



THE EFFECT OF PROFITABILITY AND EXECUTIVE CHARACTERISTICS ON CORPORATE TAX AVOIDANCE

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Abstract

Tax avoidance practices are a crucial issue in tax accounting because they directly affect state revenue and reflect a company's strategy for legally managing its tax obligations. High profitability and executive decision-making characteristics influence a company's propensity to engage in tax avoidance, particularly in the property, real estate, and building construction sectors, which have relatively complex asset characteristics and funding structures. This study aims to analyze the effect of profitability and executive characteristics on tax avoidance in property, real estate, and building construction companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Profitability is proxied by Return on Assets (ROA), while executive characteristics are proxied by risk-taking, reflecting management's tendency to take on risk. Data were obtained from the company's annual financial statements using purposive sampling based on specific criteria. The analytical method used was panel data regression with a random-effects model. The results show that profitability has a positive and significant effect on tax avoidance, indicating that companies with higher profit levels tend to engage in more aggressive tax planning. In addition, risk-taking executive characteristics also have a positive and significant effect on tax avoidance. The implications of this research are expected to enrich the tax accounting literature and to be considered by regulators and management in improving corporate tax supervision and governance.

Keywords: Executive Characteristic; Profitability; Tax Avoidance

INTRODUCTION

Indonesia's tax system uses a self-assessment system, giving taxpayers full authority to calculate, pay, and report their own tax obligations. This system is designed to increase (Nurfitriani et al., 2024). However in practice, this system creates opportunities for companies to engage in aggressive tax manipulation or planning because of the tax authorities lack of direct control. This condition creates loopholes that allow companies to reduce their tax burden without explicitly violating the law (Fitdra & Inayati, 2022).

One form of tax planning commonly carried out within the self-assessment system is tax avoidance, which is the legal avoidance of taxes by exploiting weaknesses or ambiguities in tax regulations (Dianova, 2023). Although not illegal, tax avoidance is considered detrimental to the state because it can significantly reduce tax revenue (Setyapurnama, 2025).

Monitoring the factors that influence tax avoidance is very important, especially in strategic sectors such as the property, real estate, and building construction industries, which play an important role in supporting national development and have significant tax potential. In practice, companies in this sector face tax compliance challenges that can affect their business sustainability. Tax avoidance is a strategy often used by companies to legally reduce their tax burden, but it can affect state revenue (M. F. Saputra et al., 2015). The phenomenon of tax avoidance in this sector is important to study in depth because it is involved in large-value projects with complex financial structures, which are often the subject of aggressive tax planning, namely components of income, expenses, transactions, or corporate financial structures that can be legally manipulated or arranged in such a way as to reduce the tax burden without directly violating tax laws.

In construction companies, tax avoidance practices are not carried out through corporate income tax avoidance, given that construction service income is subject to final income tax. Tax avoidance in this sector is more commonly carried out through turnover management strategies, project revenue recognition, income source segmentation, and the arrangement of



business structures and transactions between entities. These practices are carried out legally by utilising managerial discretion and regulatory loopholes, but they have the potential to reduce state tax revenue (Indarto et al., 2024). Although construction service income is subject to final income tax and therefore does not give rise to corporate income tax obligations, tax avoidance practices in construction companies are still relevant to examine. Therefore, tax avoidance in this study is understood as a form of overall corporate tax aggressiveness, not merely corporate income tax avoidance.

Company profitability is one factor that can influence tax avoidance. Several studies show that the higher a company's profitability, the lower its tendency to engage in tax avoidance, because it has a better ability to manage its tax obligations (Kepramareni et al., 2020). However, studies also find that high profitability can trigger tax avoidance as a strategy to maximize net profit (Sulaeman, 2021). Other research results from (Murdhaniingsih et al., 2025) indicate that financial structure and the company's ability to cover interest expenses play important roles in influencing tax avoidance behavior. This shows that there is diverse research on the relationship between profitability and tax avoidance.

Executive character also influences companies' tax avoidance practices. Risk-taking executives tend to be more aggressive in exploiting loopholes in tax regulations to reduce the company's tax burden (Trihatmoko & Amanah, 2025). Executive characteristics have a significant positive effect on tax avoidance (M. F. Saputra et al., 2015).

Diverse findings have been produced from studies examining profitability, executive character, and corporate governance. This shows that the industry context plays an important role in influencing the relationship between these variables and tax avoidance. It is important to conduct similar studies focusing on the property, real estate, and building construction sectors in order to obtain more relevant results (Kepramareni et al., 2020).

Based on the above description, further research is needed to examine the influence of profitability and executive character on tax avoidance in property, real estate, and building construction companies listed on the Indonesia Stock Exchange. Thus, this research can provide a more comprehensive understanding of the factors that influence tax avoidance in this sector. This is also expected to help improve tax compliance and state revenue from the property, real estate, and building construction sectors.

LITERATURE REVIEW

Agency Theory

Agency theory explains the relationship between owners (principals) and managers (agents) in a company. This theory explains that conflicts of interest can arise when managers, who are owners and are mandated to run the company, act in their own interests, such as by engaging in tax avoidance to improve short-term financial performance (Zardkoohi et al., 2017). This theory is relevant for explaining how executive characteristics, such as risk-taking, can influence tax management decisions (M. D. Saputra et al., 2019). Oversight mechanisms such as corporate governance to prevent management from abusing its authority.

Tax Avoidance

Tax avoidance is a form of tax planning that exploits loopholes or imperfections in tax regulations to reduce the tax burden while remaining within the legal framework (Anindya, 2025). Unlike tax evasion, which is illegal, tax avoidance is considered legal but is often questioned ethically because it reduces state revenue (Alstadsæter et al., 2022). Some tax avoidance techniques include transfer pricing, excessive expense recognition, or the use of complex corporate structures (Muljadi et al., 2022). In a self-assessment system, tax avoidance becomes increasingly difficult to monitor because the government relies on the companies' own reporting. Tax avoidance is proxied by the following calculation:



$$ETR = \frac{\text{Tax Expense}}{\text{Income Before Tax}}$$

Profitability

Profitability reflects a company's ability to generate profits from its operational activities. Profitability is an important indicator for assessing a company's efficiency, effectiveness, and financial health (Kepramareni et al., 2020). In the context of taxation, companies with high profitability have an incentive to engage in tax avoidance to maintain their after-tax profits (Sulaeman, 2021). However, there is also a view that highly profitable companies will be more compliant with their tax obligations to maintain their reputation and public legitimacy (Lastanti & Salim, 2018). One of the financial ratios used to measure a company's ability to generate profits from its total assets is proxied by return on assets (ROA). ROA is calculated using the following formula:

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$$

Executive Character

Executive character refers to the personal traits and managerial behaviors of company leaders, such as chief executive officers (CEOs), that can influence strategic decision-making. One important characteristic is attitude toward risk (risk-taking), whereby risk-takers tend to be more aggressive in their decision-making, including in tax planning (Li & Wu, 2022). Previous research shows that executive character positively affects tax avoidance practices, as executives with a high risk orientation are more likely to exploit loopholes in tax regulations (M. D. Saputra et al., 2019). Therefore, executive character is an important variable in understanding managerial motivation for tax avoidance. The following are proxies for calculating executive character (Sidauruk & Putri, 2022).

$$RISK = \frac{EBITDA}{\text{Total Assets}}$$

METHODS

This study is quantitative and associative. The main assumption used in this study is that secondary data derived from companies' annual financial reports reflect real conditions and are reliable. The associative method is used to test the effect of independent variables (profitability and executive character) on the dependent variable (tax avoidance) in the specified company population. Hypothesis testing is conducted using statistical data analysis in Eviews.

The population in this study consists of companies in the property, real estate, and building construction sectors listed on the Indonesia Stock Exchange. The sample was selected using purposive sampling based on specific, predetermined criteria. The research sample criteria were set as property, real estate, and building construction companies listed on the Indonesia Stock Exchange from 2020 to 2024, companies that compiled and published financial reports ending for the 2020-2024 period, and property, real estate, and building construction companies that did not experience losses in pre-tax profits for the 2020-2024 period. Thus, 35 data points were collected for analysis, and the data analysis technique used in this study was panel data regression to determine the partial effects of profitability and executive characteristics on tax avoidance, followed by hypothesis testing using the t-statistic.

The data analysis model used is panel data regression analysis, which is expressed in the following equation:

$$\text{TAXAVD}_i = \alpha + \beta_1 \text{ROA}_i + \beta_2 \text{RISK}_i + \varepsilon$$

TAXAVD = Tax avoidance (ETR)
ROA = Profitability (ROA)
RISK = Executive Character
 α = Constanta



β_1, β_2 = Regression coefficient
 ε = Error

RESULTS AND DISCUSSION

Descriptive Statistical Test

Table 1. Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Standar Deviation
ETR	35	-0.005576	0.419133	0.057561	0.076365
ROA	35	-0.036385	6.985167	0.492066	1.260589
RISK	35	-0.007124	0.411851	0.039919	0.071557

Source: Processed data (2025)

Based on descriptive statistics, the Tax Avoidance variable (Y_ETR) has an average of 0.057561, indicating that tax avoidance among companies in the research sample is relatively low. The minimum value of -0.005576 and the maximum of 0.419133 indicate considerable variation in tax avoidance practices across companies, though the dispersion is moderate, with a standard deviation of 0.076365.

The Profitability variable (X1_ROA) shows an average value of 0.492066, which reflects the company's fairly positive profitability. The minimum value of -0.036384 and maximum value of 6.985167 indicate significant differences in profitability levels between companies, including companies with very high or negative profitability, which stems from the recognition of tax expenses that are greater than pre-tax profits. This high variation is reflected in the standard deviation of 1.260589. The Executive Risk variable (X2_RISK) has an average value of 0.039919, which is relatively small compared to profitability, with a minimum value of -0.007124 and a maximum value of 0.411851, indicating that the variation in executive risk between companies is still within a relatively limited range. The standard deviation of 0.071557 indicates that the variation in executive risk between samples is fairly controlled.

Panel Data Model Estimation and Model Testing

Table 2. Chow Test Result

Fixed Effects Test			
Effects Test	Statistic	d.f	Prob
Cross-section F	9.126631	(6.26)	0.0000
Cross-section Chi Square	39.668391	0	0.0000

Source: Processed data (2025)

Based on Table 2, the Cross Section F value is < 0.05 , so H_0 is rejected and it can be concluded that FeM is more appropriate to use.

Table 3. Hausman Test Result

Hausman Test			
Test Summary	Chi-sq. Statistic	Chi-sq. d.f	Prob
Cross-section random	0.392743	2	0.8217

Source: Processed data (2025)

Based on Table 3, the Cross-Section Random (Prob.) value > 0.05 , so H_0 is accepted and it can be concluded that ReM is more appropriate to use.

Table 4. Lagrange Multiplier Test Result

Lagrange Multiplier Test Result			
	Cross-section	Test Hypothesis Time	Both
Breush-Pagan	23.86106 (0.0000)	1.316148 (0.2513)	25.17721 (0.0000)
Honda	4.884778 (0.0000)	-1.147235 (0.8744)	2.642842 (0.0041)
King- Wu	4.884778	-1.147235	2.200761



(0.0000)	(0.8744)	(0.0139)
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Source: Processed data (2025)

Based on Table 4, the Cross-section Breusch-Pagan value is < 0.05 , H_0 is rejected and it can be concluded that ReM is more appropriate to use in this study.

F-Test (Simultaneous)

Table 5. F-Test Results

R-squared	0.964995	Mean dependent var	0.023548
Adjusted R-squared	0.962662	S.D. dependent var	0.065834
F-Statistic	413.5159	Sum squared resid	0.004871
Prob (F-Statistic)	0.000000	Durbin-Watson stat	2.098515

Source: Processed Data (2025)

Based result, simultaneous f-test results, the probability value is 0.0000, which means that simultaneously profitability and executive character have a significant effect on tax avoidance.

Hypothesis Testing

Table 6. t-Test Results

Variable	Coefficient	Std.Error	t-stat	Prob
Constant	0.006869	0.006488	1.058766	0.2982
ROA	0.041232	0.011746	3.510147	0.0014
RISK	1.028937	0.035702	28.82013	0.0000

Source: Processed Data (2025)

Based on the results of regression analysis using the selected Random Effect Model (REM), the following equation was obtained:

$$\text{TAXAVD}_i = 0.006869 + 0.041232\text{ROA}_i + 1.028937\text{RISK}_i + \varepsilon$$

The constant value in this study is 0.006869. This means that even though ROA and RISK have no effect, TAXAVD remains at this small level. However, because the value is not statistically significant, this constant is not important enough to discuss further, but it is still necessary in the model.

Hypothesis 1: Profitability has a positive effect on tax avoidance

The ROA coefficient shows the extent to which profitability (ROA) affects TAXAVD. A value of 0.041232 means that if ROA increases by 1 unit, TAXAVD also increases by approximately 0.0412 units, assuming other variables remain unchanged, and the probability value is $0.0014 < 0.05$. This result is statistically significant, indicating that profitability affects tax avoidance.

Hypothesis 2: Executive character has a positive effect on tax avoidance

RISK coefficient shows how much the character of executives who are willing to take risks affects TAXAVD. The value of 1.028937 means that if the risk-taking character of executives increases by 1 unit, TAXAVD will increase by approximately 1.029 units, and the Prob value is $0.0000 < 0.05$, indicating that the more risk-taking an executive is, the greater the tendency for the company to engage in tax avoidance. Therefore, executive character has a significant effect on tax avoidance. The results of this regression indicate that ROA and RISK have a positive, significant effect on tax avoidance in Property, Real Estate, and Building Construction companies during the research period.\

The Effect of Profitability on Tax Avoidance

The profitability variable, proxied by Return on Assets (ROA), shows a positive coefficient of 0.041232 on tax avoidance. The probability value of $0.0014 < 0.05$ indicates that profitability has a positive and significant effect on corporate tax avoidance. The first



hypothesis (H1) states that profitability has a positive effect on corporate tax avoidance, H1 is accepted.

Profitability has a positive and significant effect on tax avoidance because it reflects a company's financial performance; the higher the profitability, the greater the profit generated by the company. The profit generated by a company is the basis for income tax assessment, so the higher the profit, the higher the income tax, which encourages companies to reduce their tax burden to maintain net profit after tax. Thus, the tendency for companies to engage in tax avoidance increases.

The results of this study are in line with previous research (Praditasari & Setiawan, 2017) which shows that profitability has a positive effect on tax avoidance, indicating that companies with higher profits have a stronger incentive to reduce their tax burden. Profitability has a significant positive effect on tax avoidance, indicating that more profitable companies are more inclined to avoid taxes (Sulaeman, 2021).

The results of this study are not in line with research by (M. F. Saputra et al., 2015) which found that profitability has a significant negative effect on tax avoidance, suggesting that companies with higher profits tend to comply with their tax obligations.

The Effect of Executive Character on Tax Avoidance

The test results show that the executive character variable (RISK) has a positive coefficient of 1.028937 on tax avoidance. The probability value of $0.0000 < 0.05$ indicates that executive character has a positive and significant effect on tax avoidance. The second hypothesis (H2) states that executive character has a positive effect on tax avoidance, H2 is accepted.

Executive character has a significant effect on tax avoidance: the higher executives' risk-taking tendency, the greater the likelihood of companies engaging in tax avoidance practices. This shows that the courage of executive managers in taking risks influences more aggressive tax strategies to reduce the company's tax burden. Thus, executive character is an important factor to consider in analyzing tax avoidance behavior in companies, because executives' risk-taking attitudes can lead to decisions that prioritize tax efficiency, even though this may entail legal and reputational risks.

These results are in line with agency theory, which holds that executives, as company managers, have the freedom to determine strategies, including tax strategies. Risk-taking executives often choose tax avoidance strategies because they are seen as increasing net profits and providing short-term benefits to shareholders.

The results of this study are in line with previous research conducted by (M. F. Saputra et al., 2015) which shows that executive character has a significant positive effect on tax avoidance, meaning that executives who are willing to take risks tend to encourage aggressive tax strategies. (Karina et al., 2024) showed that executive character indicates that a risk-taker attitude encourages tax avoidance. Executive character has a positive effect on tax avoidance, because executive personality plays a role in tax management strategies (Kepramareni et al., 2020). (Butje & Tjondro, 2014; Khoirunisa & Tjaraka, 2024) show that executive character has a positive effect on tax avoidance, because executives with aggressive profiles are more likely to pursue tax efficiency even if it is risky.

The results of this study are not in line with the research conducted by (Harlan & Tris, 2020), which shows that executive character does not have a significant effect on tax avoidance, meaning that the personality factors of top leaders do not always determine a company's tax policy.



CONCLUSION

Based on the study's results, it can be concluded that profitability and executive character positively affect tax avoidance in companies in the property, real estate, and building construction sectors. High profitability increases taxable income, thereby encouraging companies to implement tax avoidance strategies to maintain net income after tax. Executive characters who tend to take risks encourage the adoption of more aggressive tax policies to reduce the company's tax burden. These findings indicate that internal company factors, particularly financial performance and decision-making behavior, significant role in shaping tax avoidance practices.

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