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The Role of Firm Size in Strengthening the Relationship between Profitability, Capital Structure, and Affiliated Transactions on Tax Advoidance

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Abstract

Purpose: The purpose of this study is to determine the effect of profitability, capital structure, and affiliate transactions on tax avoidance practices, with firm size as a moderating variable.
Methodology: The method used in this study is quantitative research. Hypothesis testing in this study uses Moderated Regression Analysis (MRA) and classical assumption testing uses the eviews 13 application.
Finding: Profitability and affiliated transactions have a negative effect on tax avoidance behavior and capital structure has a positive effect on tax avoidance behavior, while firm size as a moderation cannot strengthen profitability, capital structure and affiliated transactions on tax avoidance behavior.
Implication: Providing insights for tax policy makers and regulators on factors that influence tax avoidance in companies and are important for company management, providing important information on how financial and operational decisions can affect tax liabilities, and tax authorities can develop more effective strategies to improve tax compliance.
Originality: The originality of this study lies in its specific geographical focus, innovative methodological approach, comprehensive integration of variables, and potential broad practical implications. This study contributes significantly to the academic and practical literature in the field of corporate tax and financial management, especially in the context of a developing country like Indonesia.
Keywords: Affiliate Transaction, Capital Structure, Firm Size, Profitability, Tax Avoidance

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1. Introduction

In reality, even amidst Indonesia's economic growth and soaring commodity prices, Indonesia's tax ratio is still relatively low when compared to other countries, including in the ASEAN region. The tax ratio is calculated from the total tax revenue to the total gross domestic product within a period of one year. In 2020, Indonesia's tax ratio dropped drastically to 8.33% due to the Covid-19 pandemic which hampered economic activity so that among Asia and the Pacific countries, Indonesia's tax ratio was only higher than Bhutan and Laos (OECD, 2022).

The tax ratio in Indonesia then increased in 2021 along with the economic recovery of 9.11% (Hasyim et al., 2022), but this figure is relatively low and still below the International Monetary Fund (IMF) standard of 15%. One of the causes of the low tax ratio is the existence of tax avoidance actions carried out by taxpayers, where the actual tax recipients have the potential for a larger amount than they should (Falbo & Firmansyah, 2018).

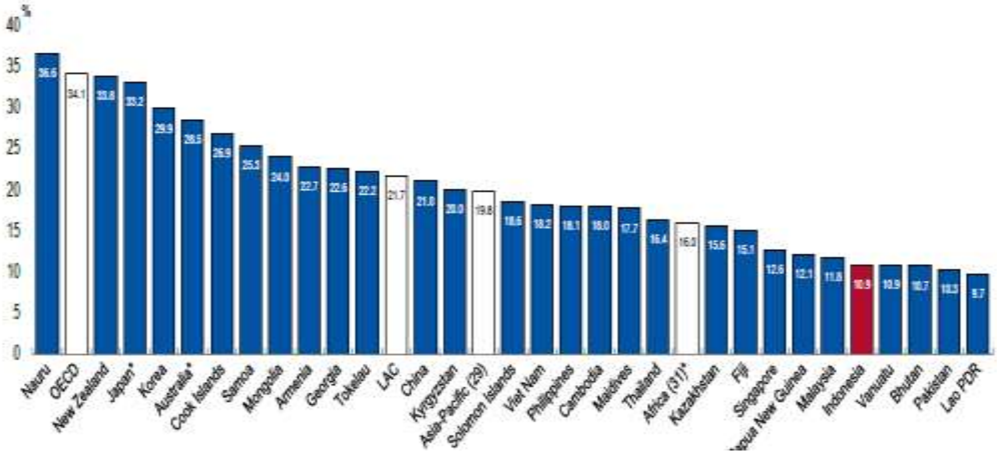

Figure 1. GDP to Ratio Compared to other Asian and Pacific Economies and Regional Averages
Source: OECD (2022)

The issue of tax avoidance is not free from various industrial sectors of business types, including the coal industry, according to Pricewaterhouse Cooper (PwC) in its report entitled "2023 Mine: The era of revention" which states that regardless of the global goal of reducing carbon emissions, coal company profits in 2022 increased drastically due to soaring demand and selling prices due to geopolitical instability in the world. In the published report published by Pricewaterhouse Cooper (PwC), it was stated that tax avoidance behavior was indicated to occur a lot in the mining business sector, where 70% of the 40 largest coal mining companies had not disclosed transparency in tax reporting. Tax avoidance has become a major concern for almost all countries, especially cross-border business transactions carried out by companies that have special relationships with other companies across countries (multinational companies). In the Tax Justice Network report entitled The State of Tax Justice 2020: Tax Justice in the time of Covid-19, it was stated that there were tax avoidance practices in Indonesia amounting to US$ 4.78 billion or equivalent to Rp. 6.76 trillion carried out by corporations and were still relatively high when compared to countries registered in ASEAN (O'Hare, 2020)

The company's performance in managing resources for operational activities can be seen from the profits obtained. In measuring the company's performance to generate profits within a certain period of time, profitability is often used as a reference (Iqbal & Nastiti, 2022). A good profitability ratio obtained by the company will be directly proportional to the tax obligations that must always be fulfilled by the company, this can encourage the company to plan tax payments and look for loopholes that can be taken in the corridor of reducing legal and legal tax payments (Gloria & Apriwenni, 2020). In managing company resources, management considers the use of a balance between capital and debt. The use of a larger portion of debt can be a strategy to reduce taxes owed, the Debt Equity Ratio (DER) in subsidiaries and related parent companies will be attempted as high as possible to increase interest expenses, a practice known in taxation as thin capitalization and is a tax avoidance strategy that is often used in reducing the tax burden owed (Tarigan et al., 2016). The Indonesian government together with other countries is committed to continuing efforts to prevent the practice of tax base erosion and profit shifting (BEPS) which is reported to be able to eliminate global revenues of USD 100-240 billion each year (Wahyono & Halim, 2019). One of the government's efforts to combat tax avoidance practices is to carry out tax reform, which is a significant and comprehensive change that includes administrative improvements, regulatory improvements and increasing the tax base (Putri & Najicha, 2021).

Through Law Number 7 of 2021 concerning Tax Harmonization and Government Regulation (PP) Number 55 of 2022 as its derivative, the government legitimizes special relationships through affiliated transactions of tax payers. In the regulation of Government Regulation 55 of 2022, it is used as the opening of a new anti-tax avoidance regime for various issues of tax avoidance practices. In Chapter VII of Government Regulation 55/2022, there are also further regulations on tax avoidance prevention instruments which contain further regulations regarding specific instruments (specific anti-avoidance rule/SAAR) as regulated in Article 18 of the Income Tax Law as stipulated in the HPP Law. Government Regulation (PP) Number 55 of 2022, adopts a new method in limiting the burden of loan interest costs related to tax calculations, this method will compare between business income before being reduced by loans, taxes, depreciation and amortization (EBITDA) or Earning Stripping Rules (ESR). This method is also known by other terms, such as Fixed Ratio, Interest-to-Profits Ratio The existence of this ESR method will complement the methods that have been applied so far, namely the comparison between the amount of debt to capital or Debt to Equity Ratio (DER) which is regulated in the Regulation of the Minister of Finance (PMK) Number 169 / PMK.010 / 2015 (Remonda, 2023) The rapid development of the global economy that affects the Indonesian economy has an impact on companies in Indonesia. One of the positive impacts of increasing international transactions or cross-border transactions is a market that is not confined to the country, but can expand business activities to other countries and even transform into multinational companies (Marundha et al., 2021).

However, transaction activities between different jurisdictions can create new problems in the context of taxation, in the context of affiliate transactions occurring between companies with special relationship ownership, it can easily transfer costs between companies such as purchasing raw materials which will greatly affect the tax burden due to differences in rates between countries, especially in countries that are tax havens (Alkawsar et al., 2019) There is an inconsistency in research results related to profitability, capital structure and affiliate transactions that have been carried out which encourages the author to study more deeply by combining the phenomena that occur and Firm Size as a moderating variable. With that, the purpose of this study is to be able to analyze compliance and provide an overview to companies in carrying out tax planning strategies in accordance with applicable regulatory rules.

2. Literature Review

2.1. Profitability Against Tax Avoidance Behavior

Profitability is built from several ratios, one of which is Return on Equity (ROE). Return on Equity (ROE) is one of the indicators that describes the company's ability to manage the company's finances, ROE is a net tax profit ratio which also means a measure to assess how much the rate of return on invested capital is. ROE which describes an inverted curve causes the company's profit to be in a loss condition. This shows the overall capital invested in the company that has not been able to generate profits, which means that the company's management's ability to manage funds invested by capital owners is not yet effective (Amin et al., 2022.)

In accordance with research conducted by Hitijahubessy et al. (2022) which resulted in an inverse relationship between profitability and tax avoidance behavior which states that the CETR value tends to be lower when compared to the level of profitability at a higher point, this is in accordance with the agency theory that arises when management tries to reduce low tax costs that arise in line with the profits generated by the company for the benefit of agents in obtaining compensation for managing the company, but is considered by the principal as a controller of financial statements that can produce asymmetric information for investors (Adityamurti & Imam, 2017). In the context of taxation, this is in line with the tax payable calculation norms stated in Article 6 paragraph 2 of the Regulation of the Director General of Taxes Number Per-17/PJ/2015 Concerning Net Income Calculation Norms, where the amount of tax payable is in line with gross income multiplied by the tax rate payable. for business or freelance work carried out in one year. Based on the explanation above, the author formulates the following hypothesis:

H1: Profitability has an influence on tax avoidance behavior

2.2. The Influence of Capital Structure Relationship on Tax Avoidance Behavior

Capital structure is a reflection of the company in fulfilling its obligations and its ability to fund the Company's activities (Rahmayani & Kurnadi, 2022). One way for companies to avoid taxes is by increasing their debt. High debt will result in high interest rates which will reduce the tax burden. The tax burden will reduce profits and reduced profits will reduce the tax burden in one period (Ainniyya et al., 2021). In managing the funding sources used by the company in carrying out its activities, the company has several alternatives, one of which is the use of debt which in other words becomes a creditor of a certain party in obtaining sources of funds related to the company's working capital. Debt used in financing a company's capital will incur interest costs from the debt itself which is often used as a tax shield in reducing the amount of tax owed (Utama et al., 2019). This contains the risk of bankruptcy for the company from the costs arising from the use of the debt, which is not in line with the Trade Of Theory which states that companies must always be able to balance the composition of debt in the combination of their capital structure in order to obtain an optimal composition of debt and shares with the right calculation analysis and in line with the regulations that have been implemented by the Government as stated in PP 55 of 2023 concerning Adjustments to Regulations in the Field of Income Tax (Octaviana & Rohman, 2014)

In accordance with the theory above and research conducted by Rahmayani and Kurnadi (2022) which states that Capital Structure has a harmonious relationship and can influence tax avoidance behavior, this is in line with Article 6 of the Income Tax Law and Government Regulation Number 94 of 2010 which was refined into Government Regulation Number 55 of 2022 concerning the calculation of income tax and settlement of income tax which states that interest on loans related to managing, maintaining and collecting from the company's operational activities can be used as a deduction from income tax as long as the interest rate is reasonable and in accordance with the principle of fairness and custom (best practice). Based on the description, the hypothesis taken is as follows:
H2: Capital structure has an influence on tax avoidance behavior

2.3. The Influence of Affiliate Transactions on Tax Avoidance Behavior

The existence of affiliated or special relationships and different rates in each country allows companies to take advantage of these loopholes to reduce the tax payable that must be paid in order to obtain maximum profit. In affiliate sales transactions, companies try to transfer income to other companies registered in lower tariff jurisdictions. Likewise with affiliate purchase transactions, companies that have special relationships try to transfer the costs of one company to another company, such as costs incurred for purchasing goods, the price set can be higher than it should be. Several schemes in manipulation related to affiliate transactions carried out within a group of companies can be carried out with a transfer pricing scheme that utilizes differences in rates between jurisdictions in each country, which is not in accordance with the approach adopted in the arm's length principle in accordance with Article 9 paragraph 1 of the OECD model guidelines (Sitanggang & Firmansyah, 2021). In line with the Regulation of the Minister of Finance of the Republic of Indonesia Number 213/PMK.03/2016 concerning the types of documents and/or information that must be kept by taxpayers who carry out related parties and their management procedures, it is stated in Article 1 paragraph 4 that the principle of fairness and customary business carried out by the company is not influenced by special relationships where the price or profit given must be the same as the price range given to unaffiliated parties in a special relationship (Octaviana & Rohman, 2014)

In accordance with research conducted by Alkawsar et al. (2019) which explains that affiliated transactions to related parties have a relationship with tax avoidance behavior which is often used by companies to reduce tax costs, the hypothesis taken is as follows:
H3: Affiliate transactions have an influence on tax avoidance behavior

2..4 The Effect of Profitability on Tax Avoidance Behavior with Firm Size as a Moderating Variable

High profitability can be a picture of a company in achieving performance on the company's operational activities in one period. Profitability can be influenced by firm size, companies with larger sizes have better service variances, production capacity and management strategies, and companies with larger sizes tend to be able to take advantage of the benefits of scale and economies of scope which represent a reduction in company costs due to an increase in production scale (Aghnitama et al., 2021). With a high level of profitability, this will be comparable to the tax burden borne by the company, therefore many managers who are more aware of the condition of the company will tend to plan and make decisions by taking advantage of existing loopholes to reduce the company's tax burden in order to reduce the tax burden borne by the company. With the existence of a conflict of interest, this motivation will encourage managers to take such actions which are feared to produce fictitious information in the financial statements (Fadhila & Andayani, 2022)

The addition of Firm Size as a moderation was also studied in the research of Nur Afifah (2021) which stated that there is a relationship between Firm Size and the Cash Effective Rate (CETR) level which states that the larger the Firm Size, the lower the CETR it has, this is because the larger the company, the more resources it has to be able to manage the company effectively and the intensity of supervision carried out by the Directorate General of Taxes regarding the potential for tax payable which refers to the Regulation of the Minister of Finance of the Republic of Indonesia Number 131/PMK.03/2022 concerning Instructions for the Implementation of Tax Functional Positions and Circular Letter of the Director General of Taxes number SE-05/PJ/2022 concerning Supervision of Taxpayer Compliance. Based on previous theories and research, this hypothesis can be formulated as follows:

H4: Firm size has the ability to strengthen the relationship between profitability and tax avoidance behavior

2.5. The Effect of Capital Structure on Tax Avoidance Behavior with Firm Size as a Moderating Variable

Firm Size is one of the important factors to be considered in the company's capital structure decisions. Companies with large sizes tend to have large funding needs to finance their operational activities, one alternative used in these needs is to use debt. Capital structure policy is directly influenced by the size of the company's condition (Tangiduk et al., 2017)

According to signaling theory, the operations carried out by the company are not only for its own interests and goals, but must also provide benefits to its stakeholders such as shareholders. Companies with larger sizes tend to convey more accurate and more detailed information. In agency theory, it is stated that with a conflict of interest between principal shareholders, it is not always expected that tax avoidance practices will occur, besides that management as an agent in an entity certainly wants to maximize its own interests by taking actions that are not as they should (Sa'diyah & Hariyono, 2022). The addition of Firm Size as a moderating variable in research conducted by Suyanto & Kurniawati (2022) states that Firm Size affects capital structure and tax avoidance behavior, meaning that the larger a company is, the smaller the CETR ratio will be. Based on previous theories and research, this hypothesis can be formulated as follows:

H5: Firm size strengthens the relationship between capital structure and tax avoidance behavior

2.5. The Effect of Affiliate Transactions on Tax Avoidance Behavior with firm size as a Moderating Variable

Affiliate transactions or special relationship transactions will not have an effect on tax revenue if the transaction is carried out by parties in one country, but will have an effect if the transaction is carried out by parties in different countries, because each country has a different tax policy regarding its tax rates (Alkawsar et al., 2019). Companies with larger

sizes have wider networks and services, production capabilities, management strategies and lower utilization of economies of scale due to factors of increasing production capacity. This can benefit the company with the ease of gaining the trust of investors and creditors, but with this opportunity, management is obliged to manage the company better with the aim of getting as much profit as possible for their own interests and the interests of shareholders (Hayani & Darmawati, 2023). Research on the addition of firm size as a moderating variable is also contained in research conducted by Muti'ah & Ahmad (2021) which states that firm size can influence affiliate transactions in carrying out tax avoidance practices. Based on this theory, the following hypothesis can be formulated:
H6: firm size has the ability to strengthen the relationship between capital structure and tax avoidance behavior

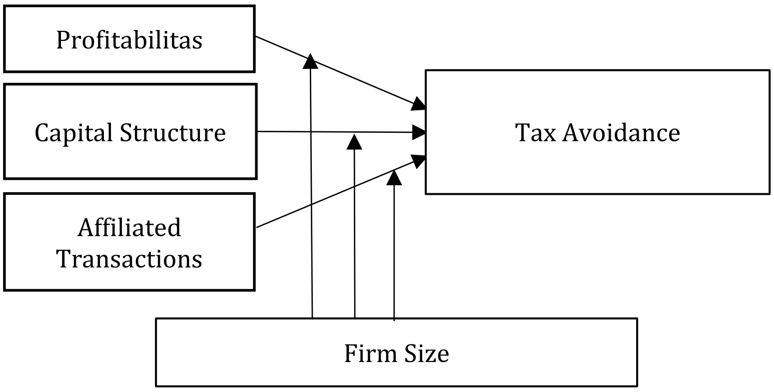

Figure 2. Framework of Thought
Source: Results of Development by Researchers (2023)

3. Methodology

The research conducted is quantitative, Quantitative research according to Ghozali (2019) is a process of finding knowledge that uses data in the form of numbers as a tool to find information about what we want to know. In terms of descriptive quantitative data analysis which provides an overview or description of data seen from the average value (mean), standard deviation, maximum, minimum, sum, range and kurtosis, the data analysis tool used is Eview 13.

A population is an area that generalizes something consisting of objects and subjects that have certain quantities and characteristics in a study that is determined then to be studied and then a conclusion is drawn from the study (Sugiyono, 2019). The population used in this study is the Financial Report from 2019-2022 which is an issuer of a coal mining company and has been registered on the Indonesia Stock Exchange (IDX). Based on these criteria, a population of 76 financial reports was obtained from 19 companies with a period of 4 years.

A sample is a part of the total population that has the characteristics needed for a study. In the current research, the sampling technique used is nonprobability sampling, which means a sampling technique that does not provide equal opportunities or chances for each element of the population to become a sample. The criteria selected in determining the sample for this study are as follows:

a. Coal companies listed on the IDX in the 2019-2022 period and not delisted during that period
b. Companies that present Financial Reports consecutively in the 2019-2022 research year.
c. Reports that present data related to the variables in this study.
d. Based on the suitability of the characteristics with the selection criteria determined by the researcher, the following company samples were obtained:

Table 1. Sampling Results

No	Criteria	Total
1	Population of Research	19
2	Companies that do not publish complete financial reports during the period 2019-2022	1
3	Completeness of data not available in the company's financial report)	3
	Number of Companies	**15**
	Research Period	**4**
	Number of Observation Samples	**60**

Source: Results of Development by Researchers (2023)

The data analysis method used in this study is quantitative analysis. This study uses panel data. Panel data is a collection of data where the behavior of cross-sectional units (such as individuals, companies, and countries) is observed over time (Ghozali 2019). Panel data is used because the data is a combination of annual time series data for 4 years (2019-2022) and cross-section data in the form of mining companies listed on the IDX with the coal mining sub-sector. The panel data regression equation is as follows

$$Yit = \beta 0 + \beta 1\ X1it + \beta 2\ X2it + \varepsilon i$$

Description:
Y = dependent variable
X = independent variable
B0 = constant
ε = nuisance error
N = number of observations
t = is the number of times
N x t = number of panel data

4. Results and Discussion

4.1. Results

Descriptive Statistical Analysis

Descriptive analysis is a method that aims to provide a description or picture of the research subject based on variables obtained from a particular object. The information used in this study is secondary data from company publications via www.idx.co.id. Based on the data obtained from the results of the publication of financial reports on the research sample, the maximum, minimum, and average (mean) results of each variable are obtained, while the descriptive statistical results of the dependent, independent and moderating variables are presented as follows:

Table 2. Descriptive Analysis Results

Description	ROE	DER	RPT	ETR	SIZE
Mean	0.246285	1.888826	0.106871	0.097089	22.23258
Median	0.193965	0.712414	0.063491	0.172975	21.65340
Maximum	1.881155	24.84892	0.525181	4.263952	31.44563
Minimum	-2.558396	0.096539	0.000000	-5.222281	18.50399
Std. Dev.	0.536592	3.766002	0.127354	1.133577	3.355893
Skewness	-1.671899	4.368127	1.951672	-2.356840	1.539860
Kurtosis	15.08807	24.98472	6.042068	17.84766	4.503157
Jarque-Bera	393.2558	1399.125	61.22568	606.6796	29.36038
Sum	14.77708	113.3296	6.412269	5.825344	1333.955
Sum Sq. Dev.	16.98791	836.7836	0.956916	75.81475	664.4589
Observations	60	60	60	60	60

Source: Data Processed (2023)

Based on table 2, it is known that the data observed as a sample amounted to 60. The data is data from coal mining companies for the period 2019-2022 listed on the Indonesia

Stock Exchange and selected according to the established criteria. The first independent variable in this study is profitability, in coal mining companies proxied in table 2 with an average value (mean) of 0.246285 with a standard deviation of 0.536592. The highest value (maximum) on this variable is indicated by the value of 1.88115 while the lowest value (minimum) is at -2.5583966. In the next independent variable, namely the capital structure, the average value (mean) as stated in table 2 is 1.888826 with a standard deviation of 3.766002, while the highest value (maximum) on this variable is indicated by the value of 24.84892 and the lowest value (minimum) is indicated by the number 0.096539. In the last independent variable, namely affiliate transactions (related party transactions), the average value (mean) is 0.106871 with a standard deviation of 0.127354, while the highest value (maximum) on this variable is shown at 0.525181 and the lowest value (minimum) is 0.00

Hypothesis testing is carried out by means of the T-test or t-test between the independent variables partially against the dependent variable, the T-Test is one of the statistical tests used to test the truth or falsity of the hypothesis which states that between two sample means taken randomly from the same population, there is no significant difference. The basis for testing the regression results is carried out with a confidence level of 95% or with a significance level of 5% ($\alpha = 0.05$).

Table 3. T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	0.323316	0.050207	6.439696	0.0000
ROE	-0.076160	0.077184	-0.986740	0.3280
DER	-0.016048	0.008276	-1.938954	0.0476
RPT	-0.325004	0.232459	-1.398113	0.1676

Source: Data Processed (2023)

Based on the results of the t-test as presented in table 3, the following equation can be obtained:

$$Y= 0,3233-0,07616 (X_1) - 0,016048 (X_2) - 0,325004(X_3)$$

Description:
Y: Tax Avoidance (ETR)
X1: Profitability (ROE)
X2: Capital Structure (DER)
X3: Special Relationship Transactions

Based on the equation obtained, it can be concluded that variable X1 has a t-statistic of -0.9867 with a probability value (significance) of 0.3280 (>0.05), so it can be concluded that variable X1, namely profitability, does not affect Y, namely tax avoidance behavior, which means Hypothesis H1 is Rejected. variable X2 has a t-statistic of -1.938954 with a probability value (significance) of 0.0476 (<0.05), so it can be concluded that variable X2, namely capital structure, affects Y, namely tax avoidance behavior, which means Hypothesis H2 is Accepted. Variable X3 has a t-statistic of -1.398113 with a probability value (significance) of 0.1676 (> 0.05), so it can be concluded that variable X3, namely affiliated transactions, has no effect on Y, namely tax avoidance behavior, which means that Hypothesis H3 is Rejected.

The F test is used to find out whether the independent variables together (stimulus) affect the dependent variable. The F test is conducted to see the effect of all independent variables together on the dependent variable

Table 4. F Test Results

Description	Value
R-squared	0.509301
Adjusted R-squared	0.443245
S.E. of regression	0.169154
F-statistic	7.710168
Prob(F-statistic)	0.000002

Source: Data Processed (2023)

Based on table 4.9, it is known that the F-Statistic value is 7.710168 with a Prob value (F-Statistic) of 0.000002 (<0.05), so it can be concluded that the Independent Variable (X) has a significant effect simultaneously (simultaneously) on the Dependent variable (Y)

Interaction Test/Moderated Regression Analysis (MRA)

The interaction test or better known as Moderated Regression Analysis (MRA) is a special application of linear multiple regression, where the regression equation contains an element of interaction (multiplication of two or more independent variables). The interaction test or better known as Moderated Regression Analysis (MRA) is carried out through a simultaneous significance test (F statistic test) and an individual parameter significance test (statistic test)

Table 5. Interaction Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	0.353907	0.429415	0.824160	0.4136
ROE	0.564543	0.889741	0.634503	0.5285
DER	-0.050434	0.171164	-0.294656	0.0476
RPT	-2.026517	1.670467	-1.213144	0.2306
SIZE	-0.000553	0.019025	-0.029043	0.9769
ROEXSIZE	-0.028867	0.040090	-0.720054	0.4747
DERXSIZE	0.001617	0.007960	0.203095	0.8399
RPTXSIZE	0.062643	0.062946	0.995184	0.3243

Source: Data Processed (2023)

Based on the results table of the interaction test with the values presented in table 3, the following equation can be obtained:

$$Y=0,353907+0,56454(X_1)-0,0504(X_2)-2,026517(X_3)-0,000553(M)-0,0288(X_1*M)+0,001617\ (X_2*M)+0,06264(X_3*M)$$

Description:
Y: Tax Avoidance (ETR)
X1: Profitability (ROE)
X2: Capital Structure (DER)
X3: Related Party Transactions (RPT)
M: Firm Size (SIZE)
X1M: Profitability (ROE) with Firm Size Moderation (SIZE)
X2M: Capital Structure (DER) with Firm Size Moderation (SIZE)
X3M: Related Party Transactions (RPT) with Firm Size Moderation

Based on the equation obtained, it can be concluded that the variable X1*Z has a t-statistic of 0.720054 with a probability value (significance) of 0.4747 (> 0.05), then it can be concluded that the variable X1*Z, namely profitability with the moderation variable of Firm Size, does not affect Y, namely tax avoidance behavior, which means that the moderation variable cannot strengthen Variable X1 and the Hypothesis H4 is Rejected. Variable X2*Z has a t-statistic of 0.203095 with a probability value (significance) of 0.8399 (> 0.05), then it can be concluded that variable X2*Z, namely capital structure with the moderating variable of Firm Size, does not affect Y, namely tax avoidance behavior, which means that the moderating variable cannot strengthen Variable X2 and Hypothesis H5 is Rejected. Variable X3*Z has a t-statistic of 0.995184 with a probability value (significance) of 0.3243 (> 0.05), it can be concluded that the variable X3 * Z, namely special relationship transactions with the moderating variable of firm size, has no effect on Y, namely tax avoidance behavior, which means that the moderating variable cannot strengthen Variable X3 and the Hypothesis H6 is Rejected.

4.2. Discussion

The Effect of Profitability on Tax Avoidance

The first hypothesis (H1) formulated in this study is a description of profitability on tax avoidance behavior. In the case of tax avoidance practices, it can occur due to weaknesses in several components, namely the legal structure in the field of taxation, laws and regulations, and the level of awareness and compliance of taxpayers with tax provisions, which will facilitate tax avoidance. The emergence of avoidance practices and their relationship with profitability can be explained by agency theory, based on agency theory the agent will carry out everything ordered by the principal, but sometimes the agent acts not in accordance with interests and prioritizes personal interests. High Profitability Value will mean higher income tax borne (Dwiyanti & Jati, 2019). Anggraeni and Oktaviani, (2021) this is in line with Per-17/PJ/2015 Concerning Net Income Calculation Norms which multiply the tax rate payable by gross income before being reduced by tax payable where the amount of CETR will be in line with the company's profitability level. The results of this study are in line with research conducted by Saputra and Asyik (2017) and research conducted by Sari (2021) which states that profitability has no effect on tax avoidance.

The Effect of Capital Structure on Tax Avoidance

Based on the second hypothesis (H2) that has been presented in this study, that capital structure has an influence on tax avoidance behavior. Based on the results of the tests that have been carried out, it shows that the capital structure variable calculated using the Debt Equity Ratio (DER) ratio has a positive effect on tax avoidance behavior carried out by the research subjects. This shows that there is an erosion of the amount of tax debt owed by using interest expenses that are in line with the debt ratio used by the company, the greater the use of the debt ratio in capital, the greater the interest debt that needs to be paid by the company, which according to the Taxation Law, the interest can be used to reduce taxable income. The results obtained are in line with the research results of Aulia and Mahpudin (2020) and Abdul et al. (2021) which show that Capital Structure has an influence on Tax Avoidance Behavior.

The Influence of Affiliate Transactions on Tax Avoidance.

Based on the third hypothesis (H3) that has been previously explained in this study, how do Special Relationship Transactions affect tax avoidance behavior? Based on the results of partial testing, it shows that Related Party Transactions do not affect tax avoidance behavior. One of the reasons that Special Relationship Transactions cannot affect tax avoidance practices is the existence of regulations governing the determination of transfer pricing documents that must be reported by Taxpayers with certain criteria and are used by the Directorate General of Taxes in terms of supervision of transactions with related parties. In carrying out tax planning, many multinational companies utilize Special Relationship Transactions with related parties to save taxes owed. The large number of multinational companies that have relations outside the Indonesian tax jurisdiction is closely related to the interaction of tax provisions between countries. According to the OECD (2021), the problem is that each country has full sovereignty in designing a tax provision system that has the potential to encourage the increasing prevalence of artificial schemes carried out by separating the nexus between taxable profit and activities carried out in obtaining company profits. The results obtained are in line with the results of research Putri and Mayangsari (2023) which show that special relationship transactions have no effect on Tax Avoidance Behavior and the effectiveness of government regulations governing special relationship transactions.

The Effect of Profitability on Tax Avoidance Behavior with firm size Moderation

Based on the fourth hypothesis (H4) as previously explained in this study, how does the Moderation Variable, namely firm size (Size) affect Profitability on tax avoidance behavior? The results of the partial test showed that firm size (Size) cannot influence or strengthen the relationship between profitability and tax avoidance behavior. One of the reasons why firm size does not affect profitability in terms of tax avoidance is the close use of technology in increasing effectiveness and efficiency in providing services and guidance from the tax authorities to their taxpayers, and through online service-based administration, the tax authorities will have new capabilities that are better in supporting big tax data analysis in supporting organizational productivity. In addition to the use of technology that can have a wide reach in serving taxpayers and can increase taxpayer trust, the government is carrying out comprehensive fiscal policy reforms. Profitability is closely related to firm size, the larger the firm size, the greater the profits generated will tend to be due to wider market coverage and better operational capabilities along with a better level of investor trust than smaller companies (Nainggolan et al., 2022)

The Effect of Capital Structure on Tax Avoidance Behavior with firm size Moderation

Based on the fifth hypothesis (H5) as previously explained in this study, regarding how the moderating variable, namely firm size (Size) in terms of influencing Capital Structure on tax avoidance behavior carried out by research subjects. The results of the partial test showed that firm size (Size) could not influence or strengthen the relationship between Capital Structure and tax avoidance behavior. One of the causes that is one of the causes of firm size not affecting the capital structure in tax avoidance practices is because the use of debt in the capital structure will be directly proportional to the size of the company and the level of trust of the debtor in lending the funds. This is in line with the pecking order theory which states the correlation between debt use and the level of debt use by management. In addition, this theory is reinforced by the research results of Meilyani, et al. (2019). Capital structure is a variation of changes in the composition of the capital structure that can change the amount of the weighted average cost of capital that affects the company's assessment. Determining the capital structure in the company's operations is considered a very important problem, this is because it will directly affect the company's financial position which ultimately affects the value and sustainability of the company.

The Influence of Special Relationship Transactions on Tax Avoidance Behavior with firm size Moderation

Based on the sixth hypothesis (H6) as previously explained in this study, regarding how the moderating variable, namely firm size (Size), influences Special Relationship Transactions on tax avoidance behavior carried out by research subjects. The results of the partial test showed that firm size (Size) cannot influence or strengthen the relationship between Special Relationship Transactions and tax avoidance behavior. One of the reasons why firm size cannot strengthen Affiliate Transactions with tax avoidance practices is the supervision of the Directorate General of Taxes Supervision System related to Related Party Transactions carried out between companies, such as the obligation for companies to create and report Transfer Pricing Documents used by the tax authorities in enforcing the principle of customary business practices for transactions that occur between parent companies and subsidiaries as regulated in the Regulation of the Minister of Finance number 213/PMK.03/2016 (Supriyadi, 2022).

5. Conclusion

Based on the results of the study and discussion of the study on the Influence of Profitability, Capital Structure, and Related Party Transactions on Tax Avoidance with Firm Size as a Moderating Variable in Coal Mining Subsector Companies Listed on the Indonesia Stock Exchange in 2019-2022, it was concluded that profitability and related party transactions have no effect on tax avoidance behavior, but this is not in line with the capital structure variable that affects tax avoidance behavior. The moderating variable, namely Firm Size, cannot strengthen the relationship between the three variables, namely profitability, capital structure and affiliated transactions on tax avoidance behavior.

The limitations of this study lie in the research year which is only limited to 4 years while the regulations and reforms carried out by the Directorate General of Taxes are always carried out continuously dynamically, moreover, the companies used as samples in the study cannot represent all mining companies operating in Indonesia. Finally, testing tax avoidance behavior is only carried out on the Cash Effective Rate (CETR) proxy. Suggestions given to further researchers are to always update the year of the research in line with the dynamics of tax reform and regulations that are always updated by the relevant authorities and to be able to add the variables studied. Suggestions addressed to the Directorate General of Taxes as an agency appointed by the government to always strengthen internal and external supervision and conduct canvassing in exploring the potential of Taxpayers so that justice is created both vertically and horizontally in trying and living in a state system.

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