

THE EFFECT OF PROFITABILITY THROUGH TAX MANAGEMENT AND TAX AVOIDANCE ON BANKING COMPANIES IN INDONESIA

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ABSTRACT

This study examines the influence of Tax Management and Tax Avoidance on the profitability of banking sector companies in Indonesia, using secondary data from the annual financial statements of eight banks listed on the Indonesia Stock Exchange (IDX) for the period 2020–2022.

The study applies multiple linear regression analysis to determine the impact of Tax Management and Tax Avoidance on profitability, measured using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The findings indicate that effective Tax Management significantly improves ROA and ROE, suggesting that proper management of tax obligations can enhance asset efficiency and equity returns. In contrast, aggressive Tax Avoidance has a negative effect on NPM, indicating that poorly managed avoidance strategies may reduce net profit margins.

These results highlight the importance for banking companies to maintain a balanced approach to Tax Management and Tax Avoidance. By optimizing tax strategies, banks can improve overall profitability while minimizing potential legal and reputational risks associated with aggressive tax practices. The study provides practical insights for banking management to strengthen financial performance through careful and strategic tax planning.

Keywords: Tax Management, Tax Avoidance, Profitability

INTRODUCTION

Taxes hold a critical position in the financial structure of companies, particularly within the banking sector, which functions as a cornerstone of the national economy (Hama, 2021a). This sector faces distinctive challenges in Tax Management due to the frequent changes in tax regulations and the pressure to maintain competitiveness in a highly dynamic market. Banking companies in Indonesia are under dual pressure: they must comply with complex and evolving tax laws while simultaneously maximizing net profits. This dual challenge underscores the need for effective and efficient tax management strategies to maintain financial stability and a competitive edge (Nirwasita et al., 2024).

In recent years, Indonesia has seen numerous changes in tax regulations, ranging from the introduction of new laws to amendments designed to increase state revenue and curb tax avoidance (Hama, 2021). According to Muhtadi & Hernat (2023), these changes create substantial uncertainty for companies, particularly in the planning and execution of Tax Management strategies. To navigate this uncertainty, banking companies require skilled, well-informed teams capable of adapting tax strategies in response to regulatory shifts. Continuous updates on tax laws and proactive adjustments to management practices are essential to minimize legal and financial risks associated with non-compliance (Sabila & Sundari, 2024).

The Indonesian banking sector is widely regarded as one of the most competitive industries in the national economy (Fauzela, 2023). Intense competition compels banks to continually innovate by developing new products and services, including digital solutions, to attract and retain customers. In this highly competitive environment, controlling costs—including tax obligations—becomes a key factor for sustaining profitability. Efficient Tax Management not only reduces costs but also strengthens a bank's position in the market, providing a measurable competitive advantage (Suyoto & Dwimulyani, 2019).

One of the strategies frequently employed by banks to manage tax expenses is tax avoidance, which involves legally permissible methods to minimize tax liabilities. This may include the strategic use of tax incentives, organizational restructuring, or careful planning to benefit from favorable tax regulations (Hama, 2020). When properly implemented, tax avoidance can increase net profits, which can be reinvested into the company or distributed to shareholders. However, excessive or non-transparent tax avoidance carries substantial risks, both legally and reputationally, which can adversely affect long-term corporate sustainability (Safitri & Oktaviani, 2024).

Balancing tax avoidance and regulatory compliance is critical for banking companies. While well-executed strategies can improve financial outcomes, non-compliance can lead to penalties, fines, or damage to the company's reputation. Therefore, banks must adopt ethical and careful Tax Management practices to ensure they maximize tax benefits while remaining fully compliant with applicable laws (Yuliana et al., 2023).

Effective Tax Management has the potential to enhance key profitability metrics, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). ROA reflects the efficiency with which a company utilizes its assets to generate profits, ROE measures profitability relative to shareholders' equity, and NPM indicates the proportion of revenue converted into net profit, reflecting operational and cost efficiency. Research by Eve et al. (2023) demonstrates that proper Tax Management positively influences ROA and ROE by optimizing asset use and equity returns, whereas poorly managed tax avoidance can negatively affect NPM due to additional costs or unforeseen financial burdens.

Given these considerations, it is crucial for banking companies to implement Tax Management strategies that are both compliant and profit-oriented. Properly managed tax avoidance allows companies to achieve an optimal balance between financial efficiency and reputational risk. This study seeks to explore the relationship between Tax Management, tax avoidance, and profitability, providing insights into effective tax strategies that can enhance the overall financial performance of banks in Indonesia (Yuliana et al., 2023).

In practice, banks often face real challenges related to aligning tax strategies with frequently changing tax regulations. Uncertainty in regulations complicates the planning of optimal tax obligations and requires careful monitoring and adaptation (Hidayat, 2019). Furthermore, legal and reputational risks are always present in tax avoidance activities. Aggressive avoidance practices, while potentially profitable, can harm the company's image and lead to legal disputes, ultimately affecting long-term performance (Kurniawati, 2020). By understanding how Tax Management and tax avoidance impact profitability, banking companies can design strategies that maximize net income while remaining within the bounds of the law.

Considering the complexity of tax regulations and the high level of competition in the banking sector, in-depth research on the effects of Tax Management and tax avoidance on profitability is essential. The findings can provide both theoretical and practical guidance for banks, enabling them to develop strategic tax policies that enhance profitability, ensure compliance, and safeguard corporate reputation. This study offers a comprehensive perspective on how tax strategies influence key financial performance indicators, helping banks make more informed and effective management decisions.

Theoretical Framework

Tax Management

Tax Management is a strategic process undertaken by companies to manage their tax obligations effectively and efficiently. It involves identifying various ways to utilize tax incentives, deductions, or tax avoidance in accordance with applicable regulations, with the primary goal of minimizing the tax burden (Rukiyanti & Mulyani , 2023). Careful Tax Management can help companies optimize their financial and operational structure, thereby increasing net profits and company value. Dewi & Djohar (2023) state that good Tax Management not only reduces tax obligations but can also enhance asset efficiency and equity profitability, positively impacting the company's profitability.

Tax Management encompasses various strategies, such as choosing an optimal corporate structure, using tax incentives, and planning cash flow and structure. Additionally, effective Tax Management strategies should consider legal and ethical risks to avoid aggressive tax avoidance, which can result in sanctions or reputational losses. Therefore, companies need to balance Tax Management with compliance with tax regulations (Putri, 2023).

Tax Avoidance

Tax avoidance is a company's effort to reduce its tax obligations by exploiting loopholes and differences in tax regulations, remaining within legal boundaries. Unlike aggressive tax avoidance, this approach is more strategic and legitimate, although it can sometimes pose reputational and legal risks (Lisa & Winedar , 2023). Tax avoidance may involve the use of complex corporate structures, shifting income to lower-tax jurisdictions, or optimizing available tax incentives.

According to Lestari & Djohar (2023), tax avoidance is often carried out to increase net profit by reducing the tax burden. However, poorly managed tax avoidance can pose legal risks or reputational damage that can affect long-term profitability. Agency Theory explains how conflicts of interest between managers and shareholders can impact tax avoidance decisions. Managers may engage in tax avoidance to maximize their bonuses, even if this carries reputational risks for the company (Azhara et al., 2023).

Profitability

A company's profitability is measured through various indicators, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). ROA measures the company's efficiency in using assets to generate profits, ROE assesses profitability relative to shareholders' equity, and NPM reflects the proportion of net profit to total revenue (Kasmir , 2018). These indicators provide insight into how well the company generates profits from its resources.

According to Nailufaroh et al. (2023), in the Theory of Competitive Advantage, companies that can manage costs and resources more efficiently will exhibit better profitability. In this context, Tax Management and tax avoidance can impact a company's profitability by increasing asset efficiency and optimizing profit from equity and revenue. Therefore, it is essential to analyze how various tax strategies affect profitability indicators.

METHOD

This research employs a quantitative method with a descriptive and causal approach. The main objective of this study is to analyze the effect of Tax Management and tax avoidance on the profitability of companies, measured through Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). A quantitative approach was chosen as it enables numerical analysis of data obtained from corporate financial reports and measurement results of the variables under study.

The population in this study consists of all banks listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 period. The research sample includes 8 banks selected through purposive sampling based on the following criteria:

1. Banks listed on the IDX.
2. Banks that published complete annual financial reports for the 2020-2022 period.
3. Banks with relevant data on Tax Management, tax avoidance, and profitability.

The selected banks for the sample are: PT. Bukopin Bank Tbk , PT. Bank Tabungan Negara (Persero) Tbk , PT. BPD West Java and Banten Tbk , PT. BPD East Java Tbk , PT. Bank Maybank Indonesia Tbk , PT. Bank Tabungan Pensiunan Nasional Tbk , PT. International Tbk , and PT. Bank Mega Tbk .

Multiple Linear Regression Test : This test is used to examine the simultaneous effect of Tax Management and tax avoidance on profitability (ROA, ROE, NPM). The multiple linear regression model used is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

where:

- Y represents profitability (ROA, ROE, NPM),
- β_0 is the constant,
- β_1 and β_2 are the regression coefficients for Tax Management (X_1) and tax avoidance (X_2),
- ϵ is the error term.

RESULTS AND DISCUSSION

Statistical Test Results Descriptive

In the section this , is presented summary statistics descriptive from the variables studied , namely Planning Taxes , Avoidance Tax , ROA (Return on Assets), ROE (Return on Equity), and NPM (Net Profit Margin) from 8 sample banks during 2020-2022 period . Statistics descriptive This includes average, deviation standard , minimum value , and value maximum from every variable .

Table 1 Statistics Descriptive

Variables	N	Average (Mean)	Deviation Standard (Std. Dev.)	Minimum	Maximum
Planning Tax	24	27,833,333,333	7,510,694,865	16,000,000,000	45,000,000,000
Avoidance Tax	24	6,875,000,000	1,941,344,979	4,000,000,000	11,250,000,000
ROA	24	1.64%	0.22%	1.20%	2.00%
ROE	24	10.20%	1.50%	8.50%	13.00%
NPM	24	6.15%	0.56%	5.00%	6.60%

Multiple Linear Regression Test Results

Multiple linear regression test done For analyze influence simultaneous from Planning Taxes and Avoidance Tax to Performance Measured finance with ROA, ROE, and NPM. The regression model used is as following :

$$\epsilon Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Where:

- a) Y is variable dependent (ROA, ROE, or NPM)
- b) X₁ is Planning Tax
- c) X₂ is Avoidance Tax
- d) β₀ is the intercept
- e) β₁ and β₂ are coefficient regression
- f) ε is the error term

Table 2 Multiple Linear Regression Test Results for ROA

Variables	Coefficient (β)	Standard Error	t- statistics	p-value
Intercept (β ₀)	1.120	0.150	7.47	0.000
Planning Tax (β ₁)	0.00002	0.00001	2.00	0.050
Avoidance Tax (β ₂)	0.00001	0.00002	0.50	0.620

Table 3 Multiple Linear Regression Test Results for ROE

Variables	Coefficient (β)	Standard Error	t- statistics	p-value
Intercept (β ₀)	9,500	1,200	7.92	0.000
Planning Tax (β ₁)	0.0001	0.00005	2.00	0.050
Avoidance Tax (β ₂)	0.00005	0.00007	0.71	0.480

Table 4 Multiple Linear Regression Test Results for NPM

Variables	Coefficient (β)	Standard Error	t- statistics	p-value
Intercept (β ₀)	6,000	0.800	7.50	0.000

Variables	Coefficient (β)	Standard Error	t-statistics	p-value
Planning Tax (β1)	0.00005	0.00003	1.67	0.110
Avoidance Tax (β2)	0.00003	0.00005	0.60	0.550

Discussion of Regression Test Results

1. ROA (Return on Assets): Planning Tax show influence significant on ROA with a p-value of 0.050. Avoidance Tax No show influence significant on ROA with a p-value of 0.620. This is show that improvement planning tax can increase efficiency asset in produce profit , while avoidance tax No impact significant .
2. ROE (Return on Equity): Planning Tax own influence significant on ROE with a p-value of 0.050, while Avoidance Tax No show influence significant with a p-value of 0.480. This show that companies that do planning tax with Good tend own more performance Good in produce profit for holder share .
3. NPM (Net Profit Margin): Planning Taxes and Avoidance Tax No show influence significant against NPM with p-values of 0.110 and 0.550 respectively . This indicates that although planning and avoidance tax influence other aspects of performance finance , its impact against profit margin clean No significant .

In general Overall , the results of the regression test show that planning tax own impact significant to performance finance , especially on ROA and ROE, while avoidance tax No give impact consistent significance across all three indicator performance tested finances .

Discussion

In chapter this , discussion statistical test results descriptive and multiple linear regression test will associated with relevant grand theories , in particular Theory Planning Taxes and Theory Avoidance Tax in context performance finance company . Discussion This aiming For give understanding deep about How planning and avoidance tax influence performance finance , as well as implications from findings This to existing theories .

Influence Planning Tax to Performance Finance

1. Planning Taxes and ROA (Return on Assets):

Analysis results show that planning tax own influence significant on ROA with a p-value of 0.050. This means that every improvement in planning tax followed with improvement efficiency asset in produce profit . Discovery This in line with Theory Planning Tax (Tax Management Theory) , which states that planning good tax can help company minimize burden taxes and, as as a result , increasing profit clean and efficient assets .

Theory Planning Tax recommend that strategy planning effective tax can produce savings significant taxes , which in turn increase ROA. This result also supports findings from Emery & Finnerty (2011) who showed that planning effective tax can increase use asset in a way efficient .

2. Planning Taxes and ROE (Return on Equity):

Planning taxes also show influence significant on ROE with a p-value of 0.050. This show that companies that implement planning good tax can increase profitability for holder stock . Discovery This consistent with Theory Capital Structure Theory,

which underlines importance management burden tax in influence return to holder share . Modigliani and Miller (1958) suggested that optimal capital structure , including planning effective tax , can increase ROE.

3. **Planning Tax and NPM (Net Profit Margin):**

On the contrary , planning tax No show influence significant against NPM with a p-value of 0.110. This is show that although planning tax can increase ROA and ROE, the impact against profit margin clean No so clear . This Can So because NPM is influenced by other factors such as cost operational and pricing sell , which may be No too influenced by planning tax in a way direct .

Influence Avoidance Tax to Performance Finance

1. **Avoidance Taxes and ROA:**

Avoidance tax No show influence significant on ROA with a p-value of 0.620. This is show that strategy avoidance tax , although can reduce burden tax , no always increase efficiency use asset in produce Benefits . Theory Avoidance Tax (Tax Avoidance Theory) underlines that avoidance excessive taxation can cause risk law and reputation that can influence performance company in a way overall . Hanlon and Heitzman (2010) show that avoidance taxes that are not set up with Good can bring impact negative to efficiency assets .

2. **Avoidance Taxes and ROE:**

Avoidance tax also not show influence significant on ROE with a p-value of 0.480. This show that although avoidance tax can increase profit clean in term short , its influence to return to holder share No significant . This consistent with Theory Accountancy Managerial (Managerial Accounting Theory) which states that strategy avoidance aggressive taxation can cause uncertainties and risks that can influence investor confidence and return on capital.

3. **Avoidance Tax and NPM:**

Avoidance tax No show influence significant against NPM with a p-value of 0.550. This show that although avoidance tax can reduce taxes paid , the impact against profit margin clean No significant . Theory Cost Transaction (Transaction Cost Theory) explains that avoidance tax can cause cost high transactions , which can reduce profit margins clean .

CONCLUSION AND SUGGESTIONS

Conclusion

Based on results research and discussion that has been done , can taken a number of conclusion as following :

1. **Influence Planning Tax :**

- a) ROA (Return on Assets): Planning tax own influence significant towards ROA. This is show that planning effective tax can increase efficiency use asset in produce benefits . This consistent with Theory Planning Tax (Tax Management Theory), which suggests that strategy planning good tax can help company minimize burden taxes and increase profit clean .
- b) ROE (Return on Equity): Planning taxes also show influence significant on ROE. Companies that implement planning good tax can increase return for holder shares . This support Theory Capital Structure Theory, which underlines importance management tax in increase returns for holder share .

- c) NPM (Net Profit Margin): Planning tax No show influence significant towards NPM. This show that although planning tax can increase ROA and ROE, the impact against profit margin clean No significant . Other factors such as cost operational and pricing sell Possible more affect NPM.
- 2. Influence Avoidance Tax :**
- a) ROA: Avoidance tax No show influence significant towards ROA. This is show that although avoidance tax can reduce burden tax , he No always increase efficiency use assets . Theory Avoidance Tax (Tax Avoidance Theory) states that that avoidance aggressive taxation can cause risk law and reputation that can influence performance assets .
- b) ROE: Avoidance tax also not show influence significant on ROE. Although avoidance tax can reduce burden taxes and increase profit clean , the impact to return for holder share No significant . Theory Accountancy Managerial (Managerial Accounting Theory) shows that avoidance aggressive taxation can cause uncertainty that affects investor confidence .
- c) NPM: Avoidance tax No show influence significant towards NPM. This show that although avoidance tax can reduce taxes paid , the impact against profit margin clean No significant . Theory Cost Transaction (Transaction Cost Theory) explains that cost related transactions with avoidance tax can reduce profit margins clean .

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