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The Effect of Profitability, Company Size, and Independent Commissioners on Tax Management

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ABSTRACT

This study aims to analyze the effect of profitability, firm size, and independent commissioner on tax management in consumer cyclicals sector companies listed on the Indonesia Stock Exchange for the period 2021–2023. The research employs a quantitative approach using secondary data from financial statements. The sample consists of 25 companies selected through purposive sampling. Data analysis was conducted using multiple linear regression with SPSS version 25. The results of the study indicate that, simultaneously, the three variables influence tax management. Profitability has a negative effect on tax management, firm size has a positive effect on tax management, while independent commissioner has no significant effect on tax management. This study concludes that profitability and firm size are important factors that can influence a company's tax management practices. Therefore, companies need to implement efficient and legal tax management strategies.

***Keywords* -** Tax Management, Profitability, Firm Size, Independent Commissioner

INTRODUCTION

Tax management that is effectively implemented aims to minimize the tax burden as much as possible while still complying with applicable tax regulations. This strategy allows companies to fulfill their tax obligations efficiently and optimally without violating tax laws (Heriana et al., 2023). Through the implementation of tax management, companies can legally reduce the amount of tax they are required to pay. Tax management itself is a legal measure that includes the processes of planning, execution, and control over tax obligations by utilizing incentives or specific provisions regulated by tax laws (Ningsih & Hartanti, 2022).

One example of a tax management-related case in Indonesia is PT Indofarma Tbk (INAF) and its subsidiary, PT Indofarma Global Medika (IGM), which illustrate the importance of tax management and financial transparency. An investigative audit by the Audit Board of Indonesia (BPK) on the management of revenues and operating expenses from 2020 to the first half of 2023 revealed serious irregularities, such as the recording of fictitious receivables amounting to IDR 122.9 billion and fictitious advance payments worth IDR 243.9 billion, resulting in a total state loss of IDR 371.8 billion (Farisi & Pratama, 2024). The methods used included recognizing revenue without a clear economic basis, recording advance payments to suppliers who never delivered goods, procuring medical equipment without feasibility studies, and selling FMCG products without considering the consumers' ability to pay—resulting in uncollectible receivables of IDR 124.9 billion. The BPK also discovered asset misuse by PT IGM, such as the use of credit cards and operational funds for personal purposes, as well as weak internal controls with indications of top management involvement. As a result, the company's losses surged from IDR 37.58 billion in 2021 to IDR 428.46 billion in 2022, and reached

IDR 120.34 billion in the first half of 2023. This situation not only threatens financial stability but also potentially relates to tax management practices, as profit and expense manipulation can reduce the reported Taxable Income (PKP) (Sandi, 2024).

Towards the end of the year, the consumer cyclicals sector is projected to offer potential returns for investors. This is because, according to data from the Mandiri Spending Index, public spending typically increases during the Christmas and New Year holidays—primarily driven by major discounts that boost consumer shopping interest. This increase in consumer spending positively affects the performance of companies in this sector, particularly in terms of sales and revenue, which in turn can lead to rising stock prices at year-end (Andrianto, 2024). The increase in revenue in this sector has the potential to boost state tax revenues, since the total amount of tax payable depends on the level of income earned by the company. This study specifically conducts an empirical analysis across various companies within the consumer cyclicals sector. The consumer cyclicals sector consists of stocks whose performance is influenced by the economic cycle—meaning that when economic conditions improve, the stock prices in this sector tend to rise.

LITERATURE REVIEW

Agency Theory

The agency theory according to Jensen and Meckling (1976) is established through a contract in which the principal hires an agent to perform tasks and grants the agent the authority to make decisions. The principal expects the agent to make optimal decisions to maximize the company's performance (Charista & Febrianti, 2023). In the decision-making process, the agent is expected to maximize the company's profits while minimizing costs, including the tax burden as much as possible (Ningsih & Hartanti, 2022).

Tax Management

Tax management is defined by Afifah & Hasymi (2020) as a strategic effort carried out by companies to fulfill their tax obligations in compliance with applicable regulations, while still focusing on profit efficiency by minimizing the tax burden that needs to be paid. The purpose is to ensure that the company's profits remain optimal without violating established tax regulations. In addition, tax management is also a legal strategy in managing tax obligations, which includes the processes of planning, implementation, and control. This process is carried out by utilizing exemption provisions permitted under the applicable tax regulations (Ningsih & Hartanti, 2022).

Profitability

Profitability is a financial ratio that measures a company's effectiveness in generating profit and serves as an indicator of financial performance (Noviatna, Zirman, & Safitri, 2021). According to agency theory, management as the agent is responsible for maximizing returns for shareholders as principals. Higher profitability generally increases tax burdens, thereby reducing investor returns. Consequently, management applies tax management strategies as a legal and efficient means to minimize taxes and sustain optimal profits.

Empirical studies (Magfiroh & Ratnawati, 2024; Charista & Febrianti, 2023; Afifah & Hasymi, 2020) confirm that profitability positively influences tax management. Thus, increased profitability motivates companies to intensify tax management efforts, lowering the effective tax rate (ETR).

H1: Profitability has a significant positive effect on tax management.

Firm Size

Firm size, commonly measured by total assets, reflects whether a company is large or small (Wijaya, 2021). Larger firms typically have more resources—such as expert personnel, sufficient funds, and access to tax consultants—enabling them to implement more efficient and compliant tax management strategies (Felicia et al., 2024).

Agency theory suggests that larger firms face greater potential conflicts between owners and management, making legal tax management crucial. Prior studies (Putri et al., 2022; Wijaya, 2021; Afifah & Hasymi, 2020) show that firm size positively affects tax management. Hence, larger firms are better able to optimize tax management, which may reduce ETR.

H2: Firm size has a significant positive effect on tax management.

Independent Commissioners

In corporate governance, independent commissioners play a vital role in protecting shareholders through monitoring functions. A higher proportion of independent commissioners strengthens oversight and encourages transparency in management decisions, including tax strategies (Hidayat et al., 2021). OJK Regulation No.33/POJK.04/2014 requires that at least 30% of the board of commissioners be independent.

Independent commissioners, due to their objectivity, focus on supervision rather than policymaking (Wijayanti & Muid, 2020). Empirical evidence (Tholibin et al., 2022; Hidayat et al., 2021; Apu & Ardini, 2023) indicates a negative relationship between independent commissioners and tax management. Accordingly, a greater proportion of independent commissioners enhances oversight, reduces aggressive tax practices, and increases ETR.

H3: Independent commissioners have a significant negative effect on tax management.

METHODOLOGY

This study focuses on the consumer cyclicals sector listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. The sector is divided into seven main sub-sectors: household goods, automobiles & components, leisure goods, apparel & luxury goods, media & entertainment, retailing, and consumer services.

The sampling criteria applied in this study are as follows:

1. Companies in the consumer cyclicals sector listed on the IDX during 2021–2023 that regularly publish annual and financial reports.
2. Companies presenting financial statements in Indonesian Rupiah (IDR) for 2021–2023, to ensure consistency and comparability of financial data, avoid currency conversion bias, and maintain research validity.
3. Companies that recorded profits consecutively for the three years 2021–2023.
4. Companies with complete data required to measure all research variables.

Table 1. Operationalization of Variables

Variabel	Measurement
Tax Management	ETR = Current tax expense / Pretax income (Suparmin & Satiman, 2022; Monica & Josephine, 2024))
Profitability	ROA = Income after tax / Total Assets (Porajow, 2022)
Firm Size	Firm Size = LN (Total Assets) (Suparmin & Satiman, 2022)
Independent Commissioners	IC = Total IC / Total Commisioners (Tholibin, et al., 2022)

RESULTS

Table 2. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	75	0,0006	0,2406	0,0642	0,0550
Ukuran Perusahaan	75	25,0971	30,6489	28,0744	1,4789
Komisaris Independen	75	0,3333	0,6667	0,4230	0,0890
Manajemen Pajak	75	0,0002	0,3363	0,1278	0,0748
Valid N (listwise)	75				

Average profitability was 0.0642 (SD = 0.0550), with the lowest value at Gema Grahasarana Tbk (0.0006) in 2022 and the highest at Matahari Department Store Tbk (0.2406) in 2022. Average firm size was 28.0744 (SD = 1.4789), ranging from 25.0971 at PT Idea Indonesia Akademi Tbk (2023) to 30.6489 at Erajaya Swasembada Tbk (2023). The mean proportion of independent commissioners was 0.4230 (SD = 0.0890), with values ranging from 0.3333 to 0.6667, all meeting OJK regulatory requirements. Average tax management (ETR) was 0.1278 (SD = 0.0748), with the lowest value at Jaya Sukses Makmur Sentosa Tbk (0.0002, 2022) and the highest at Idea Indonesia Akademi Tbk (0.3363, 2021).

Table 3. t Test

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0,602	0,163		3,697	0,000
	ROA	0,311	0,150	0,230	2,068	0,042
	SIZE	-0,019	0,006	-0,383	-3,459	0,001
	INDEP	0,117	0,091	0,140	1,295	0,200

DISCUSSION

Effect of Profitability on Tax Management
Based on Table 4.10, profitability has a significance value of 0.042 (< 0.05) with a negative coefficient, indicating that the first hypothesis is rejected. Higher profitability is associated with reduced tax management practices, leading to an increase in the effective tax rate (ETR). This suggests that highly profitable firms tend to prioritize asset efficiency rather than aggressive tax minimization. These results are consistent with Afifah & Hasymi (2020) and Ningsih & Hartanti (2022).

Effect of Firm Size on Tax Management
The significance value for firm size is 0.001 (< 0.05) with a positive coefficient, thus supporting the second hypothesis. Larger firms are more likely to engage in effective tax management, resulting in lower ETRs. This finding implies that bigger companies can better utilize resources and information to manage tax obligations. The results align with Wijaya (2021), Felicia et al. (2024), and Putri et al. (2022).

Effect of Independent Commissioners on Tax Management
The significance value for independent commissioners is 0.200 (> 0.05), indicating an insignificant negative effect; hence, the third hypothesis is rejected. This shows that independent commissioners do not have a meaningful impact on tax management. While stricter oversight may discourage aggressive tax strategies, firms with high compliance tend to meet tax obligations fully at statutory rates. These results are in line with Charista & Febrianti (2023) and Wijayanti & Muid (2020).

CONCLUSION

Based on the analysis of consumer cyclicals companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023, the following conclusions are drawn:

1. Profitability has a negative effect on tax management; higher profitability reduces aggressive tax strategies, leading to a higher effective tax rate (ETR).
2. Firm size has a positive effect on tax management; larger firms are more capable of managing tax obligations efficiently, thereby reducing the ETR.

3. Independent commissioners have no significant effect on tax management; their presence tends to increase compliance rather than encourage tax-saving strategies.

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