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Abstract. *Paying taxes is a citizen's responsibility. According to Tax Law Number 28 article 1, 2007 (KUP), tax is a payment obligation carried out by individuals or legal entities to the state without compensation, and is used to meet tax needs managed by the state. But on the other hand, companies are organized to obtain maximum profits. Differences in the interests of taxpayers and the government can lead to tax avoidance. Several cases also occurred in Indonesia. This research was designed based on the results of a literature review. The aim is to find and assess three components that have the potential to influence tax avoidance. The methodology encompasses a systematic literature review of six articles from Sinta or Garuda indexed journals, all addressing the same topic and published within the past two years. The study's findings suggest that financial leverage, profitability, and the size of a company influence tax avoidance. The aim of this literature review is to deepen understanding and broaden viewpoints regarding the elements that can impact tax avoidance.*

Keywords*: Profitability, Leverage, Company Size, and Tax Avoidance*

INTRODUCTION

In Indonesia, the rights and obligations of citizens are determined by the constitution and statutory regulations. One of the responsibilities of a citizen is to pay taxes. Article 1 of Tax Law 28, 2007, General Provisions and Tax Procedures (KUP) states that tax is a payment obligation carried out by individuals or legal entities to the state without imbalance or used directly for state needs and public welfare. According to this law, taxes are also coercive measures. On the other hand, a company is founded with the aim of seeking as much profit as possible. Likewise with individuals who may have a business or job, they are also looking for as much income as possible for the comfort of their life. This explanation shows the differences between individual and corporate taxpayers as well as government interests which can lead to tax avoidance.

Quoted from Proconsult (2023) There are several examples of tax avoidance cases that occurred in Indonesia, including: The first tax fraud case in Asia Agri Group (AAG). Example of the first tax fraud case of Aasia Agri Group or AAG. At least 14 AAG member companies also participated in this activity. The Supreme Court finally made a decision based on the tax fraud case filed under number 2239 K/PID.SUS/2012. In this case, AAG was proven guilty of

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tax evasion as evidenced by the supply of defective and incomplete seamless pipes. In this case, AAG suffered a loss of Rp. 1.25 trillion for the country. So in this case AAG was sentenced to prison with a fine of Rp. 2.5 trillion.

Next is the case of PT Adaro Energy Tbk, this tax avoidance case occurred in 2019. This tax avoidance case occurred through the transfer pricing process. In this case, Indonesian transfer pricing refers to the transfer of large profits to foreign companies that are exempt from tax. You can also transfer these benefits to low-tax countries. Tax evasion by PT Adaro Energy Tbk occurred between 2009 and 2017. Thanks to this initiative, the company paid taxes of 125 million dollars or 1.75 trillion. Based on the case above, it is clear that the company uses the transfer pricing method. Therefore, based on these actions, PT Adaro Energy Tbk was declared guilty.

Apart from that, there is also the case of PT Bentoel Internasional Investama. We need to know first that PT Bentoel Internasional Investama is a company that operates in the cigarette industry and is the second largest in Indonesia after HM Sampoerna. A 2019 report by the Tac Justice Network Institute found evidence of tax evasion by British American Tobacco (BAT). In this case, BAT avoids using PT Bentoel to take out large loans. This activity was carried out between 2013 and 2015 through the Dutch subsidiary Rothmaris Far East BV. Loan funds are used to finance bank loans and pay for equipment and machinery. At the same time, interest is paid thereby reducing tax revenues in Indonesia. Taxes for this activity are much lower in Indonesia. Thus, the country suffered a loss of 14 dollars per year during that period.

And finally there is the PT RNI case. The following example of a tax evasion case occurred in 2016. This company operates in the health sector in Singapore. Here it is proven that PT RNI is evading taxes by relying on subsidiary debt. In this process, Singaporean entrepreneurs do not have an investment position, but rather a loan. So in the financial report, the debt is Rp. 20.4 billion, while the turnover is Rp. 2.178 billion. The actions taken have resulted in significant financial losses, with total losses reaching IDR 26.12 billion. Another module created by PT RNI uses government regulation no. 46/2013 for SMEs with a special PPh rate of 1 percent. Further tax evasion also occurred with two Indonesian partners who did not properly declare their seamless pipes between 2007 and 2015. At the same time, two Singaporean shareholders did not pay Tax even though they were already operating in Indonesia.

According to Mappadang, (2021:15) Tax avoidance is generally defined as a tax planning system that exploits loopholes in state tax regulations to reduce the tax burden. This legal loophole is often exploited by taxpayers due to deficiencies or clarity in existing regulations. This condition may occur due to regulations that have not been updated, the complexity of transactions that are difficult to regulate with existing provisions, or different interpretations of tax regulations. Thus, tax avoidance often involves strategies that are legal but are considered inconsistent with the spirit of the tax law.

The decision to avoid tax can impact several factors, including leverage, profitability and company size. These factors act as independent variables in the research, while tax avoidance itself acts as the dependent variable. This means that this research focuses on how the company's profit level, the use of debt in its financial structure, and the scale or size of the company can influence their decision to avoid tax. Profitability shows the extent to which a company generates profits, leverage describes the proportion of debt used, and company size is usually measured in terms of total assets or revenue. All these factors together can provide an overview of companies' behavior in their efforts to minimize tax liabilities through tax avoidance strategies.

The results of a previous study conducted (Trisnaningsih & Mariyama, 2021) confirmed that variables such as profitability, financial leverage, and business size do not have a major impact on tax avoidance. However, different results were presented by research conducted by (Faradilla & Bhilawa, 2022) where the variables profitability, financial leverage and company size showed statistical significance with a value of less than 0.05, indicating their contribution to tax avoidance practices when analyzed. partially. The differences in results between these two studies prompted the author to compile a literature review entitled "Analysis of Profitability, Leverage and Company Size on Corporate Tax Avoidance," which aims to explore the relationship between these factors and the phenomenon of tax avoidance in the corporate context in more detail.

LITERATURE REVIEW

Agency Theory

According to Marantika (2012:1) agency theory assumes that there is a cooperative relationship between the two parties, namely the party who provides power (principal) is the investor. This theory also assumes that each person acts in their own interests. Meanwhile,

according to (Jensen & Meckling, 1976) agency theory states that agency correlation is like a contract, where one or a number of groups (task contributors or principals) employ other groups (agents) to implement several policies and mandate the authority to make decisions for these followers. The principal provides facilities and funds for the company's practices, the agent is obliged to run the company with the target of intensifying the prosperity of the company owner.

Tax Avoidence

According to Mappadang (2021:15) the concept of tax avoidance is often explained as a tax payment planning strategy which aims to minimize the tax burden by exploiting weaknesses in a country's tax regulations. On the other hand, the view of (Halim et al., 2014) defines tax avoidance as a legitimate tax planning effort, where tax liabilities are minimized while strictly complying with the provisions of the law and applicable tax regulations. These two approaches highlight different aspects of tax avoidance practices, with one focusing on the exploitation of legal loopholes and the other emphasizing compliance with existing regulations. These differences in interpretation demonstrate the complexity and controversy inherent in the topic of tax avoidance, which calls for a more comprehensive approach to understanding it.

Quoted from (Proconsult, 2023) According to tax expert James Kessler, there are two types of tax avoidance. This case relates to a tax lawyer in England who discusses the division of tax avoidance, namely:

1. Unacceptable tax evasion

   The first is unacceptable tax avoidance where the taxpayer attempts to avoid tax. This is wrong. In this case, the mechanism is not valid in the eyes of the law. Therefore it is included in tax evasion.

   This type of tax evasion is illegal because it is dangerous. Apart from that, evidence of irregularities such as fraudulent transactions to avoid tax obligations has emerged. Therefore, the process of minimizing tax obligations is carried out incorrectly.

2. Acceptable tax avoidance

   The second is acceptable tax avoidance, i.e. to avoid taxes according to tax regulations. So this operation will be carried out legally later. The implementation of acceptable tax evasion must of course be carried out in accordance with the rules provided by law.

Acceptable tax avoidance practices are acceptable because they are well-intentioned. So in the future, even if there is a tax reduction, fraud or violations of tax regulations will not be detected.

Tax avoidance is viewed from ethical theory according to Mappadang (2021: 36)namely as follows:

a) According to the theory of egoism

Humans in general tend to prioritize their personal interests (self-interest). In the context of egoism theory, company behavior in tax avoidance is often categorized as acting in accordance with their personal interests. This suggests that companies tend to prioritize efforts to minimize their tax liabilities for their own profits and interests, without considering the broader impact on society or the tax system as a whole.

b) Based on the ethical theory of guilt (deontology)

It is true that the issue of tax avoidance is tied to theory. Duties Paying taxes is the company's obligation. For the state, tax avoidance means that the business world does not avoid taxes. Fulfillment of obligations according to the amount of tax is less than appropriate.

c) According to altruistic ethical theory

Businesses need to pay off tax obligations in order to contribute to the state in an effort to improve community welfare. Company profits are in the general interest of the nation, with broader interests. More and more people are using domestic resources rather than staying at the company.

d) According to the theory of utilitarianism

The government has the right to pressure the business world to pay taxes. Because the money collected helps the welfare of the community. Moreover, regarding tax avoidance, tax resources must be received and utilized by the state. We cannot achieve maximum prosperity for our people.

e) According to the theory of first action

Tax evasion is a dishonest violation of the law. Practicing faith rather than rational action is what is important for taxpayers and tax officials. In this view, the existence of such a contradiction could be considered a violation of moral standards.

f) According to theonomist ethical theory

Tax evasion is a religious offense and is a serious act. Religious honesty is recommended in business activities.

Profitability

According to Seto et al., (2023:50) the profitability ratio is an important metric that states a company's capability to achieve profits. The results of this ratio show how well company management generates profits from its activities. The information generated from profitability ratios is also very valuable for investors in the investment decision making process. By understanding how well a company is able to generate profits, investors can evaluate the potential investment returns and risks associated with the company. Therefore, profitability ratios not only provide information about a company's financial performance, but are also a very useful tool in investment analysis.

In general, according to (Seto et al., 2023) there are four basic categories that are used to assess the level of profitability of a company, which are detailed as follows:

A. Gross profit margin (GPM)

Gross Profit Margin (GPM) or commonly called Profit Margin. The valuation method uses the gross cost of sales method. This key figure represents gross sales profit which is the result of the company's total sales. GPM can be calculated using the following calculations:

$$\text{GPM} = \frac{\text{Gross profit}}{\text{Net sales}}$$

B. Net Profit Margin (NPM)

Net Profit Margin (NPM), often known as Net Profit Margin, is an indicator that assesses the proportion of net profit obtained from our business operations. This net margin reflects the efficiency of a business in generating profits after considering interest expenses and taxes related to sales. The formula for calculating NPM is follows:

$$\text{NPM} = \frac{\text{Net profit}}{\text{Net sales}}$$

C. Return on Assets (ROA)

Return on Assets (ROA) is a key metric used to assess the efficiency of using all company assets to realize net profit. ROA provides an overview of the extent to which company is able

$$\text{ROA} = \frac{\text{Net profit}}{\text{Total Assets}}$$

to utilize its assets to achieve profits. The ROA value can be determined using the following formula:

In this formula, net profit reflects profits after considering all expenses and costs, while total assets describe the total value of all assets owned by the business in a certain time period. By understanding ROA, investors and management can assess the level of efficiency in using company assets in generating profits, as well as compare the company's performance with competitors operating in a similar industry.

D. Return on equity (ROE)

One very important indicator to assess how a company utilizes its equity to achieve net profit is return on equity (ROE). ROE is a benchmark that assesses how efficient a company is when creating profits for investors from the equity they own. ROE indicates the company's level of success in maximizing the use of shareholder capital to create net profit. In short, ROE describes how well a company can convert equity investments into profits, providing insight into management's effectiveness in using existing capital to generate value for shareholders. To find out the ROE value, the formula used is:

$$ROE = \frac{\text{Net profit}}{\text{Capital stock}}$$

In this formula, net profit refers to profit after considering all costs and expenses, while equity reflects the total funds owned by the company's investors. ROE conveys an indication of how efficiently a company uses the capital provided by its shareholders to achieve profits.

According to (Puteri & Trisnaningsih, 2022) if profitability is high, it means the company's condition is getting better and high profitability indicates better profit values. In addition, a high profit level can increase business competition because it indicates the potential for future industry growth. This shows that companies in this sector have not only succeeded in making large profits, but also have the potential to develop further. A high level of profitability is often an indicator of financial stability, the ability to make additional investments, and the attractiveness of more investment, internally and externally to the industry.

Also explained in (Amelia & Trisnaningsih, 2020) With a higher Return on Assets (ROA) value, the company uses its assets more efficiently to generate profits, indicating the company's ability to optimize its resources to increase profits. This shows high operational efficiency,

where each asset contributes maximally to revenue. On the other hand, a low ROA indicates less efficiency in asset management, which may be caused by investments that do not produce results, asset management that is not optimal, or a less effective strategy in using assets for profit-generating operations. If the company makes a profit it will produce positive ROA results. Meanwhile, companies that lose money will have negative ROA results.

Leverage

According to Sumardi & Suharyono (2020:25) Leverage is a ratio that describes/displays the amount of costs incurred by a company originating from foreign capital. This leverage analysis is a very useful tool important for corporate financial managers in corporate profit planning and related matters determining the best alternative funding sources or additional capital as the company grows. Leverage refers to the use of funds. The use of these funds is because the company still has fixed costs.

There are three types of leverage, namely:

1) The part of the statement that refers to operational implications (operating leverage).
2) Part of the statement that is relevant to financial leverage.
3) Combination of operational and financial leverage.

Also explained in (Amalina & Trisnaningsih, 2023) The leverage ratio is a key indicator that shows the level of dependence of a company on external funding, such as debt, compared to internal funding or equity. This ratio describes the proportion of debt in the company's capital structure and is an indicator of the financial risk it faces. This is also supported by opinions in research (Indarwati & Trisnaningsih, 2024) which also explains that companies with high leverage often show significant dependence on financing from external parties. This reflects a situation where the company chooses to finance most of its operational activities and expansion through debt, while the contribution from internal capital investment or equity is relatively minimal. This means that companies more often use funds borrowed from creditors or outside investors rather than relying on their own capital.

Company Size

To assess the scale of a company, it is important for us to understand how much total assets the company owns. If the company is large, the wider its asset ownership will be. Corporate funding and the resources needed to maintain their operations have also become more comprehensive. Company size is measured using the LN formula and total assets (Prihatini & Amin, 2022).

According to (Puteri & Trisnaningsih, 2022) As a basis for comparison in measuring a company we can use important company figures such as market capitalization, share market value, number of employees, and total assets. Besides that, it is explained in (Syafhira & Trisnaningsih, 2021) that large business policies have a greater social benefit impact than small business policies. The bigger the company, the more positive signals investors receive.

RESEARCH METHODS

This research method uses a systematic literature review technique or what is usually called a literature review. (Snyder, 2019) Literature review is a study method that aims to collect and evaluate the results of previous research and analyze the points of view of various relevant experts in the literature investigated. This research uses the Google Scholar database to obtain data. This method is carried out by examining six journal articles indexed by Sinta or Garuda, have the same topic, and the journal year is from the last two years.

RESULTS AND DISCUSSION

The influence of profitability on tax avoidance

Profitability is identified through the use of the return on assets (ROA) ratio, which is a ratio that estimates the percentage of profit generated by company assets. ROA shows how efficiently a company utilizes its assets. Based on research (Faradilla & Bhilawa, 2022) , it explains that when ROA increases, tax avoidance decreases. ROA can be used as an indicator of profitability ratios, this is important because profitability is an important aspect in taxation. In terms of profitability, corporate income tax planning will be of higher quality if the income value is higher. This opinion is also supported by research results (Prihatini & Amin, 2022) It is explained that a company's profitability has a positive impact on its tax avoidance efforts.

The effect of leverage on tax avoidance

A company's financial assets are measured through the debt ratio (DER), which is a ratio that shows the proportion of debt and equity used to fund its operations. Meanwhile, leverage is a financial indicator that shows the correlation between debt and company capital or assets. (Putri et al., 2023) It was revealed that the ideal debt level is achieved when tax benefits reach their maximum point. Reducing a company's tax burden can result in increased revenues, and significantly, can increase a company's profitability. This finding is supported by relevant research results. (Elda Sagitarius & Siti Nuridah, 2022) Explains that the results of hypothesis testing regarding the leverage variable show a positive relationship with tax avoidance practices. This means companies that rely on debt to fund their operations face

interest costs that reduce company profits, which in turn results in lower tax payments. Thus, the low tax burden has an impact on company strategies in an effort to reduce the use of tax avoidance practices.

The influence of company size on tax avoidance

The size or scale of a company can often be assessed indirectly through the number of assets it owns, which is an indicator of its operational capacity and scale. A study by research (Danna et al., 2022) found that the coefficient of the company size variable was negative, indicating a negative correlation between company size and tax avoidance practices. It can be interpreted that the higher the level of a company, the lower their tendency to avoid taxes. This may be because large companies tend to have more complex and transparent governance structures, and are subject to more intensive supervision from tax authorities and external observers. These findings confirm that larger companies generally engage in fewer tax avoidance practices than smaller companies. These findings highlight the importance of company size factors in the context of corporate tax strategies. This is also supported by research (Yuniastuti & Nasyaroeka, 2022) that from research results it is known that business size has the most dominant impact on tax avoidance.

CONCLUSIONS & RECOMMENDATIONS

Based on a comprehensive analysis of articles that have been put together neatly and systematically, it is concluded that profitability, the company's operational scale, and the use of financial leverage have an important impact on tax avoidance practices in the corporate context. These findings underline the importance of these factors in shaping tax policies and corporate management strategies to minimize the tax burden they bear. Furthermore, recommendations for future research could include adding additional variables that may also play a role in influencing tax avoidance practices, so that a more comprehensive analysis can be carried out. These additional variables may include factors such as ownership structure, dividend policy, or applicable regulatory conditions. In this way, a more holistic understanding of the factors that influence tax avoidance can be obtained, which can then support the design of more efficient tax policies in the future.

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