

The Effect of Profitability, Firm Size, and Leverage on Tax Management in LQ45 Companies

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ABSTRACT

This study examines the effect of profitability, firm size, and leverage on tax management in LQ45 companies listed on the Indonesia Stock Exchange from 2021 to 2023. Using a quantitative method and multiple linear regression (SPSS 25) on 27 firms, the results show that profitability and firm size have a significant negative effect, while leverage is insignificant. Larger and more profitable firms tend to adopt more conservative tax strategies due to regulatory pressure and reputational concerns. Firm size is the most dominant factor. However, the results are limited by the use of end-of-year LQ45 data, a short observation period, and reliance on secondary data, which may restrict broader generalization and deeper behavioral insights.

INTRODUCTION

Taxes are a main source of government revenue, used to fund essential public services such as healthcare, education, and infrastructure. According to Law No. 28 of 2007, taxes are mandatory contributions paid by individuals and entities to the state without direct compensation, serving the broader goal of public welfare and national development (Mardiasmo, 2018). However, Indonesia still faces challenges in maximizing tax revenue. The country's tax ratio remains among the lowest in Asia, partly due to economic structure issues and persistent non-compliance (OECD, 2022). A notable example is the case of PT Indofarma Tbk, which allegedly manipulated financial reports, resulting in state losses of approximately IDR 371.83 billion between 2021 and 2023 (Felicia, Feliciano, & Veny, 2024). These challenges highlight the urgency of studying corporate tax management practices, especially in companies with high visibility and economic impact such as those listed in the LQ45 Index. Tax management refers to the legal and strategic efforts by firms to fulfill their tax obligations efficiently, including through planning and compliance (Suandy, 2011; Pohan, 2019).

Several firm-specific factors are believed to influence tax management, including profitability, firm size, and leverage. However, past research shows inconsistent findings. Some studies report that higher profitability and larger firm size lead to better tax compliance (Kantohe et al., 2023; Putri et al., 2022), while others find these relationships to be weak or insignificant. Similarly, the effect of leverage on tax behavior remains debated – some scholars suggest that firms use debt for tax advantages, while others find no clear impact (Wijayanti & Muid, 2020). Moreover, most previous studies analyze general IDX-listed companies, not specifically LQ45 firms, which are often larger, more liquid, and subject to stricter oversight. This creates a research gap, particularly in understanding how these variables influence tax practices in leading firms during the post-pandemic recovery phase (2021–2023).

The novelty of this study lies in its updated scope, focusing on LQ45 companies as a unique population with strong financial performance and high public accountability. By examining recent data and addressing inconsistencies in prior research, this study offers new insight into how profitability, firm size, and leverage affect tax management. The findings aim to support policy efforts to improve corporate tax compliance and provide empirical evidence for more targeted and effective tax regulations in Indonesia.

LITERATURE REVIEW

Agency Theory

In modern corporate governance and financial decision making, theoretical foundations such as agency theory play a pivotal role in shaping both scholarly inquiry and practical strategy. Agency theory, first articulated by Jensen and Meckling (1976), posits that firms consist of a relationship between principals (owners or shareholders) and agents (managers), where the principals delegate decision making authority to the agents to act on their behalf. This delegation inevitably creates potential conflicts of interest because managers may pursue their own personal benefits such as higher compensation, career advancement, or personal power even when these objectives diverge from the goal of maximizing shareholder value. Sonbay (2022) underscores this relational dynamic, describing principals appointing agents to perform specific services, while granting them decision making authority under the expectation that they act in the principal's best interests. Meanwhile, Hendrastuti and Harahap (2023) expand this view by situating agency theory within positive accounting theory, game theory, and organization theory to explain how contract design and governance structures may mitigate agency costs, especially when information asymmetry is endemic.

In the context of corporate tax management, agency theory becomes particularly salient. When corporate managers act as agents, they may select tax strategies that serve their own financial outcomes (e.g. bonus maximization or career progression), whereas shareholders—who act as principals—are more likely to focus on reducing the company's tax burden to boost net profit and dividend distributions. This misalignment can lead to tax planning decisions that favor managerial interests over shareholder welfare. To align these divergent incentives, firms may incur additional agency costs in monitoring and oversight, or adopt tax management practices that reconcile regulatory compliance with profit optimization. Consequently, the interplay between principal preferences and agency incentives can significantly shape corporate tax behavior (Veny & Bernhard, 2024).

Tax Management

Tax management itself is better understood as a deliberate and strategic process. According to Br. Gurusinga, et al. (2024), tax management involves measures taken to arrange corporate tax obligations in accordance with the law while aiming to reduce payable taxes to the minimum permissible level. Devina and Pradipta (2021) affirm that tax management must be embedded within the broader managerial functions planning, organizing, executing, and monitoring to secure legal compliance and operational efficiency. Implementing sound tax management is not merely about legal avoidance of sanctions, but about sustaining long term financial efficiency and reputational stability. Balanced tax planning helps firms honor regulatory obligations while preserving resources for profitable reinvestment and stakeholder trust. Three financial dimensions profitability, firm size, and leverage are commonly cited in the literature as significant determinants of tax management strategy.

Profitability

Profitability, often measured by Return on Assets (ROA), reflects a firm's ability to generate earnings from its total asset base. A high ROA indicates strong operational effectiveness and capital utilization, signaling robust financial health (Wijaya, 2021; Trida, 2021; Christella & Santo, 2024). In a taxation context, firms with high profitability face larger taxable income and thus higher tax liability. This condition creates incentives for strategic tax planning to mitigate effective tax rates and preserve net earnings (Afifah & Mhd, 2020). Empirical studies offer mixed insights: Br. Gurusinga et al. (2024) and Charista & Febrianti (2023) find profitability positively associated with tax planning practices, while Kantohe et al. (2023) and Afifah & Mhd (2020) document significant negative associations, and others (Yaramah & Andriyani, 2022; Wijayanti D., 2024) observe no statistically meaningful influence. Agency theory helps explain these disparities: managers may adopt aggressive tax strategies when profitability is high, exploiting asymmetries in information to serve their own interests (Veny & Bernhard, 2024). Conversely, high profitability might also bolster public scrutiny and internal controls that restrain excessive tax minimization.

Firm Size

Firm size, frequently represented by the natural logarithm of total assets, signals the scale and sophistication of a firm's operations (Afifah & Mhd, 2020; Kamarullah & Tala, 2024). Large firms tend to enjoy greater resources, including tax advisory services, internal control systems, and legal expertise that enable intricate tax planning. On the other hand, these firms face heightened visibility and scrutiny from regulators and the public, potentially constraining aggressive tax strategies (Marcella & Selfiyah, 2023; Devina & Pradipta, 2021). The agency perspective suggests that in larger firms, managerial discretion widens, which may escalate information asymmetry and increase opportunities for opportunistic behavior unless checks and balances are effective (Hendrastuti & Harahap, 2023). Prior research diverges: some studies identify a positive relationship between firm size and tax minimization, due to resource advantages and complex organizational structure facilitating tax planning (Marcella & Selfiyah, 2023; Putri et al., 2022; Donald & Porajow, 2020). Others argue that size enhances compliance because of reputational risk and external pressure (Yaramah et al., 2022; Afifah & Mhd, 2020).

Leverage

Leverage refers to the proportion of debt in a firm's capital structure and by extension the interest expenses that may reduce taxable income and thereby function as a strategic tool in tax management (Afifah & Mhd, 2020; Devina & Pradipta, 2021). High-leverage firms can legally deduct interest payments, lower their taxable base and reduce tax liability, a strategy supported by several empirical studies (Putri et al., 2022; Rianto et al., 2022; Satria & Nathan, 2023). From the agency-theoretic standpoint, higher leverage amplifies monitoring pressure from creditors and other stakeholders. To manage perceived credit risk and maintain access to capital, managers may enhance voluntary disclosure or engage in conservative tax behavior yet simultaneously they might exploit

interest deductions to reduce tax burden opportunistically. This dual potential creates a tension between short term tax benefit and long-term financial risk, raising agency costs through moral hazard or information asymmetry (Br. Gurusinga et al., 2024, Kamarullah et al., 2024).

The Effect of Profitability on Tax Management

Profitability reflects a firm's ability to generate net income from its operational assets. Higher profitability may increase a firm's tax burden, prompting management to adopt tax strategies to minimize tax expenses (Magfiroh & Ratnawati, 2024; Yaramah & Andriyani, 2022). According to agency theory, managers may engage in tax management to maximize residual income and managerial compensation, especially when profit levels are high (Veny & Bernhard, 2024; Hendrastuti & Harahap, 2023). Previous studies show a significant influence of profitability on tax management (Afifah & Mhd, 2020; Br. Gurusinga et al., 2024; Kamarullah et al., 2024).

H₁: Profitability Significantly Affects Tax Management.

The Effect of Firm Size on Tax Management

Firm size indicates operational scale and resource availability. Larger firms have more capacity to engage in structured tax strategies and tend to be more compliant due to public scrutiny (Afifah & Mhd, 2020; Devina & Pradipta, 2021). From the agency perspective, larger organizations provide managers greater discretion, which may be used to either optimize taxes or increase agency costs (Marcella & Selfiyan, 2023, Veny & Bernhard, 2024). Empirical evidence supports the influence of firm size on tax behavior (Donald & Porajow, 2020, Putri et al., 2022, Yaramah et al., 2022).

H₂: Firm size Significantly Influences Tax Management.

The Effect of Leverage on Tax Management

Leverage represents the proportion of debt in a firm's capital structure, which can reduce taxable income through interest deductions (Afifah & Mhd, 2020; Devina & Pradipta, 2021). Agency theory suggests that high leverage may create additional agency costs due to conflicting interests between managers, owners, and creditors (Br. Gurusinga et al., 2024). Several studies confirm leverage's impact on tax management decisions (Satria & Nathan, 2023; Rianto & Nur Asyiyah, 2022; Kamarullah et al., 2024).

H₃: Leverage Significantly Impacts Tax Management.

The Conceptual Framework

The following is the conceptual framework of this study:

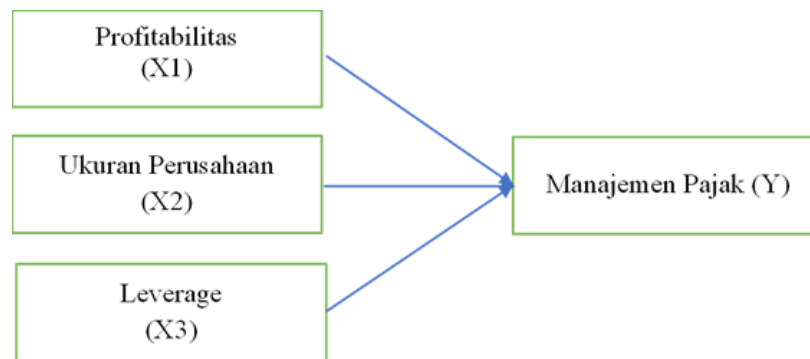


Figure 1. Conceptual Framework

METHODOLOGY

This study uses a quantitative research approach to analyze the relationship between three independent variables profitability, firm size, and leverage and the dependent variable, tax management. Quantitative methods are widely used in accounting and finance research because they allow objective measurement and statistical analysis. This approach is suitable for testing hypotheses and examining cause-and-effect relationships between variables. Tax management is measured using the Effective Tax Rate (ETR), which shows how much tax a company pays relative to its income. A lower ETR often indicates more aggressive tax planning.

The study uses secondary data, mainly from companies' audited financial statements, because they are reliable, standardized, and publicly available – especially for firms listed on the Indonesia Stock Exchange (IDX). Using this type of data ensures consistency across years and companies, making it ideal for statistical analysis like regression. It also saves time and resources compared to collecting primary data.

The research is explanatory in nature, aiming to explain how the chosen variables affect tax management. The variables are chosen based on theory and prior research. Profitability may affect how much a company tries to reduce taxes. Firm size can influence tax behavior because larger companies often receive more scrutiny. Leverage is included because companies can use debt to lower taxable income through interest deductions.

The population consists of all companies listed in the LQ45 index during 2021–2023. These are top-performing companies in terms of liquidity and market value and are considered to have strong financial transparency. Focusing on LQ45 companies helps ensure the data is reliable and the results are relevant to large public firms in Indonesia.

The sample was selected using purposive sampling, with the following criteria: (1) the company must be in the LQ45 index for all three years (2021–2023); (2) it must report in Indonesian Rupiah; (3) it must show positive net income in all years; and (4) it must have complete data for all variables. Firms that didn't meet these criteria were excluded. The final sample includes companies that best match the research objectives.

Data was collected from official sources such as the IDX website and company investor pages. The variables include ROA or Net Profit Margin (for profitability), total assets (for firm size), debt-to-asset ratio (for leverage), and ETR (for tax management). All data was cross-checked for accuracy.

The analysis was done using multiple linear regression with SPSS software. This method measures how each independent variable affects the dependent variable, both individually and together. The analysis steps included:

Descriptive statistics to summarize the data: (1) Classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation) to ensure the model is valid; (2) Model estimation using the ordinary least squares (OLS) method; and (3) Hypothesis testing using the F-test (to test the effect of all variables together) and t-test (to test each variable individually). (4) A significance level of 5% ($p < 0.05$) was used to determine whether the results were statistically meaningful.

The research model is presented as follows:

$$\text{ETR} = \beta_0 + \beta_1(\text{PROF}) + \beta_2(\text{SIZE}) + \beta_3(\text{LEV}) + \varepsilon \quad (1)$$

Where:

1. ETR = Effective Tax Rate (proxy for tax management)
2. PROF = Profitability (e.g., ROA or Net Profit Margin)
3. SIZE = Firm Size (e.g., natural log of total assets)
4. LEV = Leverage (total liabilities / total assets)
5. β_0 = Constant
6. $\beta_1, \beta_2, \beta_3$ = Regression coefficients
7. ε = Error term

Each variable in the regression model is measured based on standard financial ratios widely accepted in the literature. Profitability is expected to have a negative effect on tax management, as profitable firms are less likely to engage in aggressive tax practices to protect their reputation. Firm size is also hypothesized to have a negative impact, with larger firms expected to be more compliant due to regulatory scrutiny. Leverage, theoretically, may reduce tax burdens due to interest deductibility, but empirical findings are often mixed.

The methodological choices made in this study are aligned with the objectives and context of the research. The quantitative approach, purposive sampling, secondary data collection, and regression analysis are all appropriate for addressing the research questions and testing the proposed hypotheses. The use of established statistical software ensures that the analysis is performed rigorously and reproducibly. Moreover, the reliance on audited financial data enhances the credibility and reliability of the study, while the sampling criteria ensure that the firms selected are relevant and comparable. The steps taken in this research method are consistent with best practices in accounting and corporate finance research, supporting the integrity and robustness of the study's findings.

RESEARCH RESULT

This study focuses on companies listed on the LQ45 Index of the Indonesia Stock Exchange (IDX) during the period 2021 to 2023. These companies represent various sectors, including banking, energy, consumer goods, infrastructure, mining, manufacturing, and telecommunications. The selection of LQ45 companies was based on their characteristics – namely, high stock liquidity, large market capitalization, and relatively stable financial performance – which make them representative of large-scale corporations in Indonesia.

A purposive sampling technique was employed, using specific criteria such as continuous listing in the LQ45 Index throughout the observation period and the availability of complete, regularly published financial statements. Out of 59 companies listed in the index, 27 companies met these criteria and were selected as the research sample. This careful selection ensured that the analyzed companies were relevant and possessed the necessary data for empirical testing. These firms form the basis of the analysis, aimed at providing a comprehensive understanding of tax management practices among LQ45 companies in Indonesia.

Descriptive Statistics Test

Descriptive statistical analysis was conducted using SPSS version 25, based on data from 27 companies listed in the LQ45 index for the 2021–2023 period. The following table presents the minimum, maximum, mean, and standard deviation of each research variable:

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	75	0.0064	0.3099	0.0853	0.0780
SIZE	75	29.0125	35.3154	32.0029	1.6627
DER	75	0.1123	15.3080	2.3457	3.0044
ETR	75	0.0015	0.3246	0.1944	0.0706
Valid (listwise)	N 75				

Source: Data Analyzed with SPSS 25

Profitability is measured using Return on Assets (ROA), with an average of 0.0853 and a standard deviation of 0.0780. The lowest ROA (0.0064) was recorded by PT Bank Tabungan Negara Tbk in 2021 due to high operating costs and inefficient asset use. The highest ROA (0.3099) was achieved by PT Sido Muncul Tbk, showing excellent operational efficiency.

Firm size is measured by the natural logarithm of total assets, with an average of 32.0029. The smallest firm size (29.0125) was from PT Sido Muncul Tbk in 2023, while the largest (35.3154) was from PT Bank Mandiri Tbk in 2023, indicating its large operational scale.

Leverage is measured by the Debt-to-Equity Ratio (DER), with an average of 2.3457. The lowest DER (0.1123) was found in PT Mitra Keluarga Karyasehat Tbk, reflecting low debt use. The highest DER (15.308) was recorded by PT Bank Tabungan Negara Tbk, due to its reliance on third-party funds like customer deposits.

Tax management is measured by the Effective Tax Rate (ETR), with an average of 0.1944. The lowest ETR (0.0015) was seen in PT Bumi Serpong Damai Tbk, mostly due to income from final-taxed property sales. The highest ETR (0.3246) was recorded by PT Jasa Marga Tbk, whose income mainly comes from regular operations subject to corporate income tax.

Normality Test

This test aims to determine whether the data used in the regression model follow a normal distribution. To perform this test, the Kolmogorov-Smirnov method with Monte Carlo simulation was applied, and the results are presented in Table:

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test			
		Unstandardized Residual	
N		75	
Normal Parameters ^{a,b}	Mean	0.0168379	
	Std. Deviation	0.06808745	
Most Extreme Differences	Absolute	0.131	
	Positive	0.06	
	Negative	-0.131	
Test Statistic		0.131	
Asymp. Sig. (2-tailed)		.003 ^c	
Monte Carlo Sig. (2-tailed)	Sig.		.146 ^d
	99% Confidence Interval	Lower Bound	0.137
		Upper Bound	0.155
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Based on 10000 sampled tables with starting seed 299883525.			

Source: Data Analyzed with SPSS 25

Based on the initial Kolmogorov-Smirnov test, the residuals were found to deviate from a normal distribution, as indicated by the Asymp. Sig. value of 0.003, which is less than the 0.05 significance threshold. This result suggests that the assumption of normality was initially not met. To address this issue, an additional testing approach was conducted using the Monte Carlo simulation method. After applying this correction, the significance value increased from 0.003 to 0.155. Since the final Asymp. Sig. (2-tailed) = 0.155 > 0.05, it can be concluded that the residuals in this model follow a normal distribution. Therefore, the assumption of normality is satisfied, allowing for reliable regression analysis.

Multicollinearity Test

Multicollinearity testing is conducted to ensure that no high correlation exists among the independent variables in the regression model, as an ideal model should be free from linear relationships between explanatory variables (Arini, Hadiyatno, & Anam, 2023). One commonly used method for detecting multicollinearity is by analyzing the Variance Inflation Factor (VIF) and Tolerance values. According to Yoda (2024), multicollinearity is considered absent if the VIF value is less than 10 and the Tolerance value is greater than 0.1.

Table 3. Multicollinearity Test

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-0.345	0.228		-1.51	0.135		
	X1	0.296	0.126	0.327	2.344	0.022	0.639	1.564
	X2	0.016	0.007	0.376	2.255	0.027	0.447	2.238
	X3	0.001	0.003	0.054	0.377	0.707	0.607	1.648

Source: Data Analyzed with SPSS 25

The results of the multicollinearity test are as follows:

1. Profitability: VIF = 1.564, Tolerance = 0.639.
2. Firm Size: VIF = 2.238, Tolerance = 0.447.
3. Leverage: VIF = 1.648, Tolerance = 0.607.

All VIF values fall below the threshold of 10, and all Tolerance values are above 0.1. Therefore, it can be concluded that no multicollinearity is present in the model, and the independent variables are sufficiently independent from one another to support the validity of the regression analysis.

Heteroscedasticity Test

According to Devina & Pradipta (2021) and Marcella & Selfiyan (2023), the presence of a heteroscedasticity problem can be detected if the residuals form a certain pattern, such as a funnel shape or curve. In contrast, if the residuals appear to be randomly spread above and below the zero axis, it indicates that the model is free from heteroscedasticity. To test for heteroscedasticity, this study employed the Spearman rank correlation method, which examines the correlation between each independent variable and the absolute value of the residuals.

Table 4. Heteroscedasticity Test

Correlations						
			X1	X2	X3	Unstandardized Residual
Spearman's rho	X1	Correlation Coefficient	1	-.681**	-.645**	0.146
		Sig. (2-tailed)	.	0	0	0.21
		N	75	75	75	75
	X2	Correlation Coefficient	-.681**	1	.644**	0.062
		Sig. (2-tailed)	0	.	0	0.597
		N	75	75	75	75
	X3	Correlation Coefficient	-.645**	.644**	1	-0.219
		Sig. (2-tailed)	0	0	.	0.059
		N	75	75	75	75
	Unstandardized Residual	Correlation Coefficient	0.146	0.062	-0.219	1
		Sig. (2-tailed)	0.21	0.597	0.059	.
		N	75	75	75	75

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Data Analyzed with SPSS 25

The test results show the following significance values: profitability = 0.210, firm size = 0.597, and leverage = 0.059. According to Afifah & Mhd (2020) and Devina & Pradipta (2021), the decision criterion for this test is that if the Sig. value > 0.05, there is no significant correlation between the independent variables and the residuals, indicating the absence of heteroscedasticity.

Since all significance values exceed the 0.05 threshold (0.210 > 0.05; 0.597 > 0.05; 0.059 > 0.05), it can be concluded that no heteroscedasticity problem exists in the regression model. Thus, the assumption of homoscedasticity is satisfied, supporting the validity of the estimated regression coefficients.

Autocorrelation Test

To detect the presence of autocorrelation in the regression model, the Durbin-Watson (DW) statistic was applied. This test was conducted at a 5% significance level, with the decision rule based on the DW value falling within the acceptable range of -2 to +2. If the DW statistic lies within this interval, the model is considered free from autocorrelation (Yoda, 2024).

Table 5. Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.341 ^a	0.116	0.079	0.06771524	1.804
a. Predictors: (Constant), X3, X1, X2					
b. Dependent Variable: Y					

Source: Data Analyzed with SPSS 25

Based on the Durbin-Watson test results shown in the table, the model produced a DW value of 1.804, which falls within the specified threshold. Therefore, it can be concluded that the regression model does not exhibit autocorrelation, and the residuals are independent over time.

F Test

In simultaneous testing, if the F significance value is less than 0.05, it indicates that the independent variables jointly exert a significant influence on the dependent variable (Mulyana et al., 2024).

Table 6. F Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.043	3	0.014	3.117	.031 ^b
	Residual	0.326	71	0.005		
	Total	0.368	74			

Source: Data analyzed with SPSS 25

Based on the data in the table, the significance value is 0.031, which is less than the 0.05 threshold ($0.031 < 0.05$). Therefore, it can be concluded that the independent variables profitability (ROA), firm size (SIZE), and leverage (DER) collectively have a significant effect on the dependent variable, namely tax management practices.

The F-calculated value of 3.117 further indicates that the regression model developed in this study is valid and suitable for explaining the influence of the three predictors on corporate tax management. Thus, the overall regression model is statistically significant and can be used for further interpretation.

Multiple Linear Regression Analysis and T Test

Multiple linear regression analysis aims to evaluate the effect of independent variables on the dependent variable and to determine whether the relationships are positive or negative, as well as to predict the value of the dependent variable based on input from the independent variables (Yoda, 2024).

Table 7. Multiple Linear Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.345	0.228		-1.510	0.135
	X1	0.296	0.126	0.327	2.344	0.022
	X2	0.016	0.007	0.376	2.255	0.027
	X3	0.001	0.003	0.054	0.377	0.707

Source: Data Analyzed with SPSS 25

Based on Table 7, the regression equation can be formulated as follows:

$$Y = -0.345 + 0.296ROA + 0.016SIZE + 0.001DER + e \quad (2)$$

The significance value for profitability is 0.022, which is less than 0.05, so Hypothesis 1 is accepted. The coefficient ($B = 0.296$) is positive, but conceptually, higher profitability leads to less tax management, as profitable firms prefer to stay compliant to protect their reputation. This supports agency theory, where well-performing managers avoid risky tax practices. These results are consistent with Kantohe et al. (2023).

For firm size, the significance value is 0.027 (< 0.05), so Hypothesis 2 is accepted. The coefficient ($B = 0.016$) is positive, but in theory, larger firms tend to avoid aggressive tax strategies due to greater public and regulatory oversight. This means larger firms are less likely to engage in tax management, which aligns with Putri et al. (2022).

For leverage, the significance value is 0.707 (> 0.05), so Hypothesis 3 is rejected. The coefficient ($B = 0.001$) shows that leverage does not significantly affect tax management. This suggests that debt levels are not a major factor in determining tax strategies, confirming results by Kantohe et al. (2023) and Wijayanti & Muid (2020).

Effect of Profitability on Tax Management

Based on the analysis results, the first hypothesis regarding the effect of profitability on tax management is accepted, as indicated by a significance value of 0.022 (< 0.05). Although the regression coefficient is positive (0.296), the interpretation is reversed due to the use of ETR (Effective Tax Rate) as a proxy for tax management where a higher ETR reflects lower levels of tax avoidance. This means that as profitability increases, firms tend to engage less in aggressive tax management. The data suggests that profitable companies are more likely to comply with tax regulations to maintain their reputation, avoid potential legal risks, and preserve long-term shareholder value. This is in line with agency theory, which emphasizes that firms with greater resources are under pressure to act transparently and responsibly. These findings are also supported by Br. Gurusunga et al. (2024), who found that well-performing firms are more focused on implementing good governance practices, including tax compliance.

Effect of Firm Size on Tax Management

The second hypothesis concerning the effect of firm size on tax management is also accepted, with a significance value of 0.027 (< 0.05) and a positive regression coefficient of 0.016. Similar to the previous variable, since ETR is used, this positive coefficient implies a negative relationship – larger firms tend to have higher ETRs, which suggests lower tax management or avoidance. This can be explained by the fact that large firms are usually subject to more public and regulatory scrutiny, making them more cautious in managing taxes. Additionally, larger firms often have better internal control systems and more structured governance, which encourages tax compliance. These findings are consistent with Putri et al. (2022), who observed that large companies possess both the resources and the incentives to manage taxes efficiently while staying within legal boundaries. Again, this aligns with agency theory, where the public visibility of large firms places greater

pressure on management to reduce agency conflicts by maintaining ethical and compliant behavior.

Effect of Leverage on Tax Management

In contrast, the third hypothesis regarding the effect of leverage on tax management is rejected, as shown by a high significance value of 0.707 (> 0.05) and a regression coefficient close to zero (0.001). This indicates that leverage does not have a statistically significant effect on tax management within the observed sample. Theoretically, companies with higher leverage are expected to benefit from interest deductions, which reduce taxable income and thus the ETR. However, the data reveals that this mechanism may not be effectively used by the firms in this study. One possible explanation is the presence of strict tax regulations in Indonesia, such as thin capitalization rules or limits on interest deductibility, which could reduce the tax advantages of debt. Another reason might be that the firms use debt for operational or financial structuring purposes rather than for tax planning. This result supports findings from Amelia et al., who also concluded that leverage does not significantly influence tax management, suggesting that other internal or external factors may play a more dominant role in shaping a company's tax strategy.

CONCLUSIONS AND RECOMMENDATIONS

The findings of this study provide important insights into corporate tax management and policymaking:

1. Profitability has a significant positive relationship with tax compliance. This means that highly profitable companies are more likely to follow tax rules and avoid aggressive tax strategies. Such firms tend to prioritize reputation, investor confidence, and long-term legitimacy by maintaining compliance.
2. Firm size shows a significant negative relationship with tax management practices. Larger firms are generally more compliant, possibly due to greater public scrutiny, stronger internal controls, and higher reputational risks. This suggests that regulators can use firm size as an indicator when identifying firms for monitoring.
3. Leverage does not have a statistically significant impact on tax management. Although the relationship is positive, the result indicates that debt is not a consistent factor influencing tax planning in the observed firms. This may reflect a conservative approach or limitations in how debt interacts with tax rules.

ADVANCED RESEARCH

This study only included companies listed in the LQ45 index at the end of each year from 2021 to 2023. This may introduce sample bias by excluding companies that entered or exited the index during the year.

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