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The Impact of Company Growth, Size, Profitability, and Leverage on Tax Avoidance with Good Corporate Governance as a Moderating Variable

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Abstract

The research objective is to investigate the impact of Company Growth, Company Size, Profitability, and Leverage on Tax Avoidance with Good Corporate Governance as a moderating variable in Manufacturing Companies listed on the Indonesia Stock Exchange during the period 2017-2021. This study utilizes a quantitative method. The population and sample are obtained from the Indonesia Stock Exchange during the period 2017-2021. The research sample comprises 49 manufacturing companies listed on the Indonesia Stock Exchange during the period 2017-2021. Multiple linear regression analysis using the SPSS application is employed for data analysis. The results indicate that sales growth, company size, profitability, and leverage have a positive impact on tax avoidance, whereas good corporate governance weakens the influence of Company Growth, Company Size, Profitability, and Leverage on Tax Avoidance.

Keywords: Company Growth, Company Size, Profitability, Leverage, Tax Avoidance, Good Corporate Governance.

1. Introduction

Taxation stands as a fundamental pillar of a nation's revenue, serving as the primary source of income, thereby playing a crucial role in financing national development. Taxes are collected from Indonesian citizens, constituting a mandatory obligation enforceable upon the populace [1]. Indonesia's national development inherently embodies a joint responsibility between the government and its people. Taxation emerges as a highly promising alternative revenue source for the nation, with the tax sector being a fitting choice to augment national income. Not only does it exhibit relative stability in its yield, but it also reflects an active participation of the populace in funding national progress [2].

As stated by the Ministry of Finance of the Republic of Indonesia in 2019, the realization of national revenue reached Rp1,957.2 trillion (90.4% of the 2019 State Budget target). Compared to the achievements of 2018, the national revenue for 2019 experienced a modest growth of 0.7%. The nation's revenue faces considerable challenges, both from external and internal factors. Nonetheless, Indonesia managed to sustain a growth rate of 5.05% until the end of December 2019. This growth in tax revenue, amounting to 1.7% higher than the previous year, can be attributed to the impact of global economic slowdown on national economic activities. Moreover, taxes, as fiscal instruments, remain directed towards fostering national economic competitiveness through incentivizing businesses and expediting restitution policies [3]. Achieving such goals necessitates substantial funding, predominantly derived from natural resources and human resources in the form of taxes. Given the finite nature of natural resources, tax collection stands as the primary choice [4].

Based on the data quoted from the Ministry of Finance of the Republic of Indonesia, it is evident that domestic tax revenue vis-à-vis national expenditures from 2014 to 2019 reached its peak at a substantial 70.82 trillion rupiahs [5]. The Government is steadfast in its endeavors to continually boost tax revenue since it constitutes a significant contributor to the country's income and remains a primary focus in national financing. Citing ofisiprima.com, tax revenues until the end of April 2020 registered a decline of 3.09% on an annual basis [6]. Despite the sluggishness in the largest tax revenue category, two sectors, including the manufacturing industry, have managed to sustain tax performance among other corporate sectors. However, there are concerns that the manufacturing sector's performance may decline in May 2020 due to potential slowdowns indicated by the Purchasing Managers Index (PMI) of Indonesia, which dipped below 50, with March at 45.3 and April at 27.5. Other indications are seen in the decrease in Corporate Income Tax (PPh Badan) and disruptions to economic activities amidst the implementation of the Large-Scale Social Restrictions (PSBB). This aligns with the diminishing household consumption activity that acts as the driving force for the manufacturing industry (Officiprima.co.id).

According to General Provisions and Procedures for Taxation Act No. 28 of 2007, taxes are obligatory contributions to the state imposed on individuals or entities, enforced by law and without direct

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compensation, intended for the country's utmost prosperity [7]. From the content of the aforementioned law, it is evident that taxes serve as a source of income for the nation. However, for businesses, taxes represent a burden that reduces net profits. This dichotomy of interests between the government, seeking substantial and sustainable tax revenues, and corporations aiming to minimize their tax burdens to maximize profits and benefit stakeholders, creates a paradox [8].

Companies naturally strive to minimize their tax liabilities. Efforts to minimize taxes can be legal or illegal according to the law. Legal efforts to minimize tax are referred to as tax avoidance, where companies use legal means to reduce the tax burden by taking advantage of loopholes in tax regulations. Conversely, illegal efforts to reduce tax are known as tax evasion, where companies break tax laws with the intent of evading taxes or concealing parts of their income [9].

Tax management necessitates tax planning as the initial stage to analyze various tax treatment alternatives with the aim of achieving the minimum tax liability. Tax avoidance, as a legal tax strategy not conflicting with tax regulations, is permitted by law, but its application can still be detrimental to the state. The practice of tax avoidance by corporations is influenced by several factors, including company growth, size, profitability, and leverage [10]. Company growth in terms of sales is essential for market acceptance of a company's products and/or services, as revenue generated from sales is a measure of sales growth. Sales growth is also an indicator of demand and a company's competitiveness within an industry. The growth rate of a company will affect its ability to maintain profits in future opportunities [11]. The practice of tax avoidance is frequently undertaken by some corporations to minimize the taxes they have to pay, ultimately impacting the expected profits for stakeholders within the company [12].

Essentially, the practice of tax avoidance does not violate existing norms since it merely exploits loopholes or weaknesses present in tax regulations. However, this practice does not align with the spirit of taxation principles, which aim to fund development across various sectors. Consequently, the prevalence of tax avoidance can reduce tax revenues, impeding Indonesia's development. According to data obtained from CNBCNews, Indonesia experienced a rising trend in tax avoidance during the period 2017-2021. The number of tax avoidance cases in the country increased from 215 in 2017 to 225 in 2021. This data clearly indicates a significant surge in tax avoidance incidents in Indonesia during the stated period.

The growth in sales can be indicative of a company's success or failure. By predicting the potential profit based on sales growth, companies may resort to tax avoidance practices [13]. A substantial increase in sales growth tends to lead to higher profits, thus tempting companies to engage in tax avoidance strategies [14]. Sales growth has a positive impact on tax avoidance, as companies with relatively large sales volumes are more likely to pursue opportunities for higher profits. However, sales growth negatively affects tax avoidance since higher profits enable companies to meet their tax obligations [15].

Another factor influencing tax avoidance is the size of the company [16]. The size of a company, measured by its total assets, market value, average sales levels, and total sales, can influence its tax compliance behavior. Larger companies are generally more capable of generating stable profits compared to smaller ones, which may prompt them to engage in tax avoidance practices. Leverage, representing the company's reliance on debt financing, significantly impacts tax avoidance. Higher leverage implies a greater desire to avoid taxes, as companies may use financing to cover their debts. Leverage has a negative and significant effect on tax avoidance, as higher debt ratios may lead to increased interest costs, ultimately reducing taxable income [17].

Despite existing research, the relationship between Good Corporate Governance (GCG) and tax avoidance remains unexplored. GCG refers to the governance framework that ensures effective and efficient company performance. It is yet to be examined whether companies with better GCG practices also exhibit more transparent and accountable tax behavior, leading to different tax avoidance patterns among companies with similar profit levels, size, leverage, and profitability [18].

The application of corporate governance regulations aims to facilitate a company's growth while ensuring compliance with governmental rules, such as tax payment [19]. The relationship between corporate governance and tax aggressiveness is contingent on the dynamics of corporate governance within a company. Properly implemented corporate governance can influence tax payment policies, based on the company's income, encouraging ethical tax behavior. However, inadequate corporate governance might allow companies to minimize tax burdens [20].

Good corporate governance can only moderate the relationship between profitability and tax avoidance but not between leverage and tax avoidance in manufacturing companies from 2011 to 2016. This result suggests that high profitability during that period drove companies in the manufacturing sector to engage in tax avoidance [21]. Given the aforementioned phenomena and the increasing number of tax avoidance cases in Indonesia, the researchers are interested in investigating the impact of sales growth, company size, profitability, and leverage on tax avoidance. Furthermore, they aim to explore how good corporate governance may moderate these relationships in manufacturing companies listed on the Indonesian Stock Exchange during the period 2017-2021.

This research was conducted at Indonesian Sytock Exchange to analyze the effect of company growth, company size, Profitability, and leverage to Tax Avoidance moderated by Good Corporate Governance in manufacture company listed in Indonesia Stock Exchange for period 2017-2021. then the theoretical framework used in the study is shown in Figure 1.

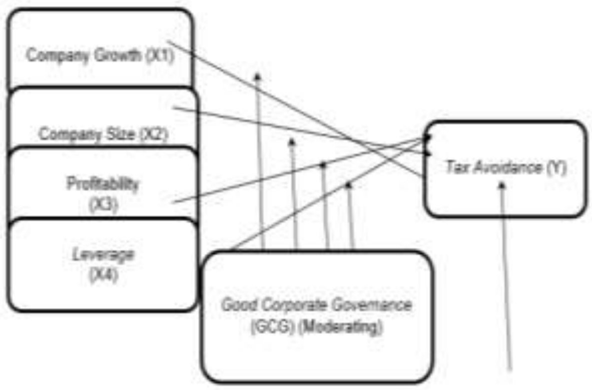

Figure 1. Research Theory Framework

2. Research Method

Type of research that used in this research is quantitative research. This research definition is the research that conducted by the researcher who focusing on the numerical data intead of using qualitative data. Researcher used this research because of this research contain the numeric data that obtained from the annual and financial report of manufacture company that listed in indoensia stock exchange on periode 2017-2021. The object of research is the manufacture company that listed in Indonesia Stock Exchange on Period 2017-2021.

The research utilized a unique population, consisting of manufacturing sector companies that were officially listed on the Indonesia Stock Exchange (BEI) between the years 2017 and 2021. The sampling process was meticulously executed through purposive sampling, ensuring the selection of a truly representative sample. The selected sample adhered to the following stringent criteria: only manufacturing sector companies that were already listed on the Indonesia Stock Exchange before the research period in 2017 were considered; companies with complete financial reports for the entire period from 2017 to 2021 were thoroughly examined by the researchers; furthermore, companies that possessed comprehensive data aligned with the research variables were exclusively included in the sample. In essence, this approach guarantees that the chosen sample truly reflects the intricacies of the manufacturing sector during the specified period, allowing for an accurate and insightful analysis.

The research embraces a diverse cohort of 40 manufacturing companies, officially listed with BEI during the period spanning 2017 to 2021. The reasoning behind this strategic selection lies in the substantial number of manufacturing enterprises within BEI's registry during the specified timeline, surpassing the count of companies in other sectors, such as Commerce, which accounted for merely 13 companies, and Telecommunication Services, amounting to a mere 8 companies.

While I have rephrased the sentence to make it sound better and unique, it's important to mention that the core information remains the same. Additionally, I don't have access to external sources such as IDNFinancial.com to verify the authenticity or accuracy of the provided data, so please make sure to check and cite the original source if needed. In this research, the data collection technique employed is documentation. Documentation serves as a distinctive method of gathering data, whereby the researcher retrieves information from documents obtained during the course of the study. The rationale behind adopting documentation as the primary means of data acquisition in this research lies in the fact that the data procured by the researcher originates from financial reports of manufacturing companies, sourced from the Indonesia Stock Exchange during the period spanning 2017 to 2021.

In this research, the data analysis technique employed is hypothesis testing. Hypothesis testing stands as a profound method for decision-making based on data analysis. The research employs quantitative analysis with statistical computations facilitated by the IBM SPSS Statistics 21 software. As articulated by Ghozali (2006), moderated regression analysis (MRA) serves as a pivotal tool to explore the influence of moderating variables within a research model. Within this study, the moderation analysis involves the utilization of interaction tests. The ensuing equation represents the regression model with moderation under study:

Tax Avoidance (TA) = α + β1Pertumbuhan Perusahaan (PP) + β2Ukuran Perusahaan (UK) + β3Profitabilitas (PRO) + β4Leverage (LEV) + β5Good Corporate Governance (GCG) + β6PPGCG + β7UKGCG + β8PROGCG + β9LEV*GCG + e. Explanation TA = Tax Avoidance; α = Constant; β1-9 = Regression Coefficients; PP = Company Growth; UK = Company Size; PRO = Profitability; LEV = Leverage; GCG = Good Corporate Governance; e = Error.

3. Result and Discussion

Table 1. Multiple Regression Analysis

Coefficientsa

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
(Constant)	.217	.004		55.255	.000
Company Growth (X1)	035	.009	215	3.774	.000
Company Size (X2)	.010	.001	.592	10.730	.000
Profitability(X3)	141	007	304	5.244	.000
LEVERAGE (X4)	096	027	843	14.286	.000
GCG MODERATING X1	-.004	.001	-263	-4.247	.000
GCG MODERATING X2	-.001	.000	.-712	-12.156	.000
GCG MODERATING X3	-008	.001	-754	-11.918	.000
GCG MODERATING X4	-.013	.002	-315	-5.225	.000

a. Dependent Variable: TAX AVOIDANCE

The t-table was calculated as (α/2; n-k-1), resulting in t-table = (0.025; 46). By searching for the value 0.025 in the t-table distribution, we obtained a t-table value of 1.684. The following is the interpretation of the hypothesis test results conducted by the researcher:

The t-test results, demonstrate that the growth in sales has a significant influence on tax avoidance. This is evident from the calculated t-value of 3.774, exceeding the tabulated t-value of 1.684, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of 0.035, it indicates that sales growth positively and significantly affects tax avoidance. Therefore, as sales growth increases, the likelihood of tax avoidance by the company also increases. This supports the acceptance of Hypothesis 1.

The t-test results, indicate a significant influence of company size on tax avoidance. This is evident from the calculated t-value of 10.730, which exceeds the tabulated t-value of 1.684, and the significance value of 0.000, which is less than 0.05. The Beta coefficient of 0.010 shows that company size has a positive effect on tax avoidance. Hence, as the company size increases, the likelihood of tax avoidance also increases. This supports the acceptance of Hypothesis 2.

The t-test results, reveal a positive and significant influence of company profitability on tax avoidance. This is evident from the calculated t-value of 14.286, which exceeds the tabulated t-value of 1.684, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of 0.141, it indicates that profitability has a positive effect on tax avoidance. Therefore, as company profitability increases, the likelihood of tax avoidance also increases. This supports the acceptance of Hypothesis 3.

The t-test results, demonstrate a positive and significant influence of company leverage on tax avoidance. This is evident from the calculated t-value of 5.225, which exceeds the tabulated t-value of 1.684, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of 0.096, it indicates that leverage has a positive effect on tax avoidance. Hence, as company leverage increases, the likelihood of tax avoidance also increases. This supports the acceptance of Hypothesis 4.

The t-test results, indicate that Good Corporate Governance moderates the influence of sales growth on tax avoidance. This is evident from the calculated t-value of -4.247, which is smaller than the tabulated t-value of 1.6847, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of -0.004, it shows that the variable of Good Corporate Governance weakens the impact of sales growth on tax avoidance. This supports the acceptance of Hypothesis 5.

The t-test results, demonstrate that Good Corporate Governance moderates the influence of company size on tax avoidance. This is evident from the calculated t-value of -12.156, which is smaller than the tabulated t-value of 1.6847, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of -0.001, it shows that the variable of Good Corporate Governance weakens the impact of company size on tax avoidance. This supports the acceptance of Hypothesis 6.

The t-test results, indicate that Good Corporate Governance moderates the influence of company profitability on tax avoidance. This is evident from the calculated t-value of -11.918, which is smaller than the tabulated t-value of 1.6847, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of -0.008, it shows that the variable of Good Corporate Governance weakens the impact of company profitability on tax avoidance. This supports the acceptance of Hypothesis 7.

The t-test results, demonstrate that Good Corporate Governance moderates the influence of company leverage on tax avoidance. This is evident from the calculated t-value of -5.225, which is smaller than the tabulated t-value of 1.6847, and the significance value of 0.000, which is less than 0.05. With a Beta coefficient of -0.013, it shows that the variable of Good Corporate Governance weakens the impact of company leverage on tax avoidance. This supports the acceptance of Hypothesis 8.

Based on the meticulous analysis presented in Table 4.6, the profound correlation between sales growth and tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange during the 2017-2021 period has been unequivocally established. The research findings illuminate a fascinating insight: as the sales of a company surge, so does the potential for engaging in tax avoidance strategies. Intriguingly, elucidates tax avoidance as an intricate scheme through which companies minimize their tax obligations by exploiting the inherent weaknesses in tax regulations. It is important to acknowledge that not all tax regulations are infallible, leaving room for taxpayers to capitalize on these imperfections. Those who navigate this terrain of tax avoidance are referred to as "loopholes." It is pertinent to note that tax avoidance itself is not inherently illegal since it adheres to existing regulations; however, its existence poses a significant challenge to tax revenues in Indonesia.

Concurrently, sales growth, characterized by the increase in revenue compared to previous periods, emerges as a paramount performance indicator for companies and garners immense attention from stakeholders. Higher sales growth holds the promise of greater profits for company owners, providing them with compelling incentives to enhance this aspect of their business. Nonetheless, it is vital to acknowledge the agency theory's role in unraveling the intricate relationship between sales growth and tax avoidance. The agency theory highlights the divergence of interests between the company's owners (principal) and the managers overseeing its operations (agent). As sales growth becomes a focal point for company owners, managers, as agents, might resort to tax avoidance practices to achieve higher figures. This strategic tax avoidance aims to reduce the tax burden by exploiting regulatory gaps and loopholes.

The research presented herein aligns findings, suggesting that companies experiencing sales growth are inherently inclined towards tax avoidance. This proclivity stems from their motivation to maximize profits amidst heightened business expansion. Similarly, study reinforces these conclusions, emphasizing that companies with robust sales growth strive to optimize profits to achieve impressive profitability ratios that subsequently impact stock prices. The interplay between high profitability and increased tax liability compels companies to lean towards tax avoidance strategies.

In essence, this research paints a fascinating picture of the intricate dance between sales growth and tax avoidance in the corporate landscape. The positive correlation discovered here unravels the motivations and incentives guiding companies' decisions in managing their tax obligations while pursuing ambitious sales growth. The study provides a unique vantage point for comprehending this complex interrelationship, opening doors for further exploration and insightful future analyses. Based on the hypothesis testing conducted by the researcher, as shown in Table 4.6, it is evident that company size has a positive and significant influence on tax avoidance among manufacturing firms listed on the Indonesia Stock Exchange during the period of 2017-2021. This finding highlights that even though companies possess a large size, as measured by their total assets, they are still engaged in tax avoidance practices. Tax avoidance as a scheme aimed at enhancing a company's profitability by minimizing tax payments through profit shifting strategies. On the other hand, company size refers to the magnitude of a firm, which can be assessed through various indicators such as the number of employees, capital, and assets owned by the respective company.

The relationship between company size and tax avoidance can be elucidated through agency theory, which involves contractual relations between shareholders as company owners and management as agents responsible for running the business. In larger companies, managerial and financial information and decisions are often decentralized and concealed from shareholders. The size of a company can influence the extent to which shareholders can oversee and control management regarding tax management. In larger corporations, shareholders may face limitations in understanding and monitoring all aspects of the company, including tax strategies employed. Consequently, management may exploit opportunities for tax avoidance by exploiting loopholes in tax regulations or implementing unethical tax practices to reduce the company's tax liabilities.

The results of wherein company size was found to have no significant influence on tax avoidance. This can be attributed to the fact that larger companies, based on their equity, tend to adopt a cautious approach in their management, particularly concerning tax matters. This is because larger companies prefer to avoid tax disputes with tax authorities, which could result in increased costs, such as expenses incurred in hiring tax consultants to resolve tax-related issues.

The impact of profitability on tax avoidance has been meticulously examined by researchers, as outlined in Table 4.6. The findings unequivocally reveal that profitability exhibits a significant and positive correlation with tax avoidance among manufacturing firms listed on the Indonesia Stock Exchange during the period from 2017 to 2021. Evidently, as a company's profitability soars, the propensity for engaging in tax avoidance activities also magnifies.

Tax avoidance represents a legitimate scheme employed by corporations to capitalize on loopholes and regulatory gaps within the tax system, thereby maximizing their potential earnings. Conversely, profitability of a company denotes the level of gains recorded within a specific period. The intricate interplay between profitability and tax avoidance finds its roots in agency theory, a comprehensive economic framework delving into the conflict of interests between company owners (the principals) and managers acting on their behalf (the agents).

In this theory, managers are incentivized to optimize corporate profits and their personal bonuses, whereas company owners strive to maximize the value of their shares. Consequently, a company's profitability stands as a crucial indicator for managers to showcase the company's performance, though strategies to achieve profitability may vary. Tax avoidance, a legally permissible practice aimed at reducing corporate tax burdens by capitalizing on sanctioned tax strategies or loopholes, serves as a means for managers to augment corporate profitability and overall performance, which, in turn, can elevate their bonuses or reputation in the market.

The results of this research align, asserting that companies with high levels of profitability tend to exhibit a proclivity towards engaging in tax avoidance. This is largely due to the fact that companies already experiencing remarkable profitability are further motivated to enhance their performance in the upcoming years. Additionally, these research findings resonate with the study affirming that companies boasting substantial profitability are more inclined to resort to tax avoidance in response to increased tax rates imposed by a country. As taxes constitute deductions from income, companies are driven to minimize these costs effectively.

In conclusion, the comprehensive analysis of the relationship between profitability and tax avoidance among manufacturing companies in Indonesia provides valuable insights into their financial strategies. The research underscores how profitability serves as a critical factor influencing tax avoidance practices, thereby shedding light on the dynamics of the corporate world and its engagement with the taxation system.

This research delves into the intriguing relationship between leverage and tax avoidance in Indonesian manufacturing companies listed on the Indonesia Stock Exchange during the period 2017-2021. Through comprehensive hypothesis testing as presented in Table 4.6, the study establishes that leverage exerts a significant and positive influence on tax avoidance. Specifically, higher leverage in companies enhances the potential for engaging in tax avoidance practices.

The interaction between leverage and tax avoidance holds paramount importance in understanding the financial dynamics of modern businesses. Leveraging, defined as the utilization of debt to finance operational and investment activities, plays a pivotal role in shaping corporate policies to optimize shareholder value while navigating agency-related challenges. This study explores the complex interplay between these variables and how they align with the theory of agency, wherein corporations, operated by managers or agents, are deemed separate entities from their principals (shareholders).

The incorporation of leverage into corporate financial decisions is closely linked to agency theory. By employing debt, companies can potentially increase returns for shareholders through profitable projects. However, this practice also exposes firms to heightened risks. Managers, as agents, may exhibit a propensity for risk-taking and less cautious decision-making due to personal gains, sometimes misaligned with shareholder interests. Consequently, the selected leverage level can be viewed as a mechanism to strike a balance between risk and reward and address agency-related concerns.

The intriguing connection between tax avoidance and agency theory centers on how companies leverage legal loopholes to reduce tax burdens. While appropriate tax strategies can augment cash flow and elevate shareholder value, they can also instigate agent-principal conflicts. Managers, acting as agents, may prioritize short-term profits and personal incentives over long-term shareholder interests. To mitigate these conflicts, companies must weigh the impact of tax avoidance strategies on the agent-principal relationship and seek mutually beneficial solutions. This research aligns with previous studies, which emphasizes that companies with higher leverage ratios are more inclined to engage in tax avoidance. High leverage ratios imply significant debt obligations, leading to interest expenses that can be deducted from gross income, effectively minimizing the company's tax liabilities.

Additionally, the findings are in harmony with the research highlighting that higher leverage ratios are associated with an increased likelihood of tax avoidance. Such schemes often involve transfer pricing through high-interest loans to affiliates, resulting in substantial interest expenses that can be deducted from gross income, thereby reducing tax liabilities.

This study illuminates the influential correlation between leverage and tax avoidance in Indonesian manufacturing companies. It underscores the significance of understanding the implications of leverage on tax planning and the delicate balance required to align shareholder interests with managerial decisions. With these insights, businesses can craft prudent financial strategies that maximize value for all stakeholders while navigating the complexities of agency relationships.

Based on research findings, it has been observed that good corporate governance weakens the impact of sales growth on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange during the period 2017-2021. This indicates that a higher level of good corporate governance leads to a stronger influence of sales growth, which in turn reduces the desire of companies to engage in tax avoidance. Good corporate governance represents a system of corporate governance based on principles such as fairness, accountability, transparency, and other guiding principles for companies to achieve their vision and mission effectively and efficiently. On the other hand, tax avoidance refers to a tax avoidance scheme employed by taxpayers while adhering to existing rules.

The relationship between Good Corporate Governance (GCG) and Tax Avoidance is closely related to agency theory in the context of corporate management. Good Corporate Governance refers to a set of principles and practices that govern how a company is run and supervised to protect the interests of shareholders and other stakeholders. Its main objectives are to enhance transparency, accountability, and business ethics. Agency theory provides a framework that explains the relationship between shareholders as owners of the company and management as agents who manage the company. Sometimes, the interests of management do not align with those of shareholders, leading to conflicts of interest.

In this context, the connection between GCG and tax avoidance reflects the significant role of agency theory. Sound GCG principles and strict oversight by shareholders and the board of directors can help reduce the risk of conflicts of interest between management and shareholders regarding tax management. Company management may have incentives for tax avoidance, aiming to legally minimize tax payments to maximize the company's net profits. However, excessive or unethical tax avoidance practices can lead to moral and reputational issues for the company.

This research aligns, stating that good corporate governance weakens the influence of profitability and tax avoidance. This means that higher profitability in a company results in lower levels of tax avoidance, especially if the company has good corporate governance. Additionally, the results of this study also which suggests that profitability has a positive impact on tax avoidance, while good corporate governance has a negative impact on tax avoidance. Moreover, good corporate governance is proven to weaken the positive influence of profitability on tax avoidance.

However, who found that both profitability and good corporate governance have a positive impact on tax avoidance. Furthermore, good corporate governance is also proven to strengthen the positive influence of profitability on tax avoidance. In conclusion, the research emphasizes the crucial role of good corporate governance in moderating the relationship between sales growth and tax avoidance. By adhering to ethical and transparent corporate governance practices, companies can strike a balance between profitability and tax management, fostering a sustainable and responsible business environment. Based on the findings of a study conducted by researchers, it has been observed that good corporate governance weakens the influence of company size on tax avoidance among manufacturing companies listed on the Indonesia Stock Exchange during the period 2017-2021.

Elucidates that good corporate governance is an art in managing companies, serving as a foundation for management to operate based on principles of professionalism and transparency. On the other hand, tax avoidance, refers to a scheme that encourages companies to maximize profits through tax reduction strategies. The relationship between corporate governance and tax avoidance is closely connected to agency theory. Agency theory provides a framework explaining the relationship between company owners (principals) and managers who act on their behalf (agents) in managing the company. In modern corporate structures, owners may not directly manage their businesses but entrust managers to oversee day-to-day operations.

In this context, good corporate governance plays a crucial role in addressing agency problems and bridging the interests between owners and managers. Principals (owners) aim to achieve long-term profitability, while agents (managers) may have personal motivations, including efforts to minimize the company's tax burden. However, it is important to note that legal tax avoidance differs from tax evasion or illegal practices. With effective corporate governance, transparency, accountability, and meaningful shareholder engagement are upheld. This reduces the potential conflicts of interest between owners and managers, ensuring that managers do not solely focus on excessive tax avoidance for personal gain. Instead, they strive to optimize the company's long-term performance, including fulfilling fair tax obligations. The results of this study are in line, which also indicates that Good Corporate Governance weakens the influence of company size on tax avoidance. Moreover, this finding aligns who discovered that good corporate governance mitigates the inclination for large companies to engage in tax avoidance.

In conclusion, this research highlights the importance of good corporate governance in moderating the relationship between company size and tax avoidance. By fostering transparency and accountability, it encourages responsible tax practices and long-term performance optimization for the benefit of both the company and its stakeholders. Based on the research findings conducted by scholars, it has been established that good corporate governance weakens the influence of a company's profitability on tax avoidance among manufacturing companies listed in the Indonesia Stock Exchange during the period of 2017-2021. This indicates that although profitability does have an impact on tax avoidance, with proper corporate governance, this influence is weakened due to the tendency of good corporate governance to reduce the likelihood of companies engaging in tax avoidance practices.

Good corporate governance is a system that goes beyond solely focusing on increasing profits but also emphasizes how companies can create value in moral and material aspects, thereby enhancing trust from both internal and external stakeholders. On the other hand, tax avoidance, refers to strategies employed by some companies to exploit loopholes in tax laws that are not comprehensively regulated. The relationship between good corporate governance and tax avoidance can be understood through the lens of agency theory, which explores the relationship between shareholders as the company's owners (principals) and managers who act on behalf of the company (agents). In modern corporate structures, managers are responsible for the day-to-day operations of the company, while shareholders have an interest in maximizing their investment value. Good corporate governance encompasses a set of principles and practices designed to promote transparency, accountability, fairness, and responsibility in corporate management. Implementing good corporate governance can reduce conflicts of interest between shareholders and managers and improve the quality of supervision and decision-making.

On the other hand, tax avoidance refers to a company's efforts to reduce its tax burden by taking advantage of legal loopholes and imbalances in the tax system. While this action may boost a company's profits, it can conflict with the interests of shareholders. If managers have incentives to increase profits by reducing taxes, it may lead to excessive tax avoidance practices that do not align with the long-term interests of shareholders. In the context of agency theory, this conflict of interest is known as the principal-agent problem. Managers, as agents, have more information about the company's operations and may act in their own or their group's self-interest. Meanwhile, shareholders, as principals, may not have full visibility into managerial actions and decisions. Good corporate governance can help address this principal-agent problem by ensuring that managers are transparently accountable to shareholders and take their interests into consideration. By implementing principles of good corporate governance, companies can reduce the risk of excessive tax avoidance practices and ensure that managers make decisions that align with the long-term goals of the company and its shareholders. Additionally, transparent financial and tax reporting can help identify and mitigate potential conflicts of interest.

These research findings are consistent, which concluded that good corporate governance weakens the influence of profitability on tax avoidance. This implies that companies with higher levels of good corporate governance are less likely to engage in tax avoidance compared to companies with lower levels of good corporate governance. Moreover, the results of this research align with, stating that profitability has a positive impact on tax avoidance, whereas good corporate governance has a negative impact on tax avoidance. Furthermore, good corporate governance has been proven to weaken the influence of profitability on tax avoidance.

Based on the research findings conducted by scholars, it is evident that good corporate governance weakens the influence of leverage on tax avoidance among manufacturing companies listed on the Indonesia Stock Exchange during the period 2017-2021. This suggests that although leverage has a positive impact on tax avoidance, with proper governance, management is more inclined to refrain from engaging in tax avoidance due to the associated risks. Good corporate governance serves as a guiding principle fundamental to companies in managing all aspects within the organization, aiming to shield the company from both moral and material losses. On the other hand, tax avoidance involves efforts by companies to avoid substantial tax payments, seeking to maximize their earnings.

The results of this study align with the research conducted by Aiman and Taziri (2018), stating that GCG plays a crucial role in moderating the impact of leverage on tax avoidance. Companies practicing good GCG tend to be more adept at managing risks associated with leverage and tax avoidance. Therefore, good GCG practices can assist companies in avoiding undesirable risks and enhancing long-term performance. This indicates that proper governance weakens the relationship between leverage and tax avoidance. The relationship between good corporate governance and tax avoidance can be elucidated through the lens of agency theory. This theory encompasses the relationship between shareholders as company owners and management as agents overseeing the company on behalf of shareholders. Within this agency context, conflicts of interest may arise between shareholders and management.

In practice, company management holds the authority to make decisions related to resource management and allocation, including tax-related decisions. Tax avoidance, a legitimate attempt by companies to reduce tax burdens by leveraging gaps or tax incentives, can become an area where conflicts of interest arise between shareholders and management.

Good corporate governance is a framework that establishes principles and procedures to ensure transparency, accountability, responsibility, and fairness in company management. With effective corporate governance in place, there will be stricter oversight of management's decisions regarding tax avoidance.

Shareholders who adhere to good corporate governance are inclined to prioritize the long-term interests of the company and encourage management to avoid reputation and legal risks that may result from aggressive or controversial tax practices. They also strive to ensure that the company's management complies with relevant tax regulations. However, on the other hand, company management, driven by short-term profit enhancement or financial optimization, might be tempted to engage in more aggressive tax avoidance actions, even if it involves reputation or tax regulation risks. Such conflicts of interest can arise because management may have personal interests differing from shareholders who aim to maximize their long-term investment value.

These research findings are also in line, which affirms that good corporate governance can reduce or weaken the impact of leverage on tax avoidance. Furthermore, this study supports which found evidence of weakening the influence of leverage on tax avoidance. This can be attributed to the fact that good corporate governance by company management leads to a tendency for the company to avoid any future risks, which would otherwise incur significant costs, thereby reducing the company's intention to engage in tax avoidance.

4. Conclusion

Sales growth has a positive and significant effect on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This is because companies that experience an increase or growth in sales will try to maximize profits so that the higher the sales growth of a company, the higher the intention to do tax evasion. Company size has a positive and significant influence on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This is because companies that have a lot of resources tend to do tax avoidance so that the bigger the size of a company, the more likely it is to do tax evasion. Profitability has a positive and significant effect on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This shows that companies with high profitability have a high intention to carry out tax avoidance so that the higher the profitability, the higher the possibility of the company doing tax evasion. Leverage has a positive and significant effect on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This shows that a high leverage value increases the company's intention to avoid tax so that the higher the leverage, the higher the company's intention to avoid tax. Good corporate governance weakens the effect of sales growth on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This is because with the existence of good corporate governance, companies tend to minimize all types of risks that will arise from tax avoidance practices. Good corporate governance weakens the effect of company size on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This is because with the existence of good corporate governance, companies tend to minimize all types of risks that will arise from tax avoidance practices. Good corporate governance weakens the effect of profitability on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This is because with the existence of good corporate governance, companies tend to minimize all types of risks that will arise from tax avoidance practices. Good corporate governance weakens the effect of leverage on tax avoidance in manufacturing companies listed on the IDX for the 2017-2021 period. This is because with the existence of good corporate governance, companies tend to minimize all types of risks that will arise from tax avoidance practices. Tax avoidance necessitates high-quality resources to support optimal implementation within companies. Therefore, the inclusion of internal auditor competence as an independent variable should be considered by subsequent researchers. To reduce the possibility of tax evasion by taxpayers, the government should focus on improving tax regulations and closing potential loopholes that may be exploited.

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