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The Effect of Earnings Management, Firm Size and Profitability on Tax Avoidance In Automotive Sub-Sector Companies Listed on The Idx For The Period 2017 – 2021

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Abstract
This study aims to determine and analyze the effect of earnings management, firm size and profitability on tax avoidance. The population in this study were all automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2017 – 2021, using a sample of 50. This type of research is quantitative using an exploratory survey method. Methods of data analysis using descriptive test, classical assumption test, multiple linear regression analysis test, and hypothesis testing. The sample data analyzed is secondary data, which will be processed using the SPSS application. From the results of the tests that have been carried out in this study, it can be concluded that earnings management and profitability partially affect tax avoidance, while firm size partially does not affect tax avoidance. However, simultaneously earnings management, firm size and profitability affect tax avoidance.

Keywords
Earnings Management, Firm Size, Profitability, Tax Avoidance

1. Introduction
The tax sector is one of the main revenues of a country. In other countries, tax revenues are used to fund the people's welfare and national development. According to (Undang - Undang Republik Indonesia Nomor 28, 2007), t axes are mandatory contributions to the state owed by individuals or entities that are coercive based on the law by not getting compensation directly and are used for the needs of the state for the greatest prosperity of the people. For the state, taxes are a source of revenue that can be used to finance state expenditures, both routine and development expenditures. Meanwhile, for companies, taxes are a burden that can reduce net income. Based on the differences in interests that occur between the government as the collector and the company as the party paying taxes, it causes non-compliance by taxpayers or company management which will have an impact on the company's efforts to carry out tax avoidance.

There are several factors that cause tax avoidance, one of which is earnings management, earnings management practices are supported to manipulate company profit figures, taxation can be a motivation for managers to practice earnings management. Research conducted by (Thalita et al., 2022) shows that earnings management has a significant positive effect on tax avoidance. While in research (Alam, 2019) shows that earnings management has no effect on tax avoidance.

Firm size is also considered to be able to influence companies in fulfilling their tax obligations and is one of the factors that can lead to tax avoidance. In research (Sulaeman, 2019) shows that company size has a positive effect on tax avoidance. Meanwhile, research (Hermawan et al., 2021) shows that company size has no effect on tax avoidance.

The next factor that influences the occurrence of tax avoidance is profitability. Profitability is the ability to earn profit by using the total assets it has. Research conducted by (Dewinta & Setiawan, 2016) shows that profitability has a positive effect on tax avoidance.

From several previous studies, there are several factors that influence tax avoidance actions, but there are several different results. This research was conducted to test and re-analyze the variables that influence tax avoidance in automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2017 – 2021.

1.1. Overview Of Theories And Hypotheses
1.1.1. Signalling Theory
According to (Brigham & Houston, 2011) signal theory explains management's views on company growth in the future, which will affect the response of potential investors to the company. Information that has

been submitted by the company and received by investors, will be interpreted and analyzed in advance whether the information is considered a positive signal or a negative signal (Jogiyanto, 2010).

1.1.2. Agency Theory

According to (Astria, 2011) agency theory states that if there is a separation between owners as principals and managers as agents who run the company, agency problems will arise because each party will always try to maximize its utility function. The existence of different interests between management and principals can lead to agency conflicts.

1.1.3. Tax Avoidance

According to (Rego, 2003) tax avoidance as the use of legal tax planning methods to reduce income tax paid. Measurement of tax avoidance in this study uses the Cash Effective Tax Rate (CETR). The higher the CETR percentage level, which is close to the corporate income tax rate of 25%, indicates that the lower the company's tax avoidance level, conversely, the lower the CETR percentage level indicates that the company's tax avoidance level is higher (Dewinta & Setiawan, 2016). The following is the CETR calculation formula:

$$CETR = \frac{Payment\ of\ Taxes}{Profit\ Before\ Income\ Tax}$$

1.1.4. Earnings Management

According to Sri Sulistyanto, in general, earnings management is an attempt by company managers to influence information in financial reports in order to trick stakeholders who want to know the performance and condition of the company. In this study, earnings management is detected by using the Modified Jones Model. The measurement model for the Modified Jones Model in this study is explained by the following formula:

1) Calculating Total Accruals
   TACit = NIit – CFOit
2) Estimating Total Accrual (TAC) with Ordinary Least Square (OLS) to get the regression coefficient
   TAit/Ait – 1 = β1 (1/Ait – 1) + β2 (REVit / Ait – 1) + β3 (PPEit / Ait – 1)
3) Calculating nondiscretionary accruals (NDA)
   NDAit = β1 (1/Ait -1) + β2 ((REVit/Ait -1) - (RECit/Ait -1)) + β3 (PPEit/Ait -1)
4) Calculate discretionary accruals (DA) as a measure of earnings management
5) DAit = (TACit /Ait -1) – NDAit

1.1.5. Firm Size

According to (Brigham & Houston, 2011) company size is the size of the company which can be classified in various ways, including revenue size, total assets and total equity. Company size can also be a cause of tax evasion. Because the greater the company's total assets, the greater the size of the company. The larger the size of the company makes an opportunity for investors to invest shares in the company. Therefore, the formula used to calculate company size is as follows:

$$Firm\ Size = Ln\ Total\ Assets$$

1.1.6. Profitability

According to (Sirait, 2017) profitability is also called profitability, namely the company's ability to earn comprehensive profits, convert sales into profits and cash flow. The types of profitability according to (Kasmir, 2016) are as follows:

1) Gross Profit Margin

$$Gross\ Profit\ Margin = \frac{GrossProfit}{Sale}$$

2) Operating Profit Margin

$$Operating\ Profit\ Margin = \frac{Operating\ Profit}{Sale}$$

3) Net Profit Margin

$$Net\ Profit\ Margin = \frac{Net\ Profit}{Sale}$$

4) Return On Assets

$$Return\ On\ Asset = \frac{Net\ Profit}{Total\ Assets}$$

5) Return On Equity

$$Return\ On\ Equity = \frac{Net\ Profit}{Owner's\ Equity}$$

6) Earning Per Share

$$Earning\ Per\ Share = \frac{Net\ Profit}{Number\ of\ Shares\ Outstanding}$$

1.1.7. Framework

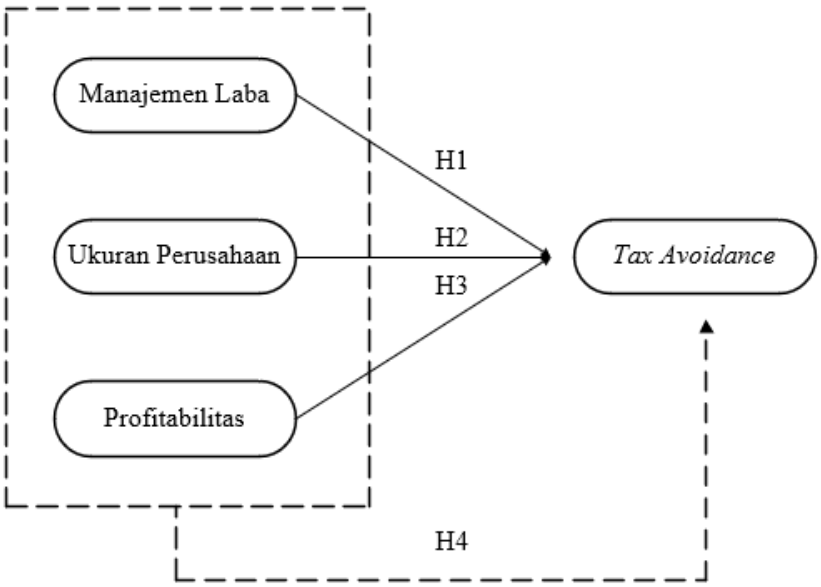

Figure 1. Framework

1.1.8. Hypothesis Development

Based on the framework above, the following hypothesis is made:
H1: Profit Management Has a Positive Effect on Tax Avoidance
H2: Company Size Has a Positive Effect on Tax Avoidance
H3: Profitability (ROA) has a positive effect on tax avoidance
H4: Profit Management, Firm Size, and Profitability Simultaneously Influence Tax Avoidance

2. Methodology

The type of research used in this research is quantitative. The population in this study are all automotive sub-sector companies listed on the Indonesia Stock Exchange for the 2017 – 2021 period, totaling 15 companies. The sample in this study are automotive sub-sector companies listed on the Indonesia Stock Exchange for the 2017 – 2021 period that meet the criteria. The determination of the sample in this study was based on a non-probability sampling method using a purposive sampling technique. The data collection technique in this study was carried out manually by downloading data in the form of financial statements of automotive sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2017 – 2021 at www.idx.co.id. as well as the website of each company. Methods of data analysis using descriptive test, classical assumption test, multiple linear regression analysis test, and hypothesis testing.

3. Result and Discussion

3.1. Descriptive Test Result

Table **Error! Use the Home tab to apply 0 to the text that you want to appear here.**-1 Descriptive Test Results.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Cetr	43	-.43	1.25	.2501	.26183
Profit Management	43	-.08	.40	.0585	.09191
Company Size	43	26.31	33.54	29.5972	2.00406
Profitabilitas	43	-.05	.72	.0795	.12297
Valid N (Listwise)	43				

1) The tax avoidance variable produces the lowest value of -0.43 and the highest value of 1.25 with an average value of 0.2501 and a standard deviation of 0.26183.
2) The earnings management variable produces the lowest value of -0.08 and the highest value of 0.40 with an average value of 0.0585 and a standard deviation of 0.09191.
3) The company size variable produces the lowest value of 26.31 and the highest value of 33.54 with an average value of 29.5972 and a standard deviation of 2.00406.
4) The profitability variable produces the lowest value of -0.05 and the highest value of 0.72 with an average value of 0.0795 and a standard deviation of 0.12297.

3.2. Normality Test Results

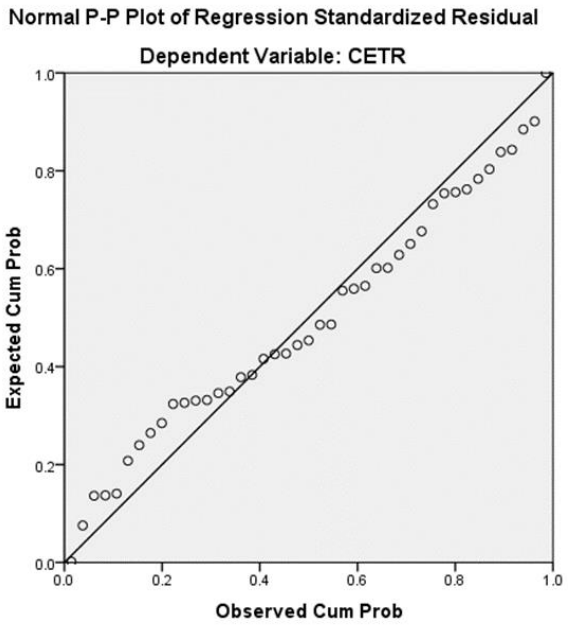

Figure 2. Normality Test Results

From the results of the normality test above, it can be concluded that if the data (points) spread around the diagonal line and follow the direction of the diagonal line, it means that the distribution pattern is normal so that the regression model can fulfill the assumption of normality.

3.3. Multicollinearity Test Results

Table-**Error! Use the Home tab to apply 0 to the text that you want to appear here.**-2 Multicollinearity Test Results

Table 2. Coefficients [a]

Model		Unstandardized Coefficients		Standardizes Coefficients	t	Siq.	Collineanity Statistic	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.227	.605		375	710		
	Manajemen Laba	1.623	.539	.570	3.009	005	565	1.771
	Ukuran Perusahaan	.000	.020	.001	009	993	842	1.187
	Profitabilitas	-.965	.420	-.453	-2.300	027	521	1.919

Dependent Variable : CETR

The table above shows that each variable has a tolerance value greater than 0.10 and a VIF value less than 10. It can be concluded that the data does not have a multicollinearity problem.

3.4. Heteroscedasticity Test Results

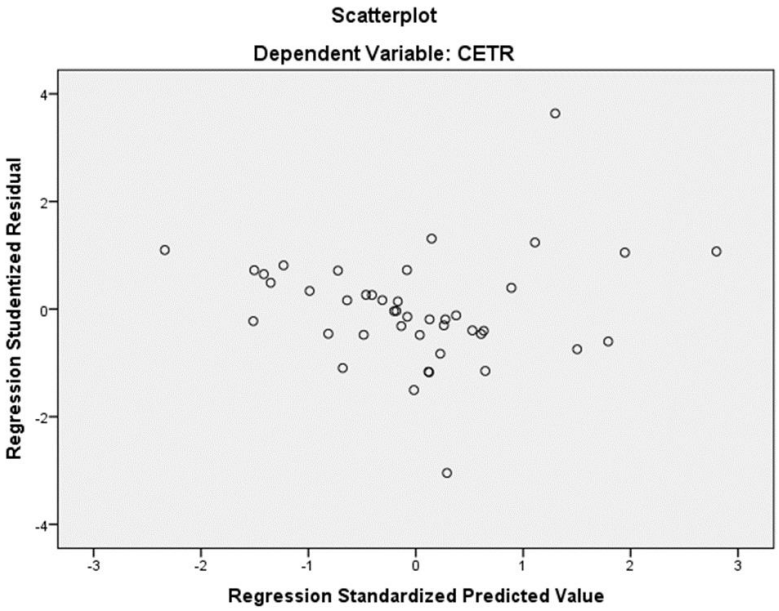

Figure 3. Heteroscedasticity Test Results

Based on the picture above it is known that these points spread above and below the number 0 on the Y axis, so it can be concluded that in this study there was no heteroscedasticity.

3.5. Autocorrelation Test Results

Table **-Error! Use the Home tab to apply 0 to the text that you want to appear here.**-3 Autocorrelation Test Results.

Table 3. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.459[a]	.211	.150	.24136	.211	3.475	3	39	.025	1.667

a. Predictors: (Constant), Profitabilitas, Ukuranperusahaan, Manajemenlaba
b. Dependent Variable: Cetr

Based on the table above, it is known that the Durbin Watson number is between -2 and +2, namely 1.667. So it can be concluded that there is no autocorrelation

3.6. Test Results Of Multiple Linear Regression Analysis

Table **-Error! Use the Home tab to apply 0 to the text that you want to appear here.**-4 Test Results Of Multiple Linear Regression Analysis.

Table 3. Coefficients [a]

Model		Unstandardized Coefficients		Standardizes Coefficients	t	Siq.	Collineanity Statistic	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.227	.605		375	710		
	Manajemen Laba	1.623	.539	.570	3.009	005	565	1.771
	Ukuran Perusahaan	.000	.020	.001	009	993	842	1.187
	Profitabilitas	-.965	.420	-.453	-2.300	027	521	1.919

a. Dependent Variable : CETR

Based on the table above, the multiple linear regression analysis equation is obtained as follows:

$$Y = 0.227 + 1.623\ X1 + 0.000\ X2 - 0.965\ X3$$

A constant of 0.227 states that if the independent variables are earnings management, firm size and profitability are considered constant. The results of the calculation of the multiple linear regression test for the earnings management variable (X1) have a regression coefficient value of 1.623. Then, the results of the calculation of the multiple linear regression test for the firm size variable (X2) have a regression coefficient value of 0.000. Furthermore, the results of the calculation of the multiple linear regression test for the profitability variable (X3) have a regression coefficient value of -0.965.

3.7. Partial Test Results

Table -**Error! Use the Home tab to apply 0 to the text that you want to appear here.**-5 Partial Test Results.

Table 4. Coefficients [a]

Model		Unstandardized Coefficients		Standardizes Coefficients	t	Siq.	Collineanity Statistic	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.227	.605		375	710		
	Manajemen Laba	1.623	.539	.570	3.009	005	565	1.771
	Ukuran Perusahaan	.000	.020	.001	009	993	842	1.187
	Profitabilitas	-.965	.420	-.453	-2.300	027	521	1.919

a. Dependent Variable : CETR

The partial test analysis is based on the following table:

1) The earnings management variable has a significant value of 0.005 < 0.05 which indicates that the earnings management variable has a partial effect on tax avoidance.
2) The firm size variable has a significant value of 0.993 > 0.05 which indicates that the firm size variable has no partial effect on tax avoidance.
3) The profitability variable has a significant value of 0.027 < 0.05 which indicates that the profitability variable has a partial effect on tax avoidance.

3.8. Simultaneous Test Results

Table 5. Simultaneous Test Results

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Siq.
1	Regression	.607	3	.202	3.475	.025b
	Residual	2.272	39	.058		
	Total	2.879	42			

a. Dependent Variable : CETR
b. Predictors : (Constant), Profitabilitas, Ukuran Perusahaan, Manajemen Laba

The significant value of the F test is 0.025 < 0.05, thus it can be concluded that earnings management, firm size and profitability simultaneously influence tax avoidance.

3.9. Discussion

1. Earnings Management Take Effect on Tax Avoidance

The results of testing the first hypothesis (H1) show that earnings management has an effect on tax avoidance because a significant value of 0.005 is obtained. So it can be concluded that H1 is accepted, this is supported by the results of the significant value of the earnings management variable which is less than 0.05 or 0.005 <0.05. This relates to signal theory, if a company gives a positive signal, investors will respond positively and be able to distinguish between quality and low-quality companies. With tax avoidance, investors will be disappointed in the company because the company's image can decrease. So that later can cause a negative signal. The results of this study agree with research (Thalita et al., 2022) which shows that earnings management has an effect on tax avoidance.

2. Firm Size Take Effect on Tax Avoidance

The results of testing the second hypothesis (H2) show that company size has no effect on tax avoidance because a significant value of 0.993 is obtained. So it can be concluded that H2 is rejected, this is supported by the results of the significance value of the firm size variable which is greater than 0.05 or 0.993 > 0.05. This result is not in accordance with the signal theory which indicates that the larger the size of the company, the more attractive investors are to invest in these large companies because they are considered profitable. These

results agree with research (Hermawan et al., 2021) which states that company size has no effect on tax avoidance.

3. Probability Take Effect on Tax Avoidance

The results of testing the third hypothesis (H3) show that profitability affects tax avoidance because a significance value of 0.027 is obtained. So it can be concluded that H3 is accepted, this is supported by the acquisition of the results of the significance value of the profitability variable smaller than 0.05 or 0.027 <0.05. This relates to agency theory, in this study the government acts as the principal while the company acts as an agent. The government acting as the principal will order the company to pay taxes in accordance with the tax laws. However, the company as an agent prioritizes its interests in maximizing company profits so as to minimize the burden by avoiding taxes. This is supported by (Dewinta & Setiawan, 2016) which shows that profitability has a positive effect on tax avoidance.

4. Earning Management, Firm Size, and Probability Take Effect on Tax Avoidance

The results of testing the fourth hypothesis (H4) show that earnings management, company size, and profitability have an effect on tax avoidance because a significance value of 0.025 is obtained, it can be concluded that H4 is accepted, this is supported by the acquisition of a significant value for the earnings management variable, company size , and profitability simultaneously smaller than 0.05 or 0.025 < 0.05. This is supported by research (Thalita et al., 2022), (Sulaeman, 2019), and (Dewinta & Setiawan, 2016).

4. Conclusion

4.1. Conclusion

1) The results of testing the first hypothesis (H1) show that earnings management has an effect on tax avoidance. This is because earnings management is a practice carried out with the aim of achieving profit targets and avoiding losses in the company's operational activities. The company will try as much as possible so that the taxes paid are low by doing tax avoidance.
2) The results of testing the second hypothesis (H2) show that company size has no effect on tax avoidance. This is because the company is not able to utilize all of its assets for the company's operational activities. And if the company experiences a decrease in profit or loss, it will have an impact on the company's tax burden which also decreases so that the company does not need to do tax avoidance.
3) The results of testing the third hypothesis (H3) show that profitability affects tax avoidance. This is because profitability describes the company's financial performance in generating profits from managing assets known as Return on Assets. Increased profits result in increased company profits. The increase in profits causes the amount of tax to be paid to also increase, resulting in a tendency or possibility for companies to take tax avoidance actions.
4) The results of testing the fourth hypothesis (H4) show that earnings management, company size and profitability affect tax avoidance.

4.2. Suggestion

1) For future research, it is hoped that it will be able to expand the population in its research by using companies other than automotive and using other independent variables that have never been used in this study.
2) For future research, it is better to add a sector to the company other than the automotive sub-sector so that it can distribute further research.

4.3. Limitations

1) This research is still limited in using automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2017 – 2021.
2) This research is still limited to several independent variables, namely earnings management, company size and profitability.

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