

**DETERMINANTS OF TAX AVOIDANCE
IN LQ45 COMPANIES WITH COMPANY SIZE
AS A MODERATION**

THESIS

**Submitted as Partial Fulfillment of the Requirements for
the Attainment of the Degree of Sarjana**



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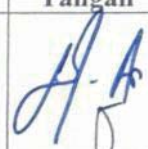
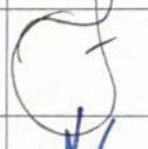
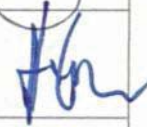
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DETERMINANTS OF TAX AVOIDANCE IN LQ45 COMPANIES WITH COMPANY SIZE AS A MODERATION

ABSTRAK

Penelitian ini menyelidiki faktor-faktor yang menentukan pengaruh terhadap tax avoidance dengan ukuran perusahaan sebagai pemoderasi. Berkenaan peningkatan investasi environmental social governance (ESG) sejak tahun 2013 di Indonesia, penelitian ini menggunakan delapan perusahaan LQ45 untuk periode 2013-2023. Penelitian ini menggunakan Moderated Regression Analysis. Hasil penelitian menunjukkan bahwa secara signifikan, profitabilitas, financial distress, dan asset turnover memengaruhi tax avoidance, sedangkan ukuran perusahaan dan environment social governance (ESG) tidak memengaruhi tax avoidance. Walaupun ukuran perusahaan dapat memoderasi profitabilitas terhadap tax avoidance, namun tidak dapat memoderasi financial distress, asset turnover, dan ESG terhadap tax avoidance. Penelitian ini berkontribusi memperluas pemahaman terkait tax avoidance melalui teori keagenan dan legitimasi dalam memberikan literatur akademik. Penelitian ini mengimplikasikan bahwa kinerja keuangan perusahaan dapat menekan upaya tax avoidance selaras dengan pemenuhan ekspektasi stakeholders (principal) terkait peningkatan laba.

Kata kunci: Environmental Social Governance, Financial Distress, Kinerja Keuangan, Tax Avoidance, Ukuran Perusahaan

DETERMINANTS OF TAX AVOIDANCE IN LQ45 COMPANIES WITH COMPANY SIZE AS A MODERATION

ABSTRACT

This research investigates the determinants of tax avoidance with company size as a moderation. Regarding the increase in environmental social governance (ESG) investment since 2013 in Indonesia, this research uses eight LQ45 companies for 2013-2023. This research uses Moderated Regression Analysis. The results show that profitability, financial distress, and asset turnover significantly influence tax avoidance. In contrast, company size and ESG do not influence tax avoidance. Although company size can moderate profitability on tax avoidance, it cannot moderate financial distress, asset turnover, and ESG on tax avoidance. This research contributes to expanding understanding regarding tax avoidance through agency theory and legitimacy in providing academic literature. This research implies that a company's financial performance can reduce tax avoidance efforts in line with fulfilling stakeholder (principal) expectations regarding increasing profits.

Keywords: *Environmental Social Governance, Financial Distress, Financial Performance, Tax Avoidance, Company Size*

DETERMINANTS OF TAX AVOIDANCE IN LQ45 COMPANIES WITH COMPANY SIZE AS A MODERATION

SUMMARY

1. Background

Tax revenues play a critical role in funding national development programs. By the end of July 2023, Indonesia's tax revenue reached IDR 1,109.1 trillion, contributing 64.6% of the State Revenue and Expenditure Budget target, with an annual growth of 7.8%. However, the objectives of maximizing tax revenue often conflict with business entities' efforts to minimize taxable income, leading to tax avoidance practices. Tax avoidance, while legal, exploits regulatory weaknesses and is often used by companies to efficiently reduce their tax obligations. Companies listed in the LQ45 index, known for high liquidity and large market capitalization, are particularly susceptible to tax avoidance due to stakeholder expectations and strategies like share buybacks, which can indirectly reduce tax obligations.

Several studies indicate varying factors influencing tax avoidance, such as profitability, financial distress, asset turnover, and ESG (Environmental, Social, and Governance) practices. However, prior research shows inconsistent findings regarding the effects of these factors. For instance, while some studies suggest high profitability reduces tax avoidance, others argue that it encourages such practices to maximize earnings. Similarly, ESG integration has yielded mixed results regarding its influence on tax avoidance, with some findings suggesting a positive effect and others showing no significant impact. Company size is often included as a moderating variable, but its effectiveness in moderating the relationship between ESG and tax avoidance remains inconclusive.

This research addresses the inconsistencies in prior studies and explores the determinants of tax avoidance among LQ45 companies for the 2013–2023 period. Using company size as a moderating variable, this study examines the

roles of profitability, financial distress, asset turnover, and ESG in influencing tax avoidance. The findings aim to contribute to academic literature by expanding the understanding of tax avoidance through agency and legitimacy theories, while also offering practical insights for corporate tax management and government regulation.

2. Problem Statement

1. Does Profitability influence Tax Avoidance?
2. Does Financial Distress influence Tax Avoidance?
3. Does Asset Turnover influence Tax Avoidance?
4. Does ESG (Environmental, Social, and Governance) influence Tax Avoidance?
5. Does Company Size influence Tax Avoidance?
6. Does Company Size strengthen the influence of Profitability on Tax Avoidance?
7. Does Company Size strengthen the influence of Financial Distress on Tax Avoidance?
8. Does Company Size strengthen the influence of Asset Turnover on Tax Avoidance?
9. Does Company Size strengthen the influence of ESG on Tax Avoidance?

3. Research Objectives

1. To investigate whether Profitability influences Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
2. To determine whether Financial Distress influences Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
3. To examine the effect of Asset Turnover on Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
4. To explore the impact of ESG (Environmental, Social, and Governance) on Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.

5. To assess whether Company Size influences Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
6. To determine whether Company Size strengthens the relationship between Profitability and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
7. To analyze whether Company Size strengthens the relationship between Financial Distress and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
8. To explore whether Company Size strengthens the relationship between Asset Turnover and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
9. To examine whether Company Size strengthens the relationship between ESG and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.

4. Research Method

Companies with the LQ45 index were chosen because the companies have high liquidity and large market capitalization, which makes data access and transparency easier. In addition, these companies are classified as being under public and regulatory supervision, so they have good governance but still have business complexity that allows tax avoidance. The sample selection criteria are companies that are successively indexed LQ45 in the 2013-2023 period, present financial reports using the Rupiah currency, and have a financial distress value of <0 and a CETR value of >1 . Then, incomplete information in the required annual report is related to variable calculations. Based on purposive sampling, the number of research samples was 88.

This research uses Moderated Regression Analysis, which includes interaction elements, namely the multiplication of two or more independent variables, as a statistical analysis. This research uses three variables: dependent variables, independent variables, and moderating variables. Tax avoidance is

the dependent variable, profitability, financial distress, and asset turnover are independent variables, and company size is the moderating variable.

5. Research Results

The results show that the regression model is valid, with an Adjusted R-Squared value of 0.244, indicating that 24% of tax avoidance is explained by the independent variables (profitability, financial distress, asset turnover, ESG, and company size). Profitability negatively influences tax avoidance, suggesting companies with high profits tend to comply with tax regulations. Financial distress negatively affects tax avoidance, as companies in poor financial conditions prioritize maintaining stakeholder trust. Asset turnover positively influences tax avoidance, as companies with higher activity seek to reduce tax obligations to meet shareholder expectations.

ESG disclosure does not significantly influence tax avoidance, as it lacks explicit tax-related policies, while company size does not affect tax avoidance directly. However, company size moderates the relationship between profitability and tax avoidance, with larger companies leveraging resources for efficient tax management. Conversely, company size fails to moderate the effects of financial distress, asset turnover, and ESG on tax avoidance. These findings highlight the complex interplay of financial and operational factors influencing tax management strategies among LQ45 companies.

6. Conclusion and Recommendation

This research shows that profitability, financial distress, and asset turnover significantly influence tax avoidance. High-profitability companies tend to fulfill their tax obligations, while those in poor financial condition avoid tax avoidance to protect their reputation. Asset turnover positively affects tax avoidance in high-activity companies aiming to meet shareholder expectations, while ESG disclosure shows no effect due to the absence of explicit policies related to tax avoidance. Company size moderates the influence of profitability

on tax avoidance but fails to moderate financial distress, asset turnover, and ESG.

The study is limited to four independent variables and one moderating variable, with the R^2 test indicating that 24% of tax avoidance is explained by these variables, leaving 76% influenced by other factors. Future research should expand the scope by adding variables or using alternative proxies like Book-Tax Difference (BTD). Managers are encouraged to focus on ESG and company assets for sustainability, while policymakers should integrate ESG and tax regulations, particularly corporate income tax, into sustainable frameworks.

TABLE OF CONTENTS

PERNYATAAN BEBAS DARI PLAGIAT	ii
PERTANGGUNGJAWABAN SKRIPSI	iii
LEMBAR YURIDIS	iv
ACKNOWLEDGEMENTS.....	v
ABSTRAK	viii
ABSTRACT	ix
SUMMARY	x
TABLE OF CONTENTS.....	xv
LIST OF TABLES	xviii
LIST OF FIGURES	xix
LIST OF APPENDICES.....	xx
BAB I INTRODUCTION	1
1.1. Background	1
1.2. Research Gap	2
1.3. Problem Statement	3
1.4. Research Objectives	4
1.5. Research Contributions	5
1.5.1. Theoretical Contribution	5
1.5.2. Practical Contribution	5
1.6. Contextual Overview	5
BAB II LITERATURE REVIEW	6
2.1. Theoretical Framework and Hypothesis Development	6
2.1.1. Agency Theory	6
2.1.2. Legitimacy Theory.....	6
2.1.3. Tax Avoidance.....	6
2.1.4. Profitability	7
2.1.5. Financial Distress.....	7
2.1.6. Asset Turnover.....	8
2.1.7. ESG.....	9

2.1.8. Company Size	9
2.2. Conceptual Framework	12
BAB III RESEARCH METHOD	13
3.1. Research Design	13
3.2. Research Location and Timeframe.....	13
3.3. Data.....	13
3.4. Population and Sample	13
3.5. Research Variables	14
3.6. Operational Variables.....	14
3.7. Analysis Method.....	16
BAB IV RESULT AND DISCUSSION	17
4.1. Research Results	17
4.1.1. Descriptive Statistics.....	17
4.1.2. Model Selection Test.....	18
4.1.3. Multicollinearity Test.....	18
4.1.4. Heteroscedasticity Test	19
4.1.5. Panel Data Test	19
4.2. Discussion	20
4.2.1. Profitability influence Tax Avoidance	20
4.2.2. Financial Distress influence Tax Avoidance.....	20
4.2.3. Asset Turnover influence Tax Avoidance.....	21
4.2.4. ESG (Environmental, Social, and Governance) influence Tax Avoidance	21
4.2.5. Company Size influence Tax Avoidance	22
4.2.6. Company Size strengthen the influence of Profitability on Tax Avoidance	22
4.2.7. Company Size strengthen the influence of Financial Distress on Tax Avoidance	23
4.2.8. Company Size strengthen the influence of Asset Turnover on Tax Avoidance	23
4.2.9. Company Size strengthen the influence of ESG on Tax Avoidance	23

BAB V CONCLUSION.....	25
5.1. Conclusion.....	25
5.2. Recomendations	25
REFERENCES.....	26

LIST OF TABLES

Table 3.1. Definition and Measurement Variable	14
Table 4.1. Descriptive Statistics	17
Table 4.2. Result of The Right Model	18
Table 4.3. Result of Multicollinearity Test	18
Table 4.4. Result of Heteroscedasticity Test	19
Table 4.5. Result of Panel Data Test	19

LIST OF FIGURES

Figure 2.1. Conceptual Framework	12
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LIST OF APPENDICES

Appendix 1. Processed Data	35
Appendix 2. Letter of Acceptance	42
Appendix 3. Article	44
Appendix 4. Plagiarism Check Results	61
Appendix 5. MBKM Research Certificate	63

BAB I

INTRODUCTION

1.1. Background

The government implements national development programs based on income from tax obligations. According to the official website of the Cabinet Secretariat of the Republic of Indonesia, state revenue from taxes until the end of July 2023 reached IDR 1,109.1 trillion, or 64.6% of the 2023 State Revenue and Expenditure Budget target. This revenue achievement was recorded as growing by 7.8 % annually. Tax revenues contribute the highest percentage of State Budget financing, so the government's primary focus is optimizing tax revenues. However, efforts to optimize tax revenues differ from business entities' desires as taxpayers to minimize Taxable Income. Different interests and objectives between the tax authorities and business entities give rise to tax avoidance (Barli, 2018).

Corporate tax avoidance practices are in the main spotlight of stakeholders because of the practice's direct impact on society (Jemiolo & Farnsel, 2023). Tax avoidance uses specific strategies by exploiting weaknesses (gray areas) in government regulations. Tax avoidance refers to a company's strategy for managing income taxes within legal and safe legal limits (Windaryani & Jati, 2020). Corporate planning by carrying out tax avoidance efforts is the only legal way taxpayers can pay taxes efficiently (Suripto & Novitaria, 2021). The self-assessment system provides a loophole for business entities to carry out incorrect tax calculations, thus becoming one factor that allows tax avoidance (Rista et al., 2022).

Companies with liquidity and large market capitalization reflect superior financial performance and high investor confidence. The LQ45 company is listed in a stock index of 45 companies with high liquidity and large market capitalization on the Indonesian Stock Exchange. The companies with the LQ45 index are vulnerable to tax avoidance efforts because they are interested in meeting stakeholder expectations. The plans

of several LQ45 Index issuers to hold share buybacks in May 2024 have attracted public attention. Companies carry out share buybacks by buying back shares that circulate publicly. Buying back shares circulating in the public results in an increase in earnings per share (EPS) (Purwitha, 2022). Increasing EPS without having to substantially increase net profit and reducing the number of shares outstanding can be a company's strategy to reduce its tax obligations.

The company consistently strives to increase its financial value and maintain its status as a going concern entity in the eyes of the public. Integration of performance in all aspects of business, management strategy, and reporting related to environmental, social, and governance (ESG) is needed to create sustainable corporate value (Gesso & Lodhi, 2024).

Tax avoidance is essential for further research due to using specific strategies to exploit weaknesses in government regulations and, also differences in previous research results. This research investigates the determinants of tax avoidance, using company size as a moderation. Regarding the increase in environment social and governance (ESG) investment since 2013 in Indonesia (KPMG Internasional, 2013), this research uses eight LQ45 companies for 2013-2023. This research contributes to expanding understanding regarding tax avoidance through agency theory and legitimacy in providing academic literature. This research contributes to academic literature and business practices related to tax management, corporate financial strategies, and government decisions in formulating regulations.

1.2. Research Gap

The results of several previous studies show that aggressive tax avoidance can be influenced by a negative correlation with the financial condition of a business entity, which is represented by financial distress (Julianty et al., 2023; Suyanto et al., 2022; Yunus et al., 2024). However, there are inconsistencies in research which state that poor financial

conditions trigger companies to choose tax avoidance strategies for business continuity (Fadhila & Andayani, 2022; Maulida et al., 2023; Safitri & Arifin, 2024; Yuliana et al., 2021). The profits generated by a company can also be a factor that influences tax avoidance actions (Marsahala et al., 2020), while previous research states that high company profits can reduce the possibility of companies carrying out tax avoidance (Andini et al., 2021; Ariska et al., 2020; Maharani & Suardana, 2014; Robin et al., 2021). However, the opposite results suggest that tax avoidance efforts are used to increase profits (Basri et al., 2014; Dewinta & Setiawan, 2016; Rahma & Firmansyah, 2022). Tax avoidance can also be influenced by high activity in a company (Kim & Im, 2017).

Previous research findings with the research object of the LQ45 company, namely in the 2017-2021 period, show that ESG has positive significantly on tax avoidance (Mukhtaruddin et al., 2024), while in the 2019-2021 period, it shows that ESG does not effect on tax avoidance (Anggraini & Wahyudi, 2022). Then, research by Mukhtaruddin et al., (2024) used company size as a moderation; however, the research results showed that company size could not moderate the relationship between ESG and tax avoidance.

1.3. Problem Statement

Based on the background described, the research questions for this study are as follows:

1. Does Profitability influence Tax Avoidance?
2. Does Financial Distress influence Tax Avoidance?
3. Does Asset Turnover influence Tax Avoidance?
4. Does ESG (Environmental, Social, and Governance) influence Tax Avoidance?
5. Does Company Size influence Tax Avoidance?
6. Does Company Size strengthen the influence of Profitability on Tax Avoidance?

7. Does Company Size strengthen the influence of Financial Distress on Tax Avoidance?
8. Does Company Size strengthen the influence of Asset Turnover on Tax Avoidance?
9. Does Company Size strengthen the influence of ESG on Tax Avoidance?

1.4. Research Objectives

Based on the research questions, the objectives of this study are as follows:

10. To investigate whether Profitability influences Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
11. To determine whether Financial Distress influences Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
12. To examine the effect of Asset Turnover on Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
13. To explore the impact of ESG (Environmental, Social, and Governance) on Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
14. To assess whether Company Size influences Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
15. To determine whether Company Size strengthens the relationship between Profitability and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
16. To analyze whether Company Size strengthens the relationship between Financial Distress and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.
17. To explore whether Company Size strengthens the relationship between Asset Turnover and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.

18. To examine whether Company Size strengthens the relationship between ESG and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023.

1.5. Research Contributions

1.5.1. Theoretical Contribution

This research contributes to expanding understanding regarding tax avoidance through agency theory and legitimacy in providing academic literature.

1.5.2. Practical Contribution

This research contributes to academic literature and business practices related to tax management, corporate financial strategies, and government decisions in formulating regulations.

1.6. Contextual Overview

The author intends to conduct research on the influence of Profitability, Financial Distress, Asset Turnover, ESG (Environmental, Social, and Governance), and Company Size, as well as the moderating role of Company Size on the relationship between these variables and Tax Avoidance in companies listed in the LQ45 index during the period of 2013-2023. This study seeks to explore how these factors collectively and individually affect tax avoidance behaviors among Indonesia's largest companies. By focusing on the moderating effect of Company Size, this research aims to provide a deeper understanding of the dynamics between corporate characteristics and tax planning strategies.