages them to look for ways to cut production costs, including tax costs (Irawan & Putra, 2022).

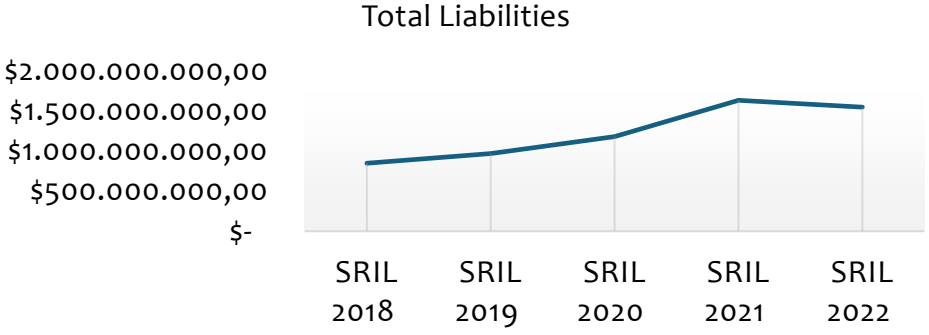
Figure 1. Trend Chart of Total Debt of PT Sri Rejeki Isman Tbk (SRIL)



Source: Financial Report

According to Moeljono (2020), tax avoidance is influenced by several factors, including profitability. The chart shows the trend of total assets of PT Sri Rejeki Isman Tbk (SRIL) from 2018 to 2022, with an increase in profits from around $1.2 trillion in 2018 to around $1.7 trillion in 2020, followed by a significant decline to around $600 billion in 2022. This chart shows that SRIL experiences significant fluctuations in its assets, which are often related to profitability. Companies that have large and increasing assets generally show good profitability. With higher profitability, SRIL has an incentive to reduce their tax liability through tax avoidance strategies. When a company has a history of high and sustainable profits, it tends to engage in tax avoidance strategies (Dewinta & Setiawan, 2016). But tax avoidance can also be done by companies with low profitability to reduce their tax liabilities and increase their net profits (Kurniasih & Sari, 2013). Based on positive accounting theory, to avoid political costs, namely taxation, company managers tend to apply accounting practices that reduce tax revenue. This is in line with agency theory which states that when corporate profits increase, the amount of income tax will also increase proportionally, so managers tend to engage in tax avoidance. According to Asih & Darmawati (2022), Darsani & Sukartha (2021), and Prabowo & Sahlan (2021), profitability has a positive impact on tax avoidance. Meanwhile, according to Ichsani (2019), Malinda & Pradana (2022), and A. O. Siregar (2021), profitability has a negative effect on tax avoidance.

Figure 2. Chart of Total Debt of PT Sri Rejeki Isman Tbk (SRIL)



Source: Financial Report

Figure 2 shows the trend of PT Sri Rejeki Isman Tbk (SRIL)'s total debt from 2018 to 2022. It can be seen that the company's total debt increased significantly from $848 million in 2018 to $1.6 trillion in 2021, before decreasing slightly to $1.5 trillion in 2022. This increase indicates that SRIL has been actively using debt, which allows them to utilize interest expense to reduce their tax burden. Leverage is the process of companies using assets or capital with fixed costs (either debt or stock) to increase income for their shareholders (Sartono, 2010). Leverage can increase corporate debt which causes additional costs such as interest, but it can also reduce the amount of tax that must be paid by the company (Kurniasih & Sari, 2013). According to positive accounting theory, managers are more likely to utilize tax avoidance as a political cost to reduce taxes. They tend to increase the company's leverage to achieve this goal, in accordance with agency theory which states that agents will try to maximize profits for shareholders. Research conducted by Ernawati et al., 2021; Heriyah, 2020; Sarpingah, 2020 shows that leverage has a positive effect on tax avoidance. Meanwhile, the results of research conducted by Dewi & Noviari, 2017; Dewinta & Setiawan, 2016; Prabowo & Sahlan, 2021 show otherwise.

There are other variables that affect the relationship between the two previous variables and tax avoidance, namely company size, which is a scale that classifies companies into large or small companies (Brigham & Ehrhardt 2010). As the business grows, risk management strategies to reduce taxes become more important. Large companies tend to have a better ability to manage tax aspects than small companies (Suryani, 2021). Research conducted by Asih & Darmawati, (2022) shows that company size strengthens the positive effect of profitability and leverage on tax avoidance. Contrary to research conducted by Prabowo & Sahlan, 2021; Putra & Jati, 2018) which shows that company size cannot moderate the effect of profitability and leverage on tax avoidance.

Based on inconsistencies in previous studies, tax avoidance remains a compelling topic for ongoing research. To highlight the novelty of this study, we reviewed the factors, methodologies, and findings of prior research on tax avoidance in Indonesia. This approach aims to underscore differences with past studies, particularly in examining the impact of profitability, leverage, and firm size on tax avoidance. For instance, Panjaitan's (2016) research investigated the relationships between profitability, leverage, and firm size with tax avoidance, whereas this study adopts a distinct perspective by considering firm size as a moderating variable. This variable potentially strengthens or weakens the relationship between profitability, leverage, and tax avoidance. The data for this research were obtained from textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. Given the above context, this study is titled " The Effect of Profitability and Leverage on Tax Avoidance with Company Size as a Moderating Variable in Manufacturing Companies Listed on the IDX 2018-2022."

RESEARCH METHODS

Type of Research

This research adopts a quantitative approach, utilizing numerical data and statistical methods to investigate the relationships between key financial metrics. The focus is on assessing the impact of profitability and leverage on tax avoidance, with company size serving as a moderating variable. By examining manufacturing firms listed on the Indonesia Stock Exchange, this study aims to offer a comprehensive and detailed analysis of how these factors interact and influence tax avoidance behaviors within the industry. The quantitative nature of this research ensures an objective and precise measurement of these effects, contributing to a clearer understanding of the dynamics at play.

Data Collection Technique

The data collection technique employed in this study is non-participant observation, utilizing secondary data sources. The dataset consists of annual financial statements from textile and garment companies listed on the Indonesia Stock Exchange (IDX), which adhere to established sample selection criteria. These financial statements provide comprehensive quantitative data necessary for analyzing the relationships among profitability, leverage, and tax avoidance, with company size as a moderating variable. By ensuring that the selected companies represent a diverse and representative sample of the industry, the study aims to provide a rigorous and detailed examination of the pertinent financial dynamics. This approach facilitates a robust statistical analysis, yielding insights that contribute to the broader understanding of the interplay between financial metrics and tax avoidance practices in the manufacturing sector.

Population and Sample

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) with a total of 143 companies. While the sample in this study was 45 companies with purposive sampling technique.

Table 1. Research sampling process with puropsive sampling method

No.	Criteria	Number of Companies
1	Manufacturing Companies Listed on the IDX for the period 2018-2022	181
2	Companies, including Miscellaneous Industry Sector	56
3	Companies, including the Textile and Garment Sub-Sector	21
4	Companies reporting their finances during the observation year	17
Total Company Sample		17
Observation Year		5
Total Observations 2018-2022		85

Research Variables

1. Tax Avoidance

   Tax avoidance strategies allow businesses to minimize their tax liabilities while remaining within the bounds of tax laws and regulations. One common method for managing tax payments is through strategic deductions and allowances, which are reflected in the Effective Tax Rate (ETR). The ETR is calculated by dividing a company's income tax expense by its profit before tax, providing a measure of how effectively a company manages its tax obligations in relation to its earnings (Pizzica et al., 2015).

$$\text{Effective Tax Rate} = \frac{\text{Total Tax Expenses}}{\text{Earnings Before Tax}}$$

2. Profitability

   Kasmir (2014) reveals that profitability can be a reference to assess whether management has operated effectively. The efficient occurrence of a company generating profits from its assets is called ROA. To reduce tax liabilities, companies tend to optimize the use of their assets. So that ROA can indicate how effective companies are in managing their assets for this purpose.

$$\text{Return On Assets} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100$$

3. Leverage

   Leverage is the use of assets that result in greater debt and additional costs such as interest, which can reduce business income tax. According to Irham Fahmi (2014), the debt-to-equity

ratio (DER) is a measure of leverage that shows the level of financial risk faced by the company.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

4. Company Size

The grouping of companies based on the amount of their assets is known as "company size". According to Brigham and Houston (2010), a company's total assets determine its size.

$$\text{Company Size} = \text{Ln (Total Assets)}$$

Data Analysis Technique

The data analysis methods employed in this research encompass a comprehensive range of statistical techniques. Initially, descriptive statistical analysis is utilized to summarize and interpret the basic features of the data, providing a clear overview of the sample characteristics. Following this, a series of classical assumption tests are conducted to ensure the validity and reliability of the regression models. These tests include the normality test to check for the distribution of data, the multicollinearity test to detect the presence of multicollinearity among the independent variables, the autocorrelation test to identify any correlation between residuals, and the heteroscedasticity test to examine the constancy of variance in the error terms.

Subsequently, multiple linear regression analysis is performed to investigate the relationship between the independent variables and the dependent variable. This analysis helps in understanding the individual and combined effects of profitability and leverage on tax avoidance. Additionally, moderated regression analysis (MRA) is applied to explore the moderating effect of company size on the relationship between profitability, leverage, and tax avoidance. This approach allows for a nuanced understanding of how company size influences the strength and direction of these relationships.

RESULTS AND DISSCUSSION

Overview

The textile and garment subsector in Indonesia stands as a cornerstone of the national economy, significantly impacting various facets of economic growth and development. This sector encompasses a broad spectrum of activities, ranging from the initial stages of producing raw materials—such as synthetic fibers and cotton—to the final stages of manufacturing finished products, including apparel and home textiles. Its contributions are vital in bolstering non-oil and gas exports, generating foreign exchange, and enhancing community incomes. Additionally, the industry plays a crucial role in employment generation, creating numerous job opportunities, and fulfilling the nation's demand for clothing. According to Anugrah et al. (2024), this sector is integral to Indonesia's economic framework. This study employs a purposive sampling method, focusing on data from 17 carefully selected companies out of 181 textile and garment manufacturing firms listed on the IDX between 2018 and 2022. The following section provides an overview of the companies examined in this research:

Table 2. Research Data

No.	Stock Code	Company Name
1	ADMG	Polychem Indonesia Tbk
2	ARGO	Argo Pantes Tbk
3	BELL	Trisula Textile Industries
4	ERTX	Eratex Djaja
5	ESTI	Ever Shine Tex Tbk
6	HDTX	Panasia Indo Resources Tbk
7	INDR	Indo Rama Synthetic Tbk
8	MYTX	Asia Pacific Investama Tbk
9	PBRX	Pan Brothers Tbk
10	POLU	Golden Flower Tbk
11	RICY	Ricky Putra Globalindo Tbk
12	SRIL	Sri Rejeki Isman Tbk
13	SSTM	Sunson Textile Manufacturer Tbk
14	STAR	Star Petrochem Tbk
15	TFCO	Tifico Fiber Indonesia Tbk
16	TRIS	Trisula International Tbk
17	ZONE	Mega Perintis Tbk

Source: Data Processed, 2024

Data Analysis Results

1. Descriptive Statistical Analysis

Table 3. Descriptive Statistics

Descriptive Statistics

Variable	N	Min.	Max.	Mean	Std. Deviation
Profitability	85	0.11	3.98	1.35	1.33
Leverage	85	0.12	8.23	2.62	2.26
Company Size	85	268.92	455.38	343.42	47.89
Tax Avoidance	85	0.03	0.94	0.212	0.208
Valid N (listwise)	85				

Source: Data processed by SPSS 29, 2024

The results of descriptive statistical data processing from the table show that the total profitability variable has a range of values between 0.11 and 3.98, with an average of 1.35 and a standard deviation of 1.33. With an average value of 2.62 and a standard deviation of 2.26, the leverage variable shows a minimum value of 0.12 and a maximum value of 8.23. The number of firm size values ranges from 268.92 to 455.38, with an average of 343.42 and a standard deviation of 47.89. On the other hand, the tax avoidance variable ranges between 0.03 and 0.94, with an average of 0.212 and a standard deviation of 0.208.

2. Classical Assumption Test
   a. Normality Test

Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		0,529
	99% Confidence Interval	Lower Bound	0,516
		Upper Bound	0,541

Source: Data processed by SPSS 29, 2024

The Kolmogorov-Smirnov One-Sample Test results indicate an Asymp. Sig. (2-tailed) value of 0.529, which suggests that the data adheres to a normal distribution, given that this significance value is substantially higher than the conventional cutoff of 0.05. This finding validates that the data is appropriately distributed for advanced statistical analysis, obviating the need for any transformations to achieve normality.

   b. Multicollinearity Test

Table 5. Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	(Constant)		
	Profitability	0,930	1,075
	Leverage	0,909	1,100
	Company Size	0,929	1,077

Source: Data processed by SPSS 29, 2024

Table 5 presents the analysis of multicollinearity among the variables under investigation, providing key insights into their interrelationships. For profitability, the tolerance value of 0.930, which exceeds the 0.100 threshold, and the variance inflation factor (VIF) of 1.075, well below the critical level of 10.00, collectively indicate an absence of multicollinearity issues. Similarly, leverage exhibits a tolerance value of 0.909 and a VIF of 1.100, both of which comfortably fall within acceptable ranges, thereby confirming that multicollinearity is not a concern for this variable either. Lastly, company size shows a tolerance value of 0.929 and a VIF of 1.077, further substantiating the absence of multicollinearity. These results are essential as they affirm the independence of the predictor variables, ensuring the validity of the regression model and the reliability of the conclusions drawn regarding the effects of profitability, leverage, and company size on tax avoidance.

c. Autocorrelation Test

Table 6. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.849[a]	0,721	0,711	0,111604	2,035

Source: Data processed by SPSS 29, 2024

According to Table 6, the Durbin-Watson (DW) statistic is 2.035, which is used to assess the presence of autocorrelation in the residuals of a regression model. To determine if the data exhibits autocorrelation, the DW value should fall within the interval defined by the Durbin-Watson bounds, specifically between the lower bound (DU) and the upper bound (4-DU). For this study, with 3 predictor variables and a sample size of 85, the Durbin-Watson table specifies the lower bound (DU) as 1.721 and the upper bound (4-DU) as 2.279. Since the computed DW value of 2.035 lies within the range $1.721 < 2.035 < 2.279$, it indicates that there are no symptoms of autocorrelation present in the data. This outcome is crucial for ensuring the validity of the regression analysis, as the absence of autocorrelation supports the integrity of the model's error terms.

d. Heteroscedasticity Test

Table 7. Heteroscedasticity Test

Coefficients[a]

Model		t	Sig.
1	(Constant)	1,672	0,098
	Profitability	1,182	0,241
	Leverage	-1,944	0,055
	Company Size	0,934	0,934

Source: Data processed by SPSS 29, 2024

The results from the heteroscedasticity test, specifically the Glejser Test, provide insights into the variance of residuals across the regression model. For profitability, the significance value is 0.241; for leverage, it is 0.055; and for company size, it is 0.943. Since all these significance values exceed the threshold of 0.05, it indicates that none of these variables exhibit heteroscedasticity. This conclusion implies that the residuals' variance is consistent across the levels of each variable, thereby satisfying the assumption of homoscedasticity and ensuring the robustness and reliability of the regression analysis conducted.

3. Hypothesis Test

a. Multiple Regression Analysis

Table 8. Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta
1	(Constant)	0,313	0,039	
	Profitability	0,027	0,009	0,305
	Leverage	-0,021	0,017	-0,126

Source: Data processed by SPSS 29, 2024

As an estimate of tax avoidance influenced by leverage and profitability variables, the linear multiple regression equation model can be shown based on the analysis results from table 8 The equation form of multiple linear regression analysis results can be seen below.

$$Y = 0{,}313 + 0{,}027\boldsymbol{X1} + (-0{,}021)\boldsymbol{X2} + e$$

Description:
Y = Tax Avoidance
α = Constant
X1 = Profitability
X2 = Leverage
ε = Error Term

The above equation can be explained as follows:

1) The constant value (α = 0.313) indicates that if profitability (X1) and leverage (X2) are zero, then tax avoidance (Y) will be 0.313.
2) The profitability regression coefficient value of 0.027 indicates that any increase in profitability (X1) will cause an increase in tax avoidance (Y) of 0.027.
3) The leverage regression coefficient value of -0.021 indicates that any increase in leverage (X2) will cause a decrease in tax avoidance (Y) of 0.021.
4) Error term (**ε**) is the part of the variable that cannot be explained by the model and includes all other factors that affect the results but are not included in the analysis.

b. Coefficient of Determination (R^2)

Table 9. Multiple Regression Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863[a]	0,632	0,631	0,117115

Source: Data processed by SPSS 29, 2024

The Adjusted R Square value of 0.631 indicates that 63.1% of the variability in the dependent variable is explained by the independent variables when considered together. This means that the independent variables in the model account for 63.1% of the total variance in the dependent variable, reflecting a substantial level of explanatory power.

c. Simultaneous Regression Test (F-Test) Multiple Regression

Table 10. Simultaneous Regression Test (F-Test) Multiple Regression

ANOVA[a]

Model		Sum of Squares	Sig.
1	Regression	0,434	.005[b]
	Residual	3,186	
	Total	3,620	

Source: Data processed by SPSS 29, 2024

The significance value (Sig.) of 0.005, which is below the 0.05 threshold, demonstrates that the independent variables collectively exert a statistically significant effect on the dependent variable. This result provides robust evidence to reject the null hypothesis, affirming that the independent variables, when evaluated together, significantly impact the dependent variable. The low Sig. value underscores the strength of the relationship and indicates that the variables in question contribute meaningfully to explaining variations in the dependent variable.

d. Partial Statistical Test (T-Test)

Table 11. Partial Statistical Test (T-Test) Multiple Regression

Coefficients[a]

Model		t	Sig.
1	(Constant)	3,076	0,001
	Profitability	2.915	0,005
	Leverage	-1.206	0,231

Source: Data processed by SPSS 29, 2024

Based on the data above, it can be concluded that:

1) The significance value (Sig.) of 0.005 for the profitability variable, which is less than the 0.05 threshold, indicates that profitability has a statistically significant effect on tax avoidance.
2) The significance value (Sig.) of 0.231 for the leverage variable, which is greater than 0.05, indicates that leverage does not have a statistically significant effect on tax avoidance.

e. Moderated Regression Analysis (MRA)

Table 12. Moderated Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta
1	(Constant)	0,270	0,035	
	Profitability	0,156	0,062	0,951
	Profitability_ Company Size	0,0003	0,0001	0,823

Source: Data processed by SPSS 29, 2024

The analysis results from table 4.11 bring up the moderation regression equation model, the equation can be seen below.

$$\mathbf{Y} = 0{,}270 + 0{,}156\mathbf{X1} + 0{,}0003\mathbf{X1}*M + \varepsilon$$

Description:

Y = Tax Avoidance
α = Constant
X1 = Profitability
M = Company Size
X1*M = Interaction between Profitability and Company Size
ε = Error Term

The above equation can be explained as follows:

1) The constant value (α = 0.270) indicates that if profitability (X1) and is zero, then tax avoidance (Y) will be 0.270.
2) The profitability regression coefficient value of 0.156 indicates that any increase in profitability will increase tax avoidance by 0.156.
3) The X1*M coefficient value of 0.0003 indicates that an increase in the interaction between profitability and company size will increase tax avoidance by 0.0003.
4) Error term ($\boldsymbol{\varepsilon}$) is the part of the variable that cannot be explained by the model and includes all other factors that affect the results but are not included in the analysis.

f. Coefficient of Determination (R^2)

Table 13. Coefficient of Determination (R^2) Moderation Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.283[a]	0,579	0,577	0,202202

Source: Data processed by SPSS 29, 2024

The presence of the moderating variable, company size, enhances the impact of profitability on tax avoidance, as evidenced by the Adjusted R Square value of 0.577. This figure indicates that, after accounting for the moderating effect of company size, the combined influence of profitability and leverage on tax avoidance accounts for 57.7% of the variance in tax avoidance.

g. Simultaneous Regression Test (F-Test) Multiple Regression

Table 14. Simultaneous Regression Test (F-Test) Moderation Regression

ANOVA[a]

Model		Sum of Squares	Sig.
1	Regression	0,289	.034[b]
	Residual	3,312	
	Total	3,601	

Source: Data processed by SPSS 29, 2024

The F-test results indicate a significance value (Sig.) of 0.034, which is less than the 0.05 threshold. This finding confirms that the independent variables, when considered together, have a significant simultaneous effect on the dependent variable.

h. Partial Statistical Test (T-Test)

Table 15. Partial Statistical Test (T-Test) Moderation Regression

Coefficients[a]

Model		t	Sig.
1	(Constant)	7,654	0,000
	Profitability	2,523	0,014
	Profitability_ Company Size	1,182	0,032

Source: Data processed by SPSS 29, 2024

The analysis demonstrates that the significance value for the interaction between profitability and company size is 0.032, which is below the 0.05 threshold. This result highlights that company size has a notable moderating effect on how profitability impacts tax avoidance. Specifically, the influence of profitability on tax avoidance varies depending on the size of the company. Larger firms experience a more substantial or distinct effect of profitability on their tax avoidance strategies than smaller firms.

Discussion

1. Effect of Profitability on Tax Avoidance

The results of multiple regression tests show that profitability has a positive impact of 0.027 on tax avoidance, which means that any increase in profitability will increase tax avoidance by 0.027. Companies that have high profitability tend to invest more in administrative and technical resources, such as tax consulting and strategic planning, which support tax avoidance

strategies (Wibowo et al., 2020). The results of previous research by Asih (2022) and Darsani (2021) which show that profitability increases tax avoidance are also supported by these findings.

2. Leverage Effect on Tax Avoidance

The multiple regression t-test results reveal that the significance value for leverage is 0.231, which exceeds the 0.05 threshold, indicating that leverage does not have a significant impact on tax avoidance. Analysis of financial statements from companies such as PT Argo Pantes Tbk, PT Sri Rejeki Isman Tbk, PT Asia Pacific Investama Tbk, and PT Panasia Indo Resources Tbk, shows that retained earnings are negative, reflecting accumulated net losses. In these cases, companies are using debt to cover operational losses rather than leveraging it for tax advantages. This finding aligns with previous research by Dewi (2017) and Dewinta (2016), which also concluded that leverage does not significantly influence tax avoidance strategies.

3. Effect of Profitability on Tax Avoidance with Company Size Moderation

The results of the moderated regression analysis indicate that company size, as a moderating variable, enhances the impact of profitability on tax avoidance. This finding is consistent with agency theory, which suggests that managers in larger firms possess greater financial and administrative resources, enabling them to deploy more sophisticated and effective tax avoidance strategies. This outcome corroborates prior research by Asih (2022) and Putra (2018), which demonstrated that company size can amplify the relationship between profitability and tax avoidance.

4. The Effect of Leverage on Tax Avoidance with Company Size Moderation

According to the results of multiple regression analysis, leverage does not have a significant effect on tax avoidance. If the relationship between leverage and tax avoidance is insignificant, then there is no relationship that needs to be moderated. Therefore, moderation regression analysis was not performed because there is no significant relationship that needs to be tested further with moderation. The results of this study are in line with the research of Memon et al. (2019) which states that if the relationship between the independent and dependent variables is not significant, then moderation analysis is not required.

CONCLUSIONS

Conclusion

Based on the analysis of 85 samples from textile and garment subsector manufacturing companies listed on the IDX during the 2018–2022 period, it can be concluded that profitability positively affects tax avoidance, as more profitable companies are better equipped to invest in tax consulting and strategic planning. However, leverage does not significantly affect tax avoidance, as seen in cases like PT Argo Pantes Tbk, where debt is used to cover losses rather than as a tax avoidance strategy. Additionally, company size strengthens the positive relationship between profitability and tax avoidance, aligning with agency theory, which suggests that larger companies have more resources to engage in complex tax avoidance strategies. Conversely, company size does not moderate the effect of leverage on tax avoidance, as leverage itself is not significantly linked to tax avoidance, rendering moderation regression analysis unnecessary.

Suggestion

Suggestions for the conclusions mentioned are that companies should evaluate asset, liability, and equity capital management strategies to maximize after-tax profit by considering tax avoidance efficiency and tax compliance. Investors should evaluate the company's overall

performance before investing, ensuring that the company complies with tax regulations to avoid the negative impact of tax avoidance for all parties.

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