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The Effect of Managerial Ownership, Independent Commissioners, Company Size, and Profitability on Tax Avoidance

Agnes Imelda Manalu[1]*, Ronny Andesto[2]
Master of Accounting Study Program, Faculty of Economics & Business, Universitas Mercu Buana Jakarta
Corresponding Author: Agnes Imelda Manalu agnesmanalu367@gmail.com

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A B S T R A C T

This research aims to demonstrate and analyze several factors suspected of influencing tax avoidance. The factors used are external and internal, including managerial ownership, independent commissioners, company size, and corporate profitability. We used 20 companies listed on the Indonesian regular market. Our analysis technique used panel data regression. We found that tax avoidance in consumer sub-sector companies is more influenced by profitability than by good corporate governance instruments.

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INTRODUCTION

Indonesia is a country poised for takeoff, so development requires a significant amount of funding. Tax revenues, grants, and non-tax state revenues are the country's primary sources of revenue. Taxes are a key contributor to Indonesia's state revenue. The 2022 State Budget data shows that taxes contributed 77%, or IDR 1,840.1 trillion, to total state revenue of IDR 2,376.3 trillion (Kementerian Keuangan, 2023). The government certainly hopes that tax revenue will always increase every year to improve infrastructure development in Indonesia.

A persistently controversial issue concerns taxes, which can reduce a company's income. Every company producing goods or services is subject to taxes. A company's high net income in a given year is a key indicator of tax compliance. Reducing operational costs is one way many companies optimize their profits. One burden that can be reduced without violating the law, but by exploiting loopholes, is tax. Not all taxpayers are compliant in paying their taxes. Individuals and companies can make rational decisions in their reporting as a strategy to minimize taxes. (Blaufus et al., 2016).

To optimize profits, governments around the world allow companies to avoid taxes in legal ways. (STIGLITZ, 1985). Both internal and external parties will receive a number of benefits from a company's boldness in tax avoidance. Companies will be able to find ways to increase operating costs, making it appear as if profits are declining. Furthermore, companies can utilize the cash flow generated from profits for productive long-term investments. Furthermore, companies can utilize excess profits through internal policies such as increasing bonuses and employee welfare (Alkurdi & Mardini, 2020)

Efforts to avoid taxes through legal procedures are permitted by the state because they exploit regulatory loopholes without explicitly breaking the law. However, this practice raises ethical debates, particularly regarding the company's contribution to national development. Many factors influence corporate tax avoidance. However, due to research limitations, researchers have only considered a few factors considered to influence tax avoidance: managerial ownership, independent commissioners, company size, and profitability. These factors are thought to influence companies' propensity to avoid taxes by exploiting inequalities in tax law.

Tax avoidance policies within a company can be influenced by managerial ownership. Management, who also own shares in the company, tends to make various efforts to increase profits and reduce costs in order to increase the dividend income they receive. Therefore, tax avoidance can be one strategy used to minimize company expenses. According to Moses Babatunde Olanisebe (2024), business owners can encourage management to engage in tax avoidance practices to reduce the company's tax burden, thereby increasing after-tax profit (Olanisebe, 2024).

An independent commissioner is an individual responsible for each company's internal control system and also has no personal relationships with directors, shareholders, or even the families of other employees (Ardiansyah et al., 2023). Therefore, an independent commissioner is responsible for overseeing management actions related to tax avoidance and preventing such from occurring.

Company size is an indicator that shows the scale of a company, which can be measured using several tools, such as total assets, total sales, stock market value, and so on. According to Mile Terziovski, 2000, company size refers to the number of employees and the scale of the company's operations (Terziovski & Samson, 2000). Therefore, company size influences tax avoidance, because larger companies tend to have greater resources and capabilities to implement complex tax avoidance strategies. In addition, large companies may also have more incentives to avoid taxes due to the potential for greater savings compared to smaller companies. Profitability is the primary goal of establishing a company and plays a crucial role in the company's future sustainability. Profitability is also an indicator to assess the level of management's performance effectiveness in running the company's operations, by looking at the extent of benefits or profits obtained. To measure profitability, Return on Assets (ROA) is used, which is a ratio that shows the amount of net profit generated from the company's operations compared to all assets owned.

The level of ROA depends on how efficiently management manages the company's assets, thus reflecting the company's operational efficiency (Bintara, 2020). Profitability is one of the factors influencing tax avoidance, as companies with high profitability tend to have a greater incentive to reduce their tax burden. With high profits, companies may seek legal ways to minimize tax liabilities in order to increase net income that can be distributed to shareholders.

Research on tax avoidance has generally focused on corporate governance and company characteristics. However, the novelty of this study lies in its simultaneous integration of four key variables—managerial ownership, the presence of independent commissioners, company size, and profitability to explain a company's propensity to engage in tax avoidance. First, previous research often focuses on one or two governance aspects, such as managerial ownership or the proportion of independent commissioners, without simultaneously linking them to financial performance and company size. This study offers novelty by simultaneously examining internal governance factors with structural factors (size) and financial performance (profitability).

Second, in terms of context, this study contributes by presenting a more comprehensive analysis of tax avoidance practices, particularly in light of tax regulations and corporate characteristics in Indonesia, which differ from those in developed countries. This allows for the emergence of findings that can enrich the literature, particularly regarding the extent to which governance mechanisms and corporate characteristics in emerging markets can influence tax avoidance behavior. Third, this study also strengthens the discourse on the role of managerial ownership and independent commissioners as oversight mechanisms. By linking these to the issue of tax avoidance, this study provides novel empirical evidence on whether governance is truly capable of suppressing opportunistic management practices related to tax obligations, or vice versa. Thus, the novelty of this study lies not only in the combination of variables tested, but also in the context in which it is applied, as well as the theoretical and practical implications it offers for understanding the phenomenon of tax avoidance in Indonesia.

LITERATURE REVIEW

Agency Theory

According to Jensen & Mackling (1976), agency conflicts are highly likely to occur in a company. This is because agents provide imperfect information to principals. Agents will attempt to protect their own interests and engage in opportunistic behavior to gain personal advantage (Michael C. Jensen, 1976).

Agency theory states that opportunistic agent behavior will benefit internal parties, with information asymmetry being the cause. In the context of managerial ownership, when managers own shares, they are encouraged to maximize profits, including through tax avoidance strategies. However, excessively large ownership proportions can also encourage managers to engage in aggressive management that is detrimental to the company in the long run. According to Fama & Jensen (2005), managers will exploit the perfect information they possess to convey false information to principals, thus further benefiting agents. Information asymmetry that is difficult to avoid will further benefit internal parties. Agents will use this opportunity to maintain their reputation and political standing.

The Effect of Managerial Ownership on Tax Avoidance

Managerial ownership tends to protect managers' interests. Given that the individuals who share ownership come from within the company, their presence is expected to support managers in making the best decisions for the company. Numerous studies have shown that managerial ownership encourages or supports managers to engage in tax avoidance. Research by Kalil (2020) found that the presence of managerial ownership supports tax avoidance. Furthermore, research by Waziri & Yusuf (2019) found that tax avoidance tends to occur when the percentage of managerial ownership in a company increases. The above description gives rise to the first hypothesis, namely:

H_1 **:** Managerial ownership influences tax avoidance

The Influence of Independent Commissioners on Tax Avoidance

The presence of independent commissioners is certainly highly desirable for better monitoring of internal activities and improving corporate governance. Independent commissioners will support management policies, as long as they are deemed positive for the company (Nabilah Nur Alisha Ansar et al., 2021). In general, independent commissioners will support the implementation of tax avoidance practices (Dewi, 2019). Similar research findings were also obtained by Achmad, Helmina, Hapsari, & Pamungkas, 2023, who found that managers' actions will receive support from independent commissioners when they are perceived to provide tangible improvements for the corporation (Achmad et al., 2023). The above description prompted researchers to propose a hypothesis:

H_2 : Independent commissioners influence tax avoidance

The Effect of Company Size on Tax Avoidance

Company scale or size is one reason management can use to avoid taxes. When a company has a large asset composition, the costs of managing or maintaining assets also increase, a phenomenon that becomes one of the reasons for companies to engage in tax avoidance (Ardiansyah et al., 2023). Several previous studies have suggested that company size influences tax avoidance, such as research conducted by (Ardiansyah et al., 2023), which states that company size has a negative effect on tax avoidance. This is supported by research conducted by (Irianto & S.Ak, 2017) which states that company size has a positive and significant effect on tax avoidance. The theoretical explanation above prompted researchers to propose a hypothesis:

H_3 : Company size influences tax avoidance

The Effect of Profitability on Tax Avoidance

Every corporation has a desire to maximize its ability to earn profits, but company management is aware that when they have increasing profits, they will be taxed, so many growing companies do tax avoidance to continue to achieve maximum profits (Susanti, 2019), a number of research results state that tax avoidance practices will be more likely to occur when a company has a young production age, or is in the early stages of its growth cycle. Management will tend to use excess profits as return earnings (retained earnings), to strengthen their production. In line with the description above, the researcher proposes a hypothesis that will be proven, namely:

H_4 : Profitability affects tax avoidance

In accordance with the description of previous research above, the researcher can create a framework of thought as shown in Figure 1 below.:

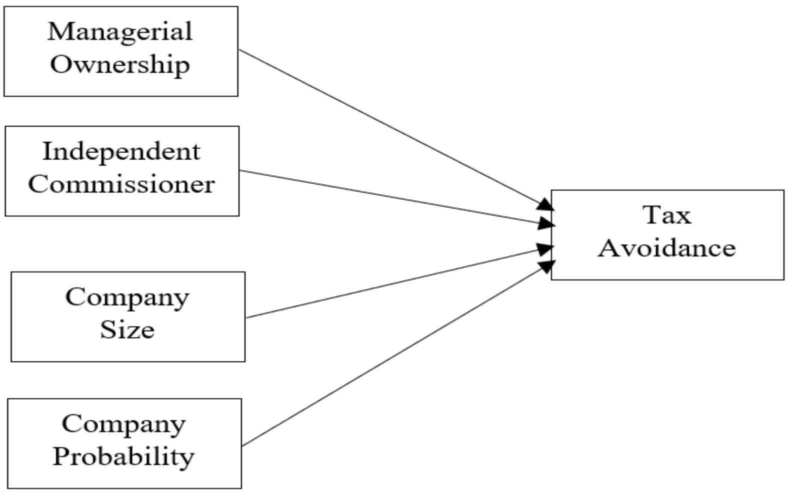

Figure 1. Conceptual Framework

METHODOLOGY

This research is quantitative because it has several hypotheses to prove (Hair et al., 2019). The analytical tool used in this study is panel data regression. This study used 20 companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange. The sample was selected using a purposive sampling technique. The companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange before 2020, have managerial ownership as the controlling shareholder, financial statements prepared in Rupiah, and the selected companies had positive profits from 2020 to 2024.

Data and information were obtained by identifying the financial reports of companies in the food and beverage sub-sector, which can be accessed through each company's website. In our research, the variables used are shown in Table 1 below.

Tax Avoidance

Tax avoidance is a company's attempt to minimize tax payments using aggressive tax planning activities and save on tax payments.(Yahaya & Yusuf, 2020). In this study, tax avoidance will be measured using the formula:

$$TA = STR - ETR$$

STR *(Statutory Tax Rate)* is a nominal tax rate or based on law

$$\text{ETR } \textit{(Effective Tax Rate)} = \frac{Current\ tax\ Burden}{Profit\ before\ tax}$$

Managerial Ownership

Managerial ownership is when managers own a proportion of the company's shares. When managers are business owners, there is a possibility that managers engage in tax avoidance to increase the wealth of shareholders in which they have a share (Waziri & Yusuf, 2019). In this study, managerial ownership can be measured using the following equation::

$$KM = \frac{\text{Amount of Managerial Ownership}}{\text{Number of Shares Outstanding}}$$

Independent Commissioner

An independent commissioner is an individual who is responsible for the organization's internal control system and does not have a personal relationship with the board of directors, shareholders, or the families of other board members to reduce conflicts that arise within the organization and prevent unwanted actions from occurring (Ardiansyah et al., 2023). In this study, the calculation of the Proportion of Independent Commissioners (PDKI) can be measured using the following equation:

$$PDKI = \frac{\text{Total Independent Members}}{\text{Total Member}}\ x\ 100\%$$

Company Size

Company size is the scale or magnitude of a company, often measured by the number of employees, revenue, or total assets. Company size is divided into several categories based on the number of employees: small companies have 1-10 employees, medium companies have 11-49 employees, and large companies have more than 50 employees (Laforet, 2013). In this study, company size can be measured using the following equation:

$$\text{Ln(Total Aset)}$$

Profitability

A very important financial ratio, which shows how effectively a company is able to manage its assets to earn profits within a certain period (Zhang et al., 2002). There are several ways to measure a company's profitability. However, in this study, profitability was measured using the following equation:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}}\ x\ 100\%$$

Data analysis methods

The data analysis method used was panel data regression analysis. However, prior to the data analysis stage, a descriptive analysis was conducted to obtain a general overview of the data supporting the research variables. After the analysis was completed, the statistical testing stage could be carried out. The analysis stages included normality testing, classical assumption testing, including multicollinearity testing, autocorrelation testing, and heteroscedasticity testing.

Once all research variables used are free from deviations from classical assumptions, testing of the panel data regression effect requirements can be performed. Testing is carried out using the Chow, Hausman, and Lagrange Multiplier (LM) tests. The test results will guide us in determining the best panel data regression effect to be used. The panel data regression equation model used in this research is:

$$TA = \alpha + \beta_1 KM_{it} + \beta_2 KI_{it} + \beta_3 UP_{it} + \beta_4 PROF + e$$

In the panel data regression equation model, TA is Tax Avoidance, α is a constant, β_1 β_2 β_3 and β_4 are the regression coefficients of each variable, i is a notation to describe the cross section while t is a notation to describe time. KM is managerial ownership, KI is an independent commissioner, UP is company size, and PROF is profitability. In this research, goodness of fit is carried out by conducting the F test and R2 analysis while hypothesis testing is carried out using the t-statistic test.

RESEARCH RESULT

Panel Data Model Estimation Selection

Before conducting a more in-depth data analysis, a selection of panel data regression effects must first be carried out, namely as follows:

Table 1. Common Effect Model Test Results

	Koefisien	**Std Error**	**t-stat**	**Prob**
C	0.176	0.157	1.120	0.265
KM	0.034	0.028	1.219	0.226
KI	-0.095	0.082	-1.162	0.248
FS	0.005	0.005	0.909	0.365
PROF	-0.597	0.152	-3.919	0.000

In the CEM model, only profitability appears to have a significant effect on tax avoidance practices, but not the other variables. CEM is selected when the Chow test rejects the use of FEM and the Hausman test rejects the use of REM.

In the second testing procedure, we attempted the FEM test, as can be seen in Table 2 below.

Table 2. Fixed Effect Model Test Results

	Koefisien	Std Error	t-stat	Prob
C	0.652	1.13	0.575	0.567
KM	0.079	0.179	0.445	0.658
KI	0.120	0.124	0.973	0.334
FS	-0.015	0.039	-0.387	0.699
PROF	-0.493	0.221	-2.234	0.028

The results obtained in FEM are consistent with the findings obtained in CEM testing, where there is only one hypothesis accepted, namely the hypothesis that states that profitability has a negative effect on tax avoidance practices, while other variables do not, but the use of CEM will be fulfilled when passing the Chow test, which will be continued in the next stage.

Table 3. Results of Random Effect Model Test

	Koefisien	Std Error	t-stat	Prob
C	0.135	0.257	0.527	0.599
KM	0.032	0.049	0.662	0.509
KI	0.022	0.098	0.228	0.820
FS	0.004	0.008	0.501	0.617
PROF	-0.547	0.178	-3.059	0.002

The REM test also found that profitability has a negative regression coefficient but has a significant effect on tax avoidance ($P < 0.05$), but this was not evident for other variables. The use of REM will be fulfilled when the testing procedure passes the Hausman Test or the Lagrange Multiplier requirements.

Panel Data Regression Model Selection

In order to obtain the best panel data regression effect, the following tests are carried out:

Chow Test

The Chow test is crucial to ensure that FEM is the best analytical tool compared to CEM. A description of the test results is shown in Table 4 below:

Table 4. Chow Test

Effect Test	Statistic	d.f	Prob
Cross, Section F	4.594	(19.76)	0.000
Cross-Section, Chi-square	76.484	19	0.000

The test results indicate that the use of FEM is better than CEM, this is proven by the value (P < 0.05), but to confirm this, a Hasuman test or LM-test must also be carried out first.

Hausman Test

The Hausman test was carried out to ensure that REM is better as an analysis tool compared to FEM, the results of the tests carried out are shown in table 5 below:

Table 5. Hausman Test

Test Summary	Chi^2 Statistic	d.f	Prob
Cross Section Random	2.629	4	0.622

The test results show P > 0.05, thus the use of REM is also considered to be able to be used as an analysis tool, however there is confusion, because FEM and REM were both selected as analysis tools, so it is mandatory for us to carry out an LM-test.

Lagrange Multiplier Test

Considering that the best effect selected in the Chow test was FEM, and in the Hausman test, REM was selected, we needed to conduct an LM-test. The test results are shown in Table 6 below:

Table 6. Lagrange Multiplier Test

Effect Test	Cross Section	Test Hypothesis Time	Both
Breush-Pagan	30.010 (0.000)	0.116 (0.733)	30.126 (0.000)

The results of the Lagrange multiplier test indicate that the Breusch-Pagan cross-section probability value is 0.0000, which is less than 0.05. Therefore, the selected model is the Random Effect Model. Of the three model selection test results, the best model is the Random Effect Model. Therefore, the model used in this study is the Random Effect Model.

Classical Assumption Test

A good and valid regression model is a panel data regression equation model that meets the Basic Linear Unbiased Estimator (BLUE), so that the regression model to be analyzed must meet the following procedures:

Multicollinearity test

Multicollinearity testing was performed by finding the Variance Influence Factor value. The test results are shown in Table 7 below:

Table 7. Multicollinearity Test Results

	Variance Influence Factor	Cut Off	Result
KM	1.265028	≤ 5	No Detection
KI	1.061779	≤ 5	No Detection

KS	1.286990	≤ 5	No Detection
PROF	1.048445	≤ 5	No Detection

Based on the results of the multicollinearity test, it is known that the VIF tolerance value for each variable shows a range value between 1.04 - 1.28 and this value is less than 10, so it can be concluded that the model used does not have multicollinearity between variables.

Heteroscedasticity Test

In this research, heteroscedasticity testing was carried out using a graphical approach. Based on the data processing that had been carried out, the results obtained were shown in Figure 1 below:

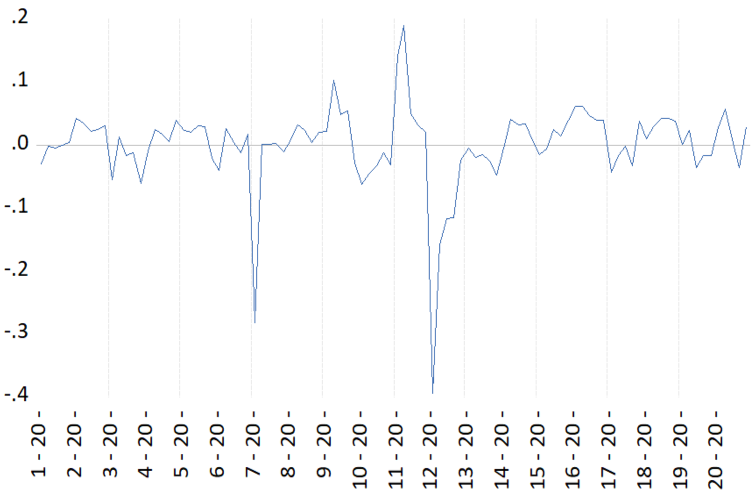

Figure 2. Scatterplot Heteroscedasticity

Based on the residual graph, it can be seen that the lines spread above and below or around the number 0 and do not cluster only above or below it. Therefore, it can be concluded that there is no heteroscedasticity problem in this model.

Hypothesis Testing

Once all panel data analysis procedures have been completed, the hypothesis testing stage can be carried out. The test results are shown in Table 8 below:

Table 8. Hypothesis Testing Results

	Coefficient Regression	t-stat	Prob	Result
C	0.135			
KM	0.032	0.662	0.509	Rejected
KI	0.022	0.228	0.820	Rejected
KS	0.044	0.501	0.617	Rejected
PROF	0.543	3.058	0.002	Accepted
	R-square	0.103		
	Prob	0.034		

According to the statistical test results, the R^2 value was 0.103. The results obtained indicate that managerial ownership, independent commissioners, company size, and profitability were only able to contribute to influencing changes in tax avoidance by 10.30%, while the remaining 89.70% of the contribution was influenced by other variables not used in this study. In the summary description of the hypothesis testing results, it was found that the model was relatively fit, because the F-prob value was < 0.05. In addition, in the hypothesis testing stage, only one variable provided significant results, namely profitability. The results obtained showed that profitability had a positive slope regression coefficient of 0.543, and a P value <0.05, but the other three variables provided results that rejected the hypothesis.

DISCUSSION

The Effect of Managerial Ownership on Tax Avoidance

Based on the results of the first hypothesis test, it was concluded that managerial ownership has no effect on tax avoidance. In theory, managerial ownership is expected to align the interests of managers with shareholders, because managers who also own shares will be more careful in making strategic decisions, including those related to tax policy. However, in practice in Indonesia, the proportion of managerial share ownership is generally relatively small and therefore not strong enough to significantly influence company policy. Strategic decisions, including those related to tax avoidance, are mostly determined by the majority shareholder or the board of directors collectively. The results of this study support research conducted by (Amelia et al., 2017) which stated that managerial ownership has no effect on tax avoidance. This is further strengthened by research conducted by (Hendrianto et al., 2022) which stated that managerial ownership has no effect on tax avoidance. However, there are different results from research by (Deef et al., 2021) which stated that managerial ownership has a positive and significant effect on tax avoidance.

The Influence of Independent Commissioners on Tax Avoidance

Based on the results of the second hypothesis test, the finding was that the Independent Commissioner variable did not have a significant effect on Tax Avoidance. This finding indicates that the presence of independent commissioners in the corporate governance structure has not been able to make a real contribution in monitoring and controlling tax avoidance practices carried out by management. The results of this study support the research conducted by (Murni et al., 2016) which stated that Independent Commissioners do not have a significant influence on Tax Avoidance. This research is also strengthened by research conducted by (Doho & Santoso, 2020) which stated that Independent Commissioners have no influence on Tax Avoidance. However, research conducted by (Ardiansyah et al., 2023) states the opposite, namely that independent commissioners have an influence on tax avoidance.

The Effect of Company Size on Tax Avoidance

The results of the third hypothesis test indicate that the Company Size variable does not have a significant effect on Tax Avoidance. This finding indicates that the size of a company, which is usually measured by total assets or total sales, does not directly determine the level of tax avoidance carried out by an entity. The results of this study support the research conducted by (Amelia et al., 2017) which stated that Company Size does not affect Tax Avoidance. This is also reinforced by research conducted by (Noviyani & Muid, 2019) which states that Company Size does not affect Tax Avoidance. However, research conducted by (Ardiansyah et al., 2023) states that company size does affect tax avoidance.

The Effect of Profitability on Tax Avoidance

Based on the results of the fourth test, it was found that the profitability variable has a significant effect on tax avoidance. This finding indicates that the higher a company's profitability, the greater its tendency to engage in tax avoidance. Companies that earn high profits have a greater incentive to minimize their tax burden in order to maintain net profit after tax and optimize internal cash flow. These results support research conducted by (Susanti, 2019) which states that profitability has a significant effect on tax avoidance. This is also reinforced by research conducted by (Tanjaya & Nazir, 2021) which states that profitability has a significant positive effect on tax avoidance. However, there are different results studied by (Ardiansyah et al., 2023) which stated that profitability has no effect on tax avoidance.

CONCLUSIONS AND RECOMMENDATIONS

In accordance with the analysis above, we conclude that tax avoidance carried out by the management of consumer sub-sector companies is more influenced by the company's profitability conditions. In general, managers want to avoid taxes so that the profits obtained by the company are maximized, and this will improve the manager's reputation in the eyes of stakeholders, especially the principal or company investors. However, a number of other variables, namely managerial ownership, independent commissioners and company size, do not affect tax avoidance in consumer sub-sector companies on the Indonesia Stock Exchange.

ADVACED RESEARCH

An advanced research agenda based on these findings should investigate the deeper mechanisms and boundary conditions underlying the relationship between profitability and tax avoidance in consumer sub-sector companies, incorporating a broader range of corporate governance, financial, and contextual variables. Future studies could examine factors such as corporate culture, regulatory changes, tax policy complexity, and managerial risk preferences as potential moderators or mediators of tax avoidance behavior. Comparative analyses across sectors and countries could reveal whether profitability's influence on tax avoidance is consistent or context-dependent, while longitudinal studies could track how shifts in profitability and governance structures over time affect tax planning strategies. Additionally, integrating qualitative approaches—such as interviews with executives—could enrich the understanding of managerial decision-making processes and support the development of more effective policies to balance tax compliance with corporate performance objectives.

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