Sales Growth as a Mediator in the Relationship Between Profitability, Leverage, and Tax Avoidance

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ABSTRACT

This study examines the mediating role of company growth in the relationship between profitability, leverage, and tax avoidance. The analysis utilizes data from 23 mining companies listed on the Indonesia Stock Exchange over the period 2019–2022, resulting in 92 observations. Panel data regression analysis and the Sobel test were employed to evaluate the relationships. The findings reveal that profitability has a significant negative impact on tax avoidance, while leverage does not exhibit a statistically significant effect. Furthermore, company growth is identified as a significant mediator between profitability and tax avoidance, indicating a negative relationship. However, company growth does not mediate the relationship between leverage and tax avoidance. These results highlight that factors beyond company growth may play a more critical role in explaining how profitability and leverage influence tax avoidance strategies. This insight underscores the need for future research to explore additional variables that may affect corporate tax behavior.

Keywords: Tax avoidance; pertumbuhan perusahaan; profitabilita; leverage

Peran Pertumbuhan Penjualan dalam Memediasi Pengaruh Profitabilitas dan Leverage terhadap Tax avoidance

ABSTRAK

Penelitian ini bertujuan untuk menginvestigasi peran pertumbuhan perusahaan dalam memediasi pengaruh profitabilitas dan leverage terhadap tax avoidance. Dengan menggunakan data dari perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia, sebanyak 92 data penelitian dari 23 perusahaan dan periode 2019-2022. Metode penelitian menggunakan analisis regresi data panel, dan uji sobel. Hasil penelitian menunjukkan bahwa profitabilitas memiliki pengaruh negatif signifikan terhadap tax avoidance, sementara leverage tidak menunjukkan pengaruh yang signifikan. Pertumbuhan perusahaan terbukti sebagai mediator yang signifikan dalam hubungan antara profitabilitas dan tax avoidance dengan arah negatif, namun tidak menjadi mediator antara leverage dan tax avoidance. Temuan ini menunjukkan bahwa faktor-faktor lain selain pertumbuhan perusahaan mungkin lebih relevan dalam menjelaskan bagaimana profitabilitas dan leverage mempengaruhi strategi penghindaran pajak.

Kata Kunci: *Tax avoidance; pertumbuhan perusahaan; profitabilita; leverage*

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INTRODUCTION

Indonesia, as a developing country, pursues sustainable national development, with a significant emphasis on utilizing mandatory funding sources such as taxes. Tax revenue constitutes one of the largest sources of income for the Indonesian state and plays a crucial role in driving national development. To ensure the continuity of development efforts, it is essential for taxpayers to fulfill their tax obligations regularly, thereby increasing state revenue and promoting higher levels of taxpayer compliance (Oktamawati, 2017).

According to Law Number 16 of 2009 on General Provisions and Tax Procedures, Article 1 Paragraph 1, taxes are defined as mandatory contributions to the state, imposed on individuals or entities by law, without direct compensation, and allocated for state purposes (Putri & Putra, 2017). This legal framework underscores the compulsory nature of tax payments and their critical role in supporting state functions.

Taxes significantly influence a country's development by funding key areas such as infrastructure, education, social programs, and various government activities (Haryanti, 2021). To fulfill these governmental functions and sustain national progress, Indonesia relies on three main sources of revenue: tax revenue, non-tax revenue, and grants. These funding streams collectively ensure the resources necessary for state development initiatives.

Table 1. Effectiveness of Tax Collection in Indonesia in 2019-2022

Description	2019	2020	2021	2022
Target (IDR Trilion)	1.577,6	1.198,80	1.229,6	1.485,0
Realisation (Triliun Rupiah)	1.545,3	1.069,98	1.277,5	1.716,8
Effectiveness of Tax Collection	98%	89,4%	103,9%	115,6%

Sumber: www.cnbcindonesia.com, 2023

Based on Table 1, Indonesia's highest tax revenue was recorded in 2022, amounting to IDR 1,716.8 trillion, a significant increase compared to the previous three years. In contrast, 2020 marked the lowest tax revenue, primarily due to the economic disruptions caused by the COVID-19 pandemic. During this period, the government introduced numerous tax incentives to support economic recovery, further impacting tax collections.

Despite improvements in tax revenue, the Indonesian government has consistently fallen short of its annual state budget targets. One contributing factor is the low level of taxpayer awareness and compliance. This lack of compliance has led some taxpayers to avoid fulfilling their obligations, thereby hindering national development. Taxes remain the primary source of state revenue, crucial for financing the state budget. However, many taxpayers, especially corporations, view taxes as a burden that diminishes income. Consequently, numerous companies opt for tax avoidance strategies rather than paying their full tax liabilities (Rani, 2017).

A fundamental conflict exists between the government's objective to maximize tax collections for national development and companies' goal to maximize profits for their survival. To minimize tax payments, companies often resort to three strategies: avoiding taxes, whether legally or illegally; reducing tax liabilities through various means; and, when all else fails, complying with tax payments (Yahya, Asiah, et al., 2023).

Tax planning is a key approach employed by companies to ensure that tax payments are efficient and effective. The primary aim of tax planning is to identify and exploit loopholes in tax regulations, enabling companies to minimize their tax liabilities (Yahya et al., 2023). Tax planning encompasses two broad categories: tax avoidance and tax evasion. While both share the goal of reducing tax burdens, the two differ significantly in their legal and ethical implications (Asiah et al., 2022).

Tax avoidance refers to legally reducing tax obligations by leveraging gaps or weaknesses in tax regulations to minimize the payable tax amount. Although legally permissible, tax avoidance is a contentious issue. Governments discourage it as it undermines revenue collection, even though the practice remains within the bounds of the law (Sunengsih et al., 2021).

Research by the International Monetary Fund (IMF), based on data from the International Centre for Policy and Research (ICPR) and the International Centre for Taxation and Development (ICTD), highlights the extent of corporate tax avoidance. Among 30 countries, Indonesia ranked 11th, with an estimated US$6.48 billion in unpaid taxes. This issue is particularly pronounced in the mining sector. A report by PricewaterhouseCoopers (PwC) Indonesia, Mine 2021: Great Expectations, Seizing Tomorrow, revealed that by 2020, only 30% of the country’s 40 largest mining companies practiced transparent tax reporting. Sacha Winzenried, a mining advisor at PwC Indonesia, emphasized that tax transparency is critical for mining companies to demonstrate their financial contributions to society. However, several large mining companies remain non-compliant with tax regulations, failing to meet their obligations to the government (Miranda & Mulyati, 2022).

As a major player in the global coal mining industry, Indonesia has long benefited economically from the sector. During the 2008 global financial crisis, the coal industry was a key driver of economic growth. However, the coal sector’s prominence has also resulted in negative consequences, including environmental degradation and unethical practices such as tax evasion. These challenges underscore the need for stricter regulation and enforcement to ensure sustainable contributions from the industry to national development (Jusman & Nosita, 2020).

The mining sector plays a significant role in shaping a country's economy, as evidenced by the exploitation of mineral and mining resources throughout history. The demand for these resources has grown substantially in tandem with rapid industrialization and infrastructure development (Feranika et al., 2017). However, the sector has also been associated with practices that undermine tax compliance and environmental sustainability.

A recent report by Global Witness revealed allegations against PT Adaro Energy Tbk for engaging in tax avoidance through transfer pricing. Between 2009 and 2017, the company reportedly shifted significant profits to its Singapore-based subsidiary, Coaltrade Services International, to benefit from lower tax rates. This practice allegedly resulted in US$125 million (Rp 1.75 trillion) in unpaid taxes. Additionally, Adaro faced accusations of causing water pollution that adversely affected local residents and resulted in substantial material losses (Nuramalia et al., 2021). Other notable cases include PT Kaltim Prima Coal (KPC), which, in 2007, was accused of selling coal to its subsidiary in the Cayman Islands at significantly undervalued prices (Putri & Halmawati, 2023). Similarly, PT Multi Sarana Avindo

(MSA) faced allegations of evading VAT payments in 2007, 2009, and 2010. Although an initial lawsuit from the Directorate General of Taxes (DGT) was dismissed in court, a subsequent case in 2018 uncovered significant discrepancies between MSA's production figures and its reported tax obligations (Nuramalia et al., 2021).

These cases highlight the persistence of tax avoidance practices among Indonesian companies, particularly in the mining sector. Such practices are influenced by various factors, including profitability, leverage, and sales growth.

Profitability serves as a key indicator of a company's performance, reflecting its ability to generate earnings from sales, assets, and equity within a given period (Kurniati & Apriani, 2021). The relationship between profitability and tax avoidance is complex and has been the subject of conflicting findings. Some studies suggest that high profitability is associated with increased income tax payments, thereby reducing the incentive for tax avoidance (Stephanie & Herijawati, 2022). Others argue that profitability negatively influences tax avoidance (Ariawan & Setiawan, 2017), while some researchers find no significant relationship between the two variables (Hermanto & Puspita, 2022).

Leverage, defined as the extent to which a company relies on debt to finance its operations, is another factor linked to tax avoidance. High leverage generates interest expenses that can reduce taxable income, potentially encouraging tax avoidance strategies (Ariawan & Setiawan, 2017; Hermanto & Puspita, 2022). However, not all studies confirm this relationship; Handayani & Mildawati (2018) concluded that leverage does not significantly affect tax avoidance.

Sales growth, which reflects a company’s ability to manage capital and sustain its business, also influences tax avoidance practices. Strong sales growth often signals robust company performance, leading to higher profits and, consequently, higher tax liabilities. This situation can motivate companies to engage in tax avoidance (Haryanti, 2021). Research findings on this relationship are mixed: while (Oktamawati, 2017) reported a negative relationship between sales growth and tax avoidance, other studies (Suryani, 2021; Syahzuni & Florencia, 2023) suggest a positive relationship. Mahdiana & Amin (2020), however, found no significant effect of sales growth on tax avoidance.

This study aims to analyze the roles of profitability, leverage, and sales growth as mediating factors influencing tax avoidance practices. The focus on mining companies listed on the Indonesia Stock Exchange (IDX) is motivated by the prevalence of tax avoidance in this sector, as illustrated by the aforementioned cases. From the government’s perspective, minimizing tax avoidance is crucial to maximizing state revenue, a key source of funding for national development. Company growth is considered a mediating variable because tax avoidance practices are often prevalent in fast-growing firms.

Theoretically, high profitability provides companies with incentives to engage in tax avoidance to maximize net income (Putri & Halmawati, 2023). Similarly, leverage affects tax strategies through the tax deductions associated with debt interest (Syahzuni & Florencia, 2023). Sales growth acts as a mediator, as it creates opportunities for firms to enhance profits, which in turn influence decisions regarding tax avoidance. By examining these dynamics, this study seeks to provide a deeper understanding of how profitability, leverage, and sales growth shape tax avoidance strategies, offering insights into optimizing corporate tax compliance while balancing performance and regulatory expectations.

Profitability reflects a company's ability to generate earnings from its operations (Kasmir, 2019) and is often used as a measure of management's performance. In this study, profitability is represented by Return on Assets (ROA), which allows investors to assess the efficiency with which a company manages its assets. High profitability can lead management to engage in tax avoidance, as higher profits typically result in larger tax liabilities. Management may also be incentivized to minimize taxes to enhance net profits and potentially earn performance-based bonuses (Pangaribuan et al., 2021). This aligns with prior research (Ernawati et al., 2021; Suryani, 2021), which found that higher profitability increases tax burdens, thereby encouraging tax avoidance. Based on these theoretical and empirical findings, the following hypothesis is proposed:

H_1: Profitability has a negative effect on tax avoidance practices.

The leverage ratio represents the proportion of a company's assets financed through debt, demonstrating its reliance on external financing (Mahdiana & Amin, 2020). Larger companies often rely less on debt, opting instead to utilize internal resources (Oktamawati, 2017). High debt levels result in significant interest expenses, which reduce taxable income and subsequently lower the company's tax liabilities (Saputra & Asyik, 2017). Consequently, higher leverage can serve as a mechanism for reducing tax burdens (Ha et al., 2021) (Ernawati et al., 2021). However, the relationship between leverage and tax avoidance is complex. Companies with long-term debt tend to exhibit greater aggressiveness in financial reporting, while those with better access to capital markets may pursue aggressive tax strategies (Koh & Lee, 2015). Building on this understanding, the following hypothesis is formulated:

H_2: Leverage has a negative effect on tax avoidance practices.

Sales growth represents changes in a company's revenue over time, serving as a measure of its business development and future profitability potential (Mamduh & Halim, 2018). A higher sales growth ratio is often associated with superior business performance and increased profitability (Oktamawati, 2017; Primasari, 2019; Suryani, 2021). Greater profitability typically results in higher tax liabilities, which may prompt companies to engage in tax avoidance efforts to minimize their tax burden. Prior research supports the notion that sales growth positively influences tax avoidance, as companies experiencing rapid growth are more likely to adopt strategies aimed at reducing taxes (Haryanti, 2021). Based on these considerations, the following hypothesis is proposed:

H_3: Sales growth has a positive effect on tax avoidance.

Company growth, as indicated by sales growth, can mediate the relationship between profitability and tax avoidance. Rapidly growing companies often have higher profitability, which increases the likelihood of engaging in tax avoidance practices. High-growth firms may balance the benefits of tax avoidance with reputational risks and regulatory scrutiny, positioning their increased profitability as a result of operational efficiency rather than tax strategies (Darsani & Sukartha, 2021). Additionally, investors seeking firms with strong growth potential may tolerate tax avoidance if they believe it contributes to long-term

performance (Muti'ah et al., 2021). Therefore, the following hypothesis is developed:
H4: Company growth mediates the effect of profitability on tax avoidance.

Growth opportunities signify a company's potential for future expansion and value creation (Kusnanto & Qalbia, 2024). Rapid growth may enable firms to sustain higher debt levels while maintaining profitability, as increased earnings offset interest expenses. This dynamic allows companies to use leverage strategically to achieve tax savings, thereby minimizing the overall tax burden (Kim & Im, 2017) (Pangaribuan et al., 2021). By leveraging the relationship between growth and profitability, companies may optimize their tax strategies. Based on these insights, the following hypothesis is proposed:
H5: Company growth mediates the effect of leverage on tax avoidance.

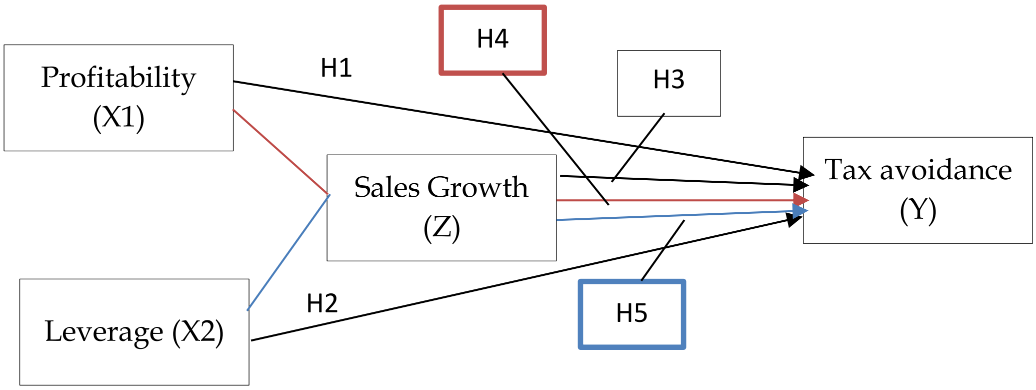

Figure 1. Research model

RESEARCH METHOD

This research is a quantitative study that uses secondary data from the financial statements of mining companies listed on the Indonesia Stock Exchange. This data is obtained through the official website of the Indonesia Stock Exchange www.idx.co.id. The research approach is a research approach that uses data in the form of numbers and information collected to be analysed using statistical techniques. The purpose of this method is to test the hypothesis that has been determined based on the data collected.

The population in this study were all mining companies listed on the IDX (Indonesia Stock Exchange) in the period 2019 - 2022. The sample collection technique used in this study was non-probability sampling with purposive sampling method, obtained a sample of 23 companies for 4 years so that the sample amounted to 92 research data.

Table 2. Operational Definition of Variables

Variable	Definition	Measurement
Tax avoidance (Y)	Tax avoidance is one of the active tax resistance efforts, i.e. all efforts and actions that are directed to the tax authorities and aim to avoid taxation. tax authorities and aiming to evade taxes (Yahya, Asiah, et al., 2023).	$\mathrm{CETR} = \frac{\text{Tax Payment}}{\text{EBIT}}$
Profitabilitas (X1)	ROA is used to measure a company's ability to generate profit (Yahya & Hidayat, 2020).	$\mathrm{ROA} = \frac{\text{Earnings After Tax}}{\text{Total Asset}}$
Leverage (X2)	DER is a financial ratio that compares the amount of debt and equity. The use of equity and the amount of debt for the company's operations must be in commensurate amounts (Widati et al., 2024).	$\mathrm{DER} = \frac{\text{Total Liability}}{\text{Total equity}}$
Sales Growth (Z)	Sales growth provides an overview of the annual increase or decrease in sales, which can be used as a comparison between sales levels from year to year (Asiah et al., 2022).	$\mathrm{SG} = \frac{\text{SALES t - SALES t-1}}{\text{SALES t-1}}$

Source: various sources, data processed 2024

The analysis method uses panel data regression analysis, Sobel test, fit model feasibility test, and hypothesis testing. The structural equation of model 1 to test the effect of profitability and leverage on tax avoidance is as follows:

Y = a +b1X1 +b2X2 + e .... (1)

Z = a +b1X1+b2X2 + e .... (2)

Y = a + b1Z + e .... (3)

The structural equations of models 2 and 3 are equations used to find the direct and indirect effects of profitability and leverage variables on tax avoidance with sales growth using the Sobel test. The measurements in the Sobel test are as follows (Abu-Bader & Jones, 2021):

$$t = \frac{ab}{\sqrt{(b^2\,SEa^2) + (a^2\,SEb^2)}}$$

With:

t : t-count
a : Intervening variable path (X) with Intervening Variable Z)
b : Path of intervening variable (Z) with variable (Y)
SEa : standard error of coefficient a
SEb : standard error of coefficient b

RESULTS AND DISCUSSION

Table 3. Descriptive statistical analysis test results

	Y	X1	X2	Z
Mean	0.366	0.129	0.767	0.222
Maximum	1.985	0.616	5.403	2.773
Minimum	0.000	0.002	0.096	-0.998
Std. Dev.	0.336	0.146	0.712	0.497
Observations	92	92	92	92

Source: Research Data, 2024

The descriptive statistical test results reveal variations in the data, particularly in the ROA and company growth variables. This is evident from the standard deviation of ROA (X1), which is 0.1466, exceeding the mean value of 0.1293. Similarly, the standard deviation for company growth (Z) is 0.4973, which is higher than the mean value of 0.2222. In contrast, the variables for tax avoidance (Y), leverage (X2), and company size exhibit limited data variation, as their mean values surpass their respective standard deviations. Table 3 highlights notable findings, including a maximum tax avoidance value of 1.985, indicating that the ratio of tax payments to pre-tax profit reached 198.5%. This reflects a significant instance of tax avoidance observed in Beton Jaya Manunggal (BTON) during 2019, a period impacted by the COVID-19 pandemic. Regarding leverage, the maximum value is 5.403, demonstrating an exceptionally high leverage ratio—far above the standard limit of 81%—recorded at Energi Mega Persada (ENRG). The company growth variable also exhibits noteworthy results, with a minimum value of -0.998. This negative figure indicates a decline in company growth, specifically observed at Antam (ANTM) in 2021. These findings underscore significant variations in the dataset and highlight specific instances of financial and operational performance within the sampled companies.

Panel Data Regression test results

Model structure 1 is intended to determine the effect of ROA and DER on tax avoidance. In the panel data regression test results obtained the following results:

Table 4. Regression Structure Model 1 (Effect of X1 and X2 on Y)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.478983	0.071135	6.733427	0.0000
X1ROA	-0.747322	0.249504	-2.995233	0.0036
X2DER	-0.021041	0.054739	-0.384385	0.7016
F-statistic	4.571429		R-squared	0.093159
Prob(F-statistic)	0.012887		Adjusted R-squared	0.072780

Source: Research Data, 2024

The results in Table 4, show that X1 (ROA) has a significant negative effect on Y (Tax avoidance) with a prob value (0.0036). While X2 (DER) has no effect on Y (Tax avoidance) with a prob value of (0.7016). The panel data regression equation is as follows:

Y = 0.47898 – 0.747322X1 – 0.201041X2 +e ………………………………….. (1)

The regression equation shows that both profitability and leverage variables have a negative effect on tax avoidance. This means that if the value of tax avoidance increases, it is necessary to reduce the value of profitability and leverage.

Table 5. Regression Structure Model 1 (Effect of X1 and X2 on Z)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.039112	0.088912	0.439895	0.6611
X1ROA	1.380239	0.332543	4.150556	0.0001
X2DER	0.005979	0.06982	0.085631	0.9320

Source: e-views output, data processed 2024

In Table 5 is a model 2 structure that shows the effect of X1 (ROA) and X2 (DER) on Z. model 2 structure is used to complete the sobel test calculation data. The model 2 structure equation is as follows:

Z = 0.039112 + 1.380239X1 +0.005979X2 + e . ……………………………...........(2)

Table 6. Regression Structure Model 1 (Effect of Z on Y)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.403089	0.044571	9.043819	0.0000
ZSG	-0.166234	0.066016	-2.51807	0.0136

Source: e-views output, data processed 2024

Next in Table 6 is the structure of model 3 which shows the effect of Z (Sales Growth) on Y (Tax Avoidance). Model 3 is used for the calculation of the sobel test. The model 2 structure equation is as follows:

Y = 0.403089 -0.166234Z + e . …………………………………………...........(3)

Sobel Test

This test was conducted to analyse the mediating factors in the study. In determining the results of the mediation test, 2 (two) equations are needed to fulfill the Sobel test.

Table 7. Sobel analysis test results

Equation	Regression	Regression Coefficient	Standard error
1a	X1→Z	a1=1.380239	SEa1 = 0.332543
2a	Z →Y	b1=--0.16623	SEb1 = 0.066016
Sobel test 1	X1→Z→Y	t-count= -2.15286 t-table= 1.9869	t-count > t-table
1b	X2→Z	a2=0.005979	SEa2 = 0.069820
2b	Z→Y	b2=-0.166234	SEb2 = 0.066016
Sobel test 2	X2→Z→Y	t-count = -0.0855 t-table= 1.9869	t-count < t table

Source: e-views output, data processed 2024

The Sobel test results presented in Table 7 indicate that the t-count value for the effect of profitability on tax avoidance, with company growth as a mediating variable, exceeds the t-table value but exhibits a negative direction. This suggests that as profitability increases, company growth tends to decline, demonstrating that company growth can act as a barrier to the influence of profitability on tax avoidance.

For the leverage path to tax avoidance, with company growth as mediation, the Sobel test results show that the t-count value is less than the t-table value. This indicates that company growth does not mediate the relationship between leverage and tax avoidance. Thus, company growth does not serve as an effective intermediary between leverage and tax avoidance practices.

Discussion

Highly profitable companies often have greater freedom and resources to engage in tax evasion, given their high profitability ratios. These ratios afford them opportunities to manipulate financial statements and minimize tax liabilities (Kasmir, 2019). The results of this study reveal a significant positive effect of profitability on tax avoidance, supporting the hypothesis (H1). However, the findings also show a contradictory relationship: profitability has a negative effect on tax avoidance. This occurs because highly profitable companies face larger tax obligations, calculated directly from their reported earnings. To avoid jeopardizing profits, such companies often employ conservative tax strategies to maintain legal compliance and safeguard their public image (Ernawati et al., 2021; Pangaribuan et al., 2021).

These findings contrast with studies suggesting that profitability positively influences tax avoidance, as companies with high profits may seek to reduce their tax burden aggressively (Adi & Mildawati, 2018; Efendi et al., 2021; Miranda & Mulyati, 2022). This divergence underscores the complexity of profitability's role in shaping corporate tax strategies.

Leverage reflects the proportion of a company’s capital financed through debt, highlighting its reliance on borrowed funds for operations and growth (Efendi et al., 2021). This study finds no significant effect of leverage on tax avoidance, leading to the rejection of the hypothesis (H2). Highly leveraged companies often consider risks such as diminished creditworthiness and default, which can threaten their operational stability.

Debt-dependent companies may adopt aggressive tax management strategies to reduce their tax burden, enabling them to allocate resources toward debt repayment and financial performance improvement (Miranda & Mulyati, 2022). However, companies with high leverage tend to adopt conservative financial reporting practices to mitigate risks, thereby limiting their use of leverage as a tax avoidance strategy. These findings align with (Darsani & Sukartha, 2021) but differ from those of (Pangaribuan et al., 2021), who observed a negative relationship between leverage and tax avoidance.

Agency theory posits that company growth can motivate management to engage in tax avoidance practices to maximize shareholder wealth and reduce tax costs (Asiah et al., 2022). However, the results of this study reveal that company growth does not significantly affect tax avoidance, leading to the rejection of hypothesis (H3). This suggests that management prioritizes profitability and allocates resources directly to tax avoidance strategies, irrespective of growth levels.

Tax avoidance strategies are typically designed to optimize tax burdens based on revenue and profits rather than the scale or volume of business growth. These findings are consistent with the results of (Adi & Mildawati, 2018) but contradict those of (Muti’ah et al., 2021; Pangaribuan et al., 2021), who found that company growth negatively affects tax avoidance. This divergence may reflect contextual differences in how companies prioritize growth and tax strategies within various industries or market conditions.

Tax avoidance is often framed within agency theory as a value-creation behavior aimed at maximizing shareholder wealth (Wang et al., 2020). However, the results of this study indicate that company growth does not mediate the relationship between profitability and tax avoidance, leading to the rejection of hypothesis (H4). While growing firms with higher profitability may explore tax avoidance strategies, this relationship is influenced by various contextual factors, including industry structure, tax regulations, and corporate governance practices (Shin & Woo, 2018).

Company growth often reflects external market conditions or strategic decisions rather than serving as a direct mechanism linking profitability to tax avoidance. It remains challenging to determine whether growth triggers or results from tax avoidance practices. The observed correlation between these variables likely arises from other underlying factors, making company growth an unreliable mediator in this context.

High growth often drives companies to seek external financing through debt (Putri & Halmawati, 2023). Funding decisions, influenced by tax regulations related to capital structure, can indirectly reflect tax avoidance behaviors (Mahdiana & Amin, 2020). However, this study finds no evidence to support company growth as an intervening variable in the relationship between leverage and tax avoidance, resulting in the rejection of hypothesis (H5).

Firms use leverage for a variety of purposes, including increasing return on equity, funding expansion, or minimizing tax liabilities. These motives are not always accurately reflected in company growth metrics. Additionally, firms engaged in tax avoidance may manipulate growth indicators to obscure their reliance on leverage or other tax strategies, rendering growth an unreliable mediator.

CONCLUSIONS

This study confirms that profitability significantly influences tax avoidance practices, supporting the hypothesis that profitability negatively affects tax avoidance. Higher profitability reduces the likelihood of companies engaging in tax avoidance, as they tend to prioritize compliance to preserve their public image and maintain stakeholder trust.

However, no significant evidence was found to support the effects of leverage and company growth on tax avoidance. Additionally, company growth was not shown to mediate the relationship between profitability or leverage and tax avoidance. These findings highlight the complexity of the relationships among these variables and suggest that company growth alone is insufficient to explain tax avoidance behaviors.

The study's limitations, including the timeframe and contextual factors, may have constrained the generalizability of the results. Future research is needed to deepen our understanding of the multifaceted factors influencing tax avoidance, such as internal corporate policies, management structures, and cross-jurisdictional differences in tax regulations.

These findings offer valuable insights for policymakers in designing strategies to mitigate tax avoidance, particularly by focusing on firms with high profitability. Moreover, this study opens avenues for further investigation into alternative variables that may affect tax avoidance practices, providing a foundation for more effective regulatory and governance frameworks.

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