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Tax Avoidance Audit Commite Firm Size: Profitability as Mediation

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

Aims: This study investigates tax avoidance strategies in Indonesia's property and real estate industry, considering firm size, profitability, and audit committee as variables.
Study Design: A quantitative study is used to collect data that can be measured in numbers and analysed statistically.
Place and Duration of Study: Engaging 15 businesses in the property and real estate industry that has maintained a presence on the Indonesia Stock Exchange for a decade.
Methodology: In the study, an empirical analysis was conducted using data contained in the company's financial statements to test tax avoidance in Indonesia. This study used a sample of 150 selected through a purposive sampling approach. The sample was then analysed by testing the direct effects and indirect effects using Path Analysis. In this study, the analysis technique used was SPSS 24 software.
Results: The results show a strong relationship between tax evasion, firm size, profitability, and the audit committee. Furthermore, it has been demonstrated that the audit committee, firm size, and tax avoidance can all be mediated by profitability. It is important to remember that when profitability is strong, there is a greater chance of tax avoidance.

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Conclusion: Further research is expected to expand the coverage by using more companies from different sectors, as well as adding additional variables as part of the analysis. This is important because the research focuses only on one sector and uses a limited number of samples. For investors, assessing the profitability of companies and compliance with tax regulations becomes crucial to identifying potential investment risks.

Keywords: Audit commite; tax avoidance; money need; real estate; tax fraud; encompasses.

1. INTRODUCTION

The majority of the money needed by the state to maintain fiscal stability, encourage economic growth, and pay for public services comes from taxes. As per Indonesian law number 28 of 2007, taxation is an obligatory governmental contribution owed by persons or businesses that are legally obligated, without any form of compensation, and utilised for state objectives aimed at maximising the well-being of the populace. Using legal loopholes in a nation's tax laws, tax avoidance is a transaction strategy that can reduce tax liabilities [1]. A massive increase in tax collection could have a positive impact on Indonesian economic growth [2]. Therefore, all Indonesian citizens are bound to pay their tax obligations. Ignoring tax payments or evading tax obligations can have serious consequences, including the risk of large fines and legal problems. In companies, management is always driven by shareholders to increase the company's value and net wealth after taxes. This is what underlies tax avoidance [3].

The property and real estate sector is one that carries out a lot of tax avoidance activities. In the real estate and property sectors, there are numerous instances of tax avoidance. One such example involves Property Company PT Agung Podomoro Land Tbk, which is implicated in a tax avoidance case involving the leak of 11.5 million documents or the Panama Papers [3]. Alongside 4.8 million emails, this document encompasses 32,000 text pages, 2.1 million PDF documents, 1.1 million photos, and approximately 2,000 miscellaneous files. Furthermore, in order to avoid paying taxes in Indonesia, PT Ciputra Development engaged in tax fraud by hiding assets valued at USD 1.6 billion, or IDR 21.6 trillion [4]. The same case also involves Lippo Karawaci, Tbk, who carried out tax avoidance in the Panama Papers incident. Based on these cases, we can conclude that the incidence of tax avoidance is quite high. This results in tax losses that affect the state's reduced tax revenues. Taking into account previous research phenomena and findings, research on tax avoidance remains a focus that needs to be updated continuously in order to identify potential gaps in tax avoidance practices. Therefore, the researchers are interested in re-exploring the relationship between profitability, the role of the audit committee, the size of the company, and tax avoidance practices in the context of property and real estate companies on the Indonesian Stock Exchange.

Audit committees are among the elements that encourage or lead businesses to engage in tax avoidance. The audit committee has a vital role in maintaining integrity and transparency in the company's financial statements, and they help ensure that the company follows practices in accordance with applicable standards the audit committee in charge of overseeing financial statements influences in determining tax management, especially tax avoidance [5]. Prior studies examining the impact of the audit committee on tax avoidance were carried out by Dewi et al. [5]; Tiala et al. [6]; Ritonga et al. [7] Concluded that the audit committee influences tax avoidance. However, Sherly shows different results [8]; and Eksandy [9] It is concluded that the audit committee does not affect tax avoidance. When evaluating the company's assets, its size is a helpful indicator [10]. Accurately calculated at the conclusion of each year, the assets in question represent the total assets for a particular year. In order to assess the progress of a business, one can examine its total assets. Indicative of a company's promising long-term prospects is its total assets to a greater extent [11]. The scale of the business impacts the potential tax savings achievable through tax avoidance strategies [12].

The effect of firm scale on tax avoidance has been the subject of some prior research by Chouaibi et al. [13]; Sulaiman [14]; Roslita et al. [3]; determined that the size of a corporation affects tax avoidance. Prabowo showed different results. [15]; and Tanjaya et al. [16] It is concluded that firm size does not affect tax avoidance. According to the findings of prior research concerning the impact of firm size and the composition of the audit committee on tax avoidance, there are still differences in results. So there is a gap to conduct a re-study by testing the profitability variable as a mediator.

Profitability is an indicator used to evaluate the performance of a company. The organisation's profitability metric signifies its capacity to produce monetary gains within a specified timeframe through the effective utilisation of its share capital, assets, and sales volume [1]. One of the ratios used to measure profitability is ROA (Return On Asset). Suppose a company's profitability increases from the previous time. In that case, it is likely that the company also generates greater net profits, which means that the business entity must pay higher taxes [17]. The findings of studies carried out by Tamirsyah et al. [18]; Amidu et al. [19] and Sulaiman [20] It has been determined that profitability does not impact tax avoidance. While the results of Sudibyo's research [21] and Sherly [8] It is concluded that profitability has a significant positive effect on tax avoidance.

The audit committee plays an integral part in the company's increased profitability. The audit committee, working closely with the board of commissioners, has the critical role of overseeing the company's operations to improve the effectiveness of implementing good corporate governance [22]. Rini et al. [23] also revealed that the more audit committees there are, the more influential the audit committee's supervision can be in improving company performance and having an impact on profitability. The findings of studies carried out by Mulyadi [24] and Wanodyatama et al. [25] sum up that the audit committee affects profitability. However, different results were carried out by Ramadhani et al. [26], Ramadhani et al. (2021), and Katutari et al. [27] determined that the profitability of the audit committee is unaffected.

Increased profitability occurs due to firm size. Larger companies have a variety of facilities, greater production capacity, and better and more systemised management strategies. Large companies have easier access to funding sources for business development, which attracts trust from investors and lenders [28]. Effective asset management and robust strategies are needed to optimise opportunities and increase company profits. Small companies need help with resource access, marketing-innovation integration, and funding [29]. Because of this, small firms have to face significant risks that can threaten their business survival [28]. The findings of studies undertaken by Pradnyaswari et al. [30]; Vidyasari et al. [31] Concluded that firm size affects profitability. But in contrast to Sutan's research [32], Muliana et al. [33] Which concluded that firm size does not affect profitability.

Based on related phenomena and several previous research results, tax avoidance research is still a topic that must continue to be refined, so researchers are interested in re-examining profitability as a mediator of the influence of the audit committee and company size on tax avoidance in property and real estate companies on the Indonesia Stock Exchange.

2. LITERATURE REVIEW AND RESEARCH HYPOTESES

2.1 Theoritical Review

2.1.1 Compliance theory

Studies related to obedience theory were first proposed by Milgram [34] In Wijayanti et al. [35]. This theory examines the factors that influence an individual's decision to comply with a request, even though the individual does not agree or the rule is not profitable for the company. The use of compliance theory as a grand theory in this study is considered because of the existence of binding tax regulations for each taxpayer. Given the high likelihood of taxpayers engaging in tax avoidance, it is essential to strengthen the use of compliance theory in tax avoidance research to assess the extent of taxpayer compliance with tax regulations.

2.1.2 Profitability

A company's profitability is determined by its ability to generate profits within a specific period based on its sales, assets, and share capital [1]. If profitability increases, the company is likely to make greater profits and pay higher taxes [17]. With high profitability, firms will plan taxes carefully to achieve the ideal tax rate, reducing the tendency to evade taxes [36].

2.1.3 Audit commite

As per the guidelines established by the Indonesian Audit Committee Association, the audit committee has a vital role in assisting the Board of Commissioners in evaluating the internal control system, ensuring the accuracy of financial statements, and assessing the effectiveness of internal audits. To reduce tax avoidance, the audit committee can monitor the enterprise's operations with its authority, ensuring there are no irregularities, especially in the financial statements [37]. An effective method to evaluate the influence of the audit committee on tax avoidance is to analyze how often the company's financial statements refer to the audit committee [38].

2.1.4 Firm size

Firm size is used as an indicator to evaluate the risk between large and small companies, as well as a parameter to assess the company's assets [10]. The larger the total assets of the enterprise, the more it indicates that the enterprise has positive potential over a more extended period [11]. The greater the scale of the business, the greater the likelihood of tax avoidance to obtain the best possible tax savings [12]. Companies can manage all their assets with the aim of reducing tax liabilities, which can be done through the use of amortisation and depreciation arising from investments in physical and fixed assets [12].

2.1.5 Tax avoidance

The company believes that paying taxes is an obligation that must be obeyed in accordance with existing regulations. Therefore, the company designs effective and efficient strategies for managing tax affairs and applies avoidance methods that are in accordance with the law [39]. Tax avoidance is a proactive approach firms employ to minimise their tax liability [5]. Since data access is more straightforward and rarely changes, the effective tax rate (ETR) is typically a tool employed for quantifying tax avoidance. The tax expense is divided by the profit before taxes to get the ETR. The more the ETR ratio is more significant, the company's level of tax avoidance activities decreases [36].

2.2 Research Hypoteses

2.2.1 The effect of audit commite on tax avoidance

Companies that prioritise strong corporate governance typically experience a reduced likelihood of engaging in tax avoidance practices, thanks to the diligent oversight and control measures in place [40]. The audit committee must ensure that companies comply with applicable tax regulations and do not engage in illegal tax avoidance practices [41]. Considering the topic at hand, studies carried out by Rospitasari et al. [42]; and Oktaviani [42] Revealed that the audit committee affects tax avoidance. The reasoning above leads to the formation of the first hypothesis that the study will examine, which is as follows:

H1: Audit Committee Affects Tax Avoidance

2.2.2 The effect of firm size on tax avoidance

With the growth of firm size, public demands also increase; it is necessary to evaluate whether firm size encourages an increase in tax compliance in accordance with the principles of compliance theory [43]. The likelihood of tax avoidance increases with the size of the business [44]. Previous research conducted by Chouaibi [13]; Sulaeman [14] And Roslita et al. [3] Which points out how a company's size influences tax avoidance. The reasoning above leads to the formation of the second hypothesis that the study will examine, which is as follows:

H2: Firm Size Affects Tax Avoidance

2.2.3 The effect of audit commite on profitability

Higher profits are a sign of a stable financial situation for the company. The more audit committees, the more effective their oversight, which can improve company performance and affect profitability [23]. Wanodyatama conducted prior studies. [25]; Aryan [45] And Merawati et al. [46] It has been found that the audit committee has a significant impact on profitability. The reasoning above leads to the formation of the third hypothesis that the study will examine, which is as follows:

H3: Audit Committee Affects Profitability

2.2.4 The effect of firm size on profitability

The ability of a business to secure more outside funding to support its operations is impacted by its size [47]. Larger firms have more resources to increase their value, thanks to better access to external funding compared to smaller firms [48]. Therefore, firm size is likely to increase profitability—previous research conducted by Pradnyaswari et al. [30]; Vidyasari et al. [31] And Kartika et al. [49] Concluded that firm size affects profitability. The reasoning above leads to the formation of the fourth hypothesis that the study will examine, which is as follows:

H4: Firm Size Affects Profitability.

2.2.5 The effect of profitability on tax avoidance

With impressive profitability, enterprises will plan taxes carefully to achieve the optimal tax rate, thereby reducing the tendency to engage in tax avoidance [36]. Previous research conducted by Sudibyo [21]; and Sherly [8] Concluded that profitability affects tax avoidance. The reasoning above leads to the formation of the fifth hypothesis that the study will examine, which is as follows:

H5: Profitability Affects Tax Avoidance

2.2.6 Profitability mediates the effect of audit commite on tax avoidance

Companies that have audit committees are responsible for closely monitoring reporting policy issues, which could discourage the company from engaging in tax avoidance. This is in accordance with research conducted by Hapsari et al. [50]. The reasoning above leads to the formation of the sixth hypothesis that the study will examine, which is as follows:

H6: Profitability Able to Mediate the Relationship Between Audit Committee and Tax Avoidance

2.2.7 Profitability mediates the effect of Firm size on tax avoidance

The scale of a firm can certainly influence its profitability, although it's not a foolproof guarantee of success [51]. When the company achieves optimal profit from its operations, it can encourage the company to conduct tax avoidance in line with the increase in profitability obtained.

H7: Profitability Able to Mediate the Relationship Between Firm Size and Tax Avoidance

The research conceptual framework taken is as follows, based on the description above presented in Figure 2 :

3. METHODS

3.1 Data Source

Secondary information from the official website of the Indonesia Stock Exchange of the company sampled in this study were the data sources used in this analysis. Purposive sampling was the approach used to carry out the sampling process in this study, where there were criteria that were used as samples. The object of this study uses 15 samples of property and real estate companies listed on the Indonesia Stock Exchange in the 2013-2023 time span and using the following criteria: (1) Property and *real estate companies* listed on the Indonesia Stock Exchange (IDX) in 2013-2022; (2) Property and *real estate* companies that have complete financial reports; (3) Property and *real estate* companies that have financial reports that have experienced profits during 2013-2022. The observation period is ten years, resulting in a total of 150 observation data.

3.2 Data Analysis Technique

The data analysis method makes use of path analysis to examine how audit committees, business sizes, and profitability affect tax avoidance and indirect effects using profitability as a mediating variable. Path analysis can be used to assess the impact, both direct and indirect. The form of the path equation in this study is as follows:

$$Y1 = \alpha + \beta 1\ X1 + \beta 2\ X2 + e$$
$$Y2 = \alpha + \beta 3\ X1 + \beta 4\ X2 + \beta 5\ Y1 + e$$

Description:

X_1: Audit Committee
X_2: Firm Size
Y_1: Profitability
Y_2: Tax Avoidance
β: Path coefficient between effect and cause variables
e: Residual variables

Meanwhile, the mediation test uses the Sobel test to find out whether a variable is able to act as a mediating variable; testing will be carried out. The Sobel test measures how much the independent variable (X) indirectly affects the dependent variable (Y) through the mediating variable (M). Mediation testing with the *Sobel* method can be described as follows in Fig. 3.

3.3 Operational Definitions and Research Variables

The operational definitions or indicators of the variables of profitability, audit committee, firm size and tax avoidance can be explained in Table 1.

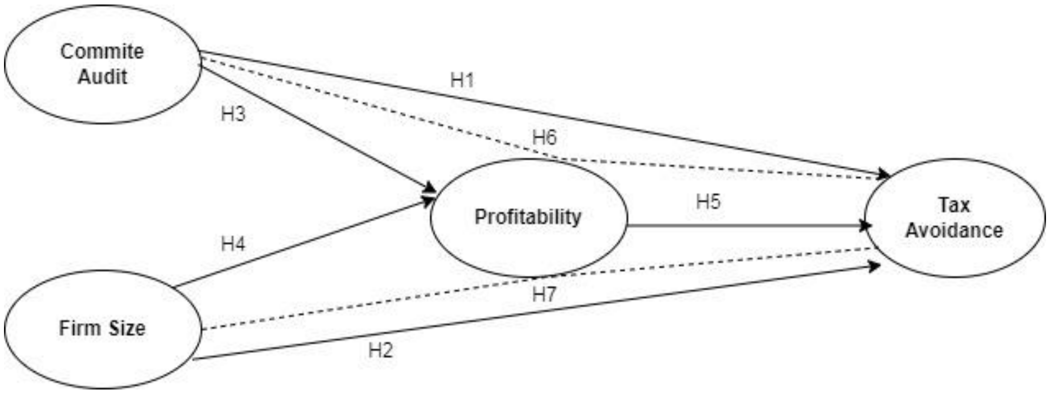

Fig. 1. Research conceptual framework

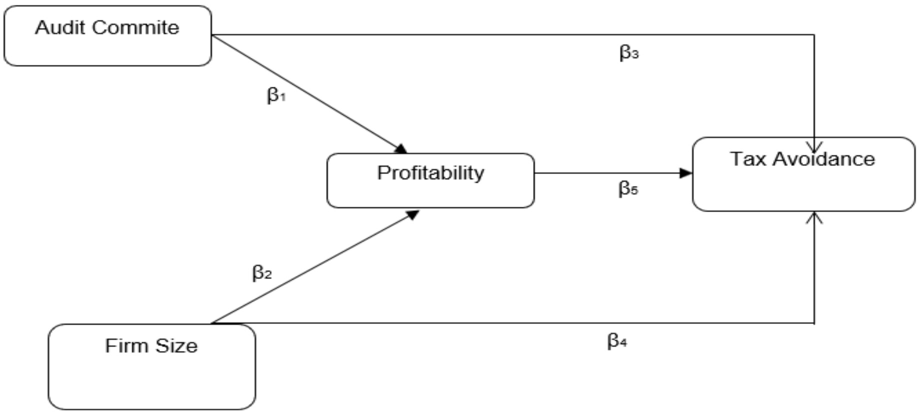

Fig. 2. Path analysis

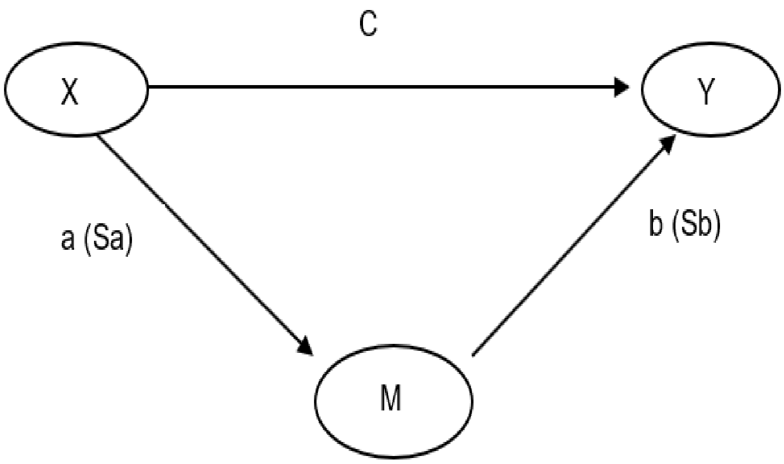

Fig. 3. Mediation model

3.3.1 Profitability

The Return on Asset (ROA) ratio is one of the metrics used to assess profitability. ROA is calculated by comparing profit after taxes and functions as an indicator to assess the degree to which the company's assets yield a rate of return [38].

3.3.2 Audit commite

The process of determining the count of audit committees that are disclosed in the annotations to the financial statements of the organization [22].

3.3.3 Firm size

A statistic used to assess the worth of the firm's assets is its company scale [10]. The assets calculated are total assets for one year, precisely calculated at the end of the year [52].

3.3.4 Tax avoidance

Tax avoidance is done by applying legal efforts, one of which is through ETR (*effective tax rate*) based on applicable financial accounting reporting [53].

4. RESULTS AND DISCUSSION

4.1 Results

Hypothesis testing is carried out by solving the structure of the *Path Analysis* results to test the direct influence between variables described in Table 2.

Based on Table 2 shows that the direct effect of the audit committee variable, firm size, on profitability, has a significance value smaller than 0.05. The audit committee and the size of the company are found to have an impact on profitability, which is followed by a rise in profitability that is valued at 23.5% and 16.3%, respectively.

The statistical significance of the direct impact of the audit committee variable on tax avoidance is less than 0.05. It is concluded that the audit committee has a negative effect on tax avoidance, followed by a decrease in tax avoidance of -18.3%. Meanwhile, the firm size and profitability variables have a significance value smaller than 0.05. It can be concluded that firm size and profitability affect tax avoidance, and an increase will follow in tax avoidance, which is worth 18.8 and 25.6%, respectively.

Table 1. Variables an Indicators

Variable	Variable Type	Indicators	Source
Profitability	Interverning	Net Profit After Tax / Total Assets	Asprilla et.al [38]
Audit Commitee	Independent	Figuring out how many audit commitees the corporation mentioned in the financial statements and the notes to those financial statements	Agustin et.al [22]
Firm Size	Independent	Ln (Total Assets)	Wulandari et.al [52]
Tax Avoidance	Dependent	Tax Expense / Profit Before Tax	Permata et.al [53]

Table 2 Direct Influence Between Variables

Influence between Variables	Path Coefficient	T - Statistics	Sig.	Ket
Audit *Committee* → Profitability	0.235	2.964	0.004	Sig
Firm Size → Profitability	0.163	2.052	0.042	Sig
Audit Committee → *Tax Avoidance*	-0.183	-2.302	0.023	Sig
Firm Size → *Tax Avoidance*	0.188	2.358	0.020	Sig
Profitability → *Tax Avoidance*	0.256	3.224	0.002	Sig

Source: Secondary Data Processed, 2023

Table 3. Indirect Influence between Variables

Influence between Variables					T - Statistics	Sig.	Description
Audit Committee	->	Profitability	->	*tax avoidance*	2,182	0,029	Significant
Company size	->	Profitability	->	*tax avoidance*	2.048	0,040	Significant

Source: Primary Data Processed, 2023

The indirect relationship is tested with the Sobel test approach and is explained in Table 3.

Table 3 above explains the statistical t value of 2.182, which is produced by the audit committee's indirect effect on tax avoidance through profitability with a *significance of* 0.029, so profitability is able to mediate the impact of the audit committee on *tax avoidance*. The indirect effect of firm size on *tax avoidance* through profitability produces a statistical t-value of 2.048 with a *significance of* 0.040, which means that profitability is able to mediate the effect of firm size on *tax avoidance*.

5. DISCUSSION

The first hypothesis, which affirms the existence of a link between the audit committees and tax avoidance, is accepted. The audit committee has an important role to play in determining whether the company has performed its obligations in accordance with the standards. It is expected that having an influential audit committee will reduce such practices. According to the compliance theory, the audit committee is expected to be able to minimise the rate of tax avoidance. The results of this study are consistent with those of Dewi et al. [5], Tiala et al. [6], and Ritonga et al. [54], which suggest that audit commitments have an influence on tax avoidance. The second hypothesis, about the influence of corporate size on tax avoidance, is acceptable. The company's size can determine how much access and implementation of taxation strategies will be granted. With a larger scale of operations, companies can also exploit gaps in tax regulations to legally minimize their tax burden. This is in line with a study conducted by Chouaibi et al. [13], Sulaiman [14], and Roslita et al. [3], which concluded that the size of a company influences tax avoidance.

The third and fourth hypotheses about the influence of the audit committee and company size on profitability are acceptable. Audit committees have an important role to play in increasing the profitability of companies by ensuring transparency, accuracy, and compliance with applicable accounting and regulatory standards. This is in line with research by Sudibyo [21] and Sherly [8], which revealed that increasingly effective oversight of audit committees can improve company performance and have a positive impact on profitability. The size of a company affects its profitability because large companies have the best access to resources and technology, increasing efficiency and productivity, which helps management get better raw material prices, or increasing product sales prices, which contributes to overall profitability. Pradnyaswari [30]; Vidyasari et.al [31] that reveals that the company's size has an impact on profitability. The fifth hypothesis, which affirms the relationship between profitability and tax evasion, is acceptable. The profitability of a company's profitability rate can be an important factor influencing the decision of the company to use tax avoidance practices to maximise company profits. This is in line with research by Tamirsyah et al. [18], Amidu et al. [19], and Sulaiman [14], which suggests that profitability influences tax avoidance.

The sixth and seventh hypotheses in the mediation test with the stated profitability variable are accepted. The audit committee's influence on tax avoidance is mediated by profitability. It is explained that the auditing committee plays a key role in ensuring transparency, accuracy, and compliance with accounting standards, which increases investor confidence in the company. High confidence piques investors' interest in purchasing corporate shares, resulting in high profitability. Minimising corporate tax avoidance also contributes to achieving high profitability. This study builds on Rini et.al [23] previous research and Wanodyatama [25]; Aryan [45], who concluded that the audit committee had an impact on profitability, and the findings of this study were consistent with Sudibyo's findings [21]; and Sherly [8], who concluded that profitability had a significant positive impact on tax avoidance.

The seventh hypothesis, the profitability of mediating corporate size's influence on tax evasion, is stated to be acceptable. The company's size influences access to resources and technology, improving efficiency and productivity. It helps management obtain better raw material prices or increase product sales prices, which in turn increases profitability. Increased profitability also encourages businesses to comply more closely with tax regulations, reducing tax avoidance practices in order to preserve the company's reputation. This study developed research by Pradnyaswari et al. [30] and Vidyasari[31], which concluded that the size of a company influences profitability. The findings of this study are linked to a study conducted by Sudibyo [21] and Sherly [8], which concluded that profitability had a significant positive impact on tax avoidance.

6. CONCLUSION

Tax avoidance is an important strategy in an effort to achieve maximum profits. This practice is influenced by the audit committee, company size, and profitability. Based on the research that has been discussed, all hypotheses can be accepted, while one variable shows a negative influence. In this context, profitability acts as a mediator between the audit committee, company size, and tax avoidance practices. It is hoped that this research will have great benefits, especially for investors who need to consider profitability and company compliance with tax regulations to reduce investment risk. In addition, it is hoped that the public can broaden their understanding of taxation through this research and other sources so that tax avoidance practices can be minimized. The phenomenon of tax avoidance remains relevant, so future research is expected to expand the analysis by adding other variables and considering different industrial sectors.

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COMPETING INTERESTS

Authors have declared that no competing interests exist.

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