The Influence of Corporate Reputation, Available Slack, Company Size, and Leverage on Tax Avoidance

Moh. Sodikin 1,
Aminatuzzuhro 2*,
Rodhiyah 3

1,2,3 Department of Accounting, Faculty of Economics and Business, Universitas Wijaya Putra, Indonesia

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Research Aims: This research aims to examine the influence of company reputation, available slack, company size, and leverage on tax avoidance.

Design/Methodology/Approach: The research sample consists of 139 company-year observations from companies in the mining and construction industry (SIC 1) listed on the Indonesia Stock Exchange during the period 2020-2022. Multiple linear regression is used as the data analysis technique to address the research hypotheses.

Research Findings: The results indicate that company reputation and leverage have a significant negative effect on tax avoidance. Meanwhile, available slack and company size have a significant positive effect on tax avoidance.

Theoretical Contribution/Originality: This research is expected to enrich the literature on factors influencing tax avoidance and provide a strong foundation for the government and regulators to optimize revenue from the tax sector by considering the factors influencing corporate tax avoidance in the mining and construction sectors.

Keywords: Available Slack, Leverage, Company Reputation, Company Size, Tax Avoidance

Introduction

As a country whose majority of revenue comes from taxes, Indonesia relies on tax income to fund various government programs and activities, including infrastructure, education, health, and other public services. However, during the Covid-19 pandemic, there has been a decrease in economic activity, including declines in various industrial sectors [1]. This has led to a reduction in income for many individuals and companies, which in turn has resulted in a decrease in tax revenue received by the government. The Indonesian government has always endeavored to address this challenge through various policy measures, including economic stimulus, tax incentives, and support for affected sectors. Tax incentives provided include the government-bearing final income tax, a reduction in the corporate income tax (article 5 paragraph (1) of income tax), and the exemption of import tax (article 22 of income tax) [2]. According to Firmansyah & Ardiansyah [3] also add that the reduction of the installment payment of income tax article 25 is another tax incentive.
Policies related to tax incentives certainly have an impact on the decrease in state revenue in the tax sector [4]. This can be seen from the tax realization in 2020 amounting to 1,285.1 trillion, experiencing a decrease from 2019 where tax realization was 1,343.5 trillion. However, according to Fajry in Heriani [5] assesses that the provision of incentives and tax relaxations during the pandemic has been quite effective. This is evidenced by tax realization in 2021 and 2022 which has experienced an increase exceeding the set targets. Certainly, this achievement is a cause for celebration after 12 years of tax revenue never exceeding the set targets [6].

Table 1. Target and Realization of Tax Revenue for the Years 2012 – 2022

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>Realization</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>743.3</td>
<td>723.3</td>
<td>97.3</td>
</tr>
<tr>
<td>2013</td>
<td>878.7</td>
<td>873.9</td>
<td>99.5</td>
</tr>
<tr>
<td>2014</td>
<td>1,016.2</td>
<td>980.5</td>
<td>96.5</td>
</tr>
<tr>
<td>2015</td>
<td>1,148.4</td>
<td>1,077.3</td>
<td>93.8</td>
</tr>
<tr>
<td>2016</td>
<td>1,246.1</td>
<td>1,146.9</td>
<td>92.0</td>
</tr>
<tr>
<td>2017</td>
<td>1,489.3</td>
<td>1,240.4</td>
<td>83.3</td>
</tr>
<tr>
<td>2018</td>
<td>1,539.2</td>
<td>1,285.0</td>
<td>83.5</td>
</tr>
<tr>
<td>2019</td>
<td>1,472.7</td>
<td>1,343.5</td>
<td>91.2</td>
</tr>
<tr>
<td>2020</td>
<td>1,404.5</td>
<td>1,285.1</td>
<td>91.5</td>
</tr>
<tr>
<td>2021</td>
<td>1,444.0</td>
<td>1,546.5</td>
<td>107.1</td>
</tr>
<tr>
<td>2022</td>
<td>1,485.0</td>
<td>1,716.8</td>
<td>115.6</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance2020, processed (Trillion Rupiah)

The significant revenue from the tax sector drives the government to continuously optimize tax revenue. In practice, governmental efforts often face several obstacles, one of which is related to tax avoidance practices by taxpayers. Tax avoidance is the process of controlling actions to avoid undesirable tax consequences and is a legal action [7]. Tax avoidance is considered legal because the methods used generally exploit gaps or deficiencies in existing tax regulations [8]. However, the essence of tax avoidance is not in line with the purpose of tax regulation, where on one hand, it tends to be done by taxpayers to reduce the amount of tax payable, but on the other hand, it is sought to be prevented by the government to achieve tax revenue optimization [9].

One sector that often engages in tax avoidance is the mining and construction sectors. With natural resource wealth, the mining sector is vulnerable to tax avoidance practices due to the substantial profits that can be gained from mining activities. This is supported by several pieces of evidence from the government, indicating that 70% of Mining Business License (IUP) holders do not have Taxpayer Identification Numbers (NPWP) and are unwilling to provide data to the Directorate General of Taxes (DJP) [9]. On the other hand, construction projects often involve different contractor, subcontractor, and supplier networks, creating loopholes to blur financial trails and avoid tax obligations. Therefore, it is important to understand the factors
that can encourage (prevent) companies in the mining and construction sectors from engaging in tax avoidance activities.

This research aims to investigate the influence of company reputation, available slack, company size, and leverage on tax avoidance in mining and construction sector companies listed on the Indonesia Stock Exchange (BEI) during the period 2020 – 2022. This research was conducted between 2020 and 2022 because during this period, significant tax incentive policies were implemented in response to the economic impact of the COVID-19 pandemic. In this context, the tax incentive policies enacted by the government could serve as additional opportunities or incentives for companies to engage in tax avoidance practices. Thus, this research aims to understand how company reputation, available slack, company size, and leverage can influence tax avoidance amidst the decrease in income caused by the COVID-19 pandemic.

Furthermore, this study expands on previous research related to factors influencing tax avoidance such as managerial ability [10], CEO power [11], CEO gender [12], CEO greed [13], CEO narcissism, financial distress risk, and company size [14], CEO overconfidence [10], [15], independent commissioners [8], managerial incentives [16], ownership structure [17], environmental disclosure [18], and ESG performance [19]. The research results indicate that company reputation and leverage have a significant negative impact on tax avoidance, while available slack and company size have a significant positive impact on tax avoidance.

This research is expected to contribute both to the literature and practical applications. In terms of literature, this study expands understanding of the factors influencing tax avoidance practices in the mining and construction sectors and provides a foundation for further research in this context. By including company characteristic variables such as company reputation, available slack, company size, and leverage, this research adds a more comprehensive understanding of the dynamics of tax avoidance in these specific sectors. Furthermore, by comparing findings with previous research, this study also contributes to the development of theory and understanding of tax avoidance in general.

Practically, this research provides a strong foundation for the government and regulators to optimize revenue from the tax sector by considering the factors influencing tax avoidance practices of companies in the mining and construction sectors. This study offers valuable insights for those involved in tax policy management to enhance tax compliance and prevent tax avoidance that could reduce national revenue.

**Literature Review**

*Agency Theory*

According to the agency theory proposed by Jensen & Meckling [20], managers do not manage their own money but rather the money of the company's owners. This
means that they may not always treat that money as carefully as they would their own. Similar to individuals employed by a wealthy person, they might be less concerned with minor details because they do not feel the same level of responsibility as the owner. Therefore, there is a possibility of negligence and wastefulness in managing such companies.

The agency theory describes the relationship between the owner (principal) and agent as a contract in which the owner delegates decision-making authority to the agent [21]. This often leads to conflicts of interest between them. The issue of the principal-agent relationship has been addressed in Ross [22] and the theological literature proposed by Jensen & Meckling [20], stating that the agent is the one who leads the management of the company while the principal is the owner of the company [23]. The study of Bosse & Phillips [24] argue that agency problems arise as a choice in corporate governance (principal) and behavior is the result of actions by corporate leaders (agents) who manage the company.

For example, agency conflicts arise when management's interest (agent) in tax avoidance conflicts with the owner's (principal) interest in maximizing the company's long-term value [23]. Management has incentives to avoid taxes so that profits are not eroded by high taxes, but this may contradict the interests of owners who want the company to comply with tax rules and make a fair contribution to the government [25]. Therefore, in an effort to minimize tax burdens, management may employ aggressive tax avoidance strategies, which can lead to conflicts with the long-term interests of the company and shareholders. In this context, agency theory highlights the importance of management in balancing between increasing company profits and complying with tax obligations, as well as ensuring that decisions made do not harm the long-term interests of the company and shareholders.

Corporate Reputation and Tax Avoidance

The influence of corporate reputation on tax avoidance can be explained through the concept of reputation costs. Reputation costs are financial losses or damage to reputation that arise when a company engages in behavior detrimental to its reputation in the eyes of the public or other stakeholders [26]. In the context of tax avoidance, companies engaged in aggressive tax avoidance actions may face the risk of reputation costs. Companies with a good reputation may suffer reputational damage in the eyes of the public when involved in tax avoidance practices. Society may view such companies as unethical or socially irresponsible [27]. Additionally, governments and regulators may also negatively highlight such companies, which can impact the company's relationship with regulators and its legal repercussions [28]. High reputation costs due to involvement in tax avoidance may include loss of sales, decline in consumer trust, and legal or administrative sanctions [26]. This can affect the long-term financial performance of the company, especially if the company's reputation is consistently disrupted. Particularly in the mining and construction sectors, which rely on permits and government support for their operations, negative
media coverage and detrimental public sentiment resulting from tax avoidance practices can lead to more serious consequences such as delays or denial of new permits, withdrawal of government support, or even legal action against the company [29]. Therefore, this research suggests that companies with a good reputation are less likely to engage in tax avoidance due to the risk of reputation costs. Thus, the first hypothesis in this study is:

H1: Corporate reputation has a negative and significant effect on tax avoidance.

Available Slack and Tax Avoidance

In the context of agency theory, available slack can provide management with the opportunity to reduce the taxes the company must pay. Management often has incentives to maximize their own interests, which often conflict with the long-term interests of shareholders [20]. With high available slack, management has greater flexibility to take actions using internal funds [30], including in corporate tax reduction strategies. For example, management can use available slack to invest in legitimate tax reduction programs, such as investing in assets eligible for tax incentives. Additionally, management can also use available slack to hire tax consultants or develop complex tax planning strategies to optimize available tax benefits. Thus, high available slack provides management with the opportunity to effectively reduce taxes, aligning with the agency incentives to enhance their own profits. In line with this argument, this study proposes the following hypothesis:

H2: Available slack has a positive and significant effect on tax avoidance.

Company Size and Tax Avoidance

Company size can determine the magnitude of the total assets owned by the company, where the larger the total assets of the company, the higher the productivity of the company. Research by Dewi [31] and Rizky & Puspitasari [32] shows that significant total assets allow companies to succeed in the long term. Additionally, company size can also be used to measure the efficiency of tax avoidance plans [33]. As the company grows, transactions become more complex, and revenue increases. The higher the revenue obtained by the company, the higher the taxes the company must pay. Therefore, larger companies tend to be involved in tax avoidance schemes to reduce the amount of tax that the company should bear. Based on agency theory, management may have incentives to increase their personal profits, including by engaging in tax avoidance [34]. In larger companies, this incentive becomes stronger because management has more resources to better plan taxes. Research by Suryatna et al. [33] and Paramita et al. [21] found that company size has a positive and significant effect on tax avoidance. Thus, the third hypothesis of this study is:

H3: Company size has a positive and significant effect on tax avoidance.

Leverage and Tax Avoidance
The debt-to-equity ratio calculates how much of a company's obligations are covered by its equity [35]. Companies with high debt-to-equity ratios have a high dependency on debt [23]. In agency theory, management often has incentives to maximize their own interests, which often conflict with the long-term interests of shareholders [20]. However, when companies face higher bankruptcy risks due to excessive debt use, management also has incentives to sustain the company as it can affect their performance assessments. Thus, management is more focused on long-term sustainability by improving operational efficiency strategies and maintaining competitive advantages [36].

Companies with high levels of debt have incidentally enjoyed lower tax payments because loan interests can be tax-deductible costs [37], reducing management's incentives to engage in tax avoidance practices detrimental to the company. Management understanding the higher bankruptcy risk due to excessive debt will avoid activities that could harm the company's reputation [36] because of reputation risks such as loss of shareholder trust, decreased consumer loyalty to products, and tighter scrutiny from regulators and creditors [26]. This will lead to decreased financial performance and increased risk of default and bankruptcy. Research conducted by Siregar et al. [37] found that leverage has a significant negative impact on tax avoidance. Thus, the fourth hypothesis of this study is:

H4: Leverage has a negative and significant effect on tax avoidance.

Method
Sample and Data

This research utilizes a sample of companies listed on the Indonesia Stock Exchange (IDX) in the mining and construction sectors for the period 2020 – 2022. The study categorizes companies' industries based on the Standard Industrial Classification (SIC). Thus, the sample used consists of companies classified under classification 1 according to the one-digit SIC code classification. Data used to construct all variables in this study were obtained from the companies' financial reports. After excluding missing data and negative pre-tax profits, a final sample of 139 company-year observations was obtained. In detail, the criteria for selecting the sample are listed in Table 2.

<table>
<thead>
<tr>
<th>Description</th>
<th>Observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEI listed construction and mining companies (2020–2022)</td>
<td>291</td>
</tr>
<tr>
<td>Missing data: TA</td>
<td>(104)</td>
</tr>
<tr>
<td>Missing data: REPU</td>
<td>(31)</td>
</tr>
<tr>
<td>Missing data: DER</td>
<td>(17)</td>
</tr>
<tr>
<td>Final sample</td>
<td>139</td>
</tr>
</tbody>
</table>
Variables Measurement

*Tax Avoidance.* Tax avoidance (TA), the dependent variable in this study, refers to activities aimed at reducing or deferring tax obligations, as defined by Zeng [38]. This research adopts an approach consistent with previous studies from Oussii & Klibi [11], Chouaibi et al. [39], Gaaya et al. [40], Rakia et al. [41] by using the effective tax rate (ETR) as an indicator of tax avoidance, calculated by dividing the total tax expense by pre-tax profit. This approach encompasses various tax planning and protection strategies [42]. In its analysis, this research excludes company-year data with negative pre-tax profits, considering the meaningless calculation of ETR in such contexts [38]. In this study, the ETR value is then multiplied by negative one for ease of interpretation. Thus, a higher ETR indicates a higher level of tax avoidance as well [43].

*Corporate Reputation.* The first independent variable in this study is corporate reputation, hereafter referred to as REPU. Reputation essentially refers to stakeholders' perceptions of a company's past performance and future predictions compared to similar companies in achieving perceived valuable outcomes [44]. Market capitalization reflects a company's ability to withstand market fluctuations and represents the perception and image of the company in the eyes of investors [45]. Therefore, companies with high market capitalization are considered to have a strong reputation as they exhibit characteristics of stable growth, high liquidity, good performance, and lower risk. Additionally, high market capitalization provides a competitive advantage for a company by indicating excellent quality [44]. In conclusion, companies with large market capitalization tend to have superior reputations in the market and are therefore often regarded as indicators of corporate reputation [44], [47]. Therefore, corporate reputation is measured using the following formula: Corporate reputation = ln (market capitalization).

*Available Slack.* The second independent variable in this study is available slack, hereafter referred to as SLACK. Available slack refers to the surplus resources owned by a company and can be used for various activities or initiatives. Available slack also encompasses resources that are not fully utilized or allocated to planned activities [48]. This includes cash and marketable securities. The liquid nature of available slack allows these resources to be easily utilized by company management at any time [46]. Following previous research by Aminatuzzuhro et al. [46] and Duan et al. [48], this study measures available slack by dividing current assets by current liabilities.

*Company Size.* The third independent variable in this study is company size (FSIZE). Company size can be measured using total assets, sales, or company equity [49]. One benchmark indicating the size of a company is the magnitude of its assets. Companies with large assets indicate that the company has reached a mature stage where cash flow is positive and is considered to have good prospects over a relatively long period, but also reflects that the company is relatively more stable and capable of generating profits than companies with small total assets [50]. Large companies have a broader role in stakeholders, and the policies they implement have a greater impact.
on public opinion compared to small companies, so they tend to be more cautious in financial reporting [14]. Following previous research by Kalbuana et al. [14] and Ardha [50], company size is measured using the natural logarithm of total company assets.

**Leverage.** The last independent variable in this study is leverage (DER). Leverage is a financial ratio that compares the amount of a company's debt to the total equity obtained by the company as a source of financing [37]. This ratio is important for measuring a company's business risk, which increases with the addition of liabilities [51]. Referring to Siregar et al. [37], this study measures leverage by dividing the total debt of the company by total equity.

**Empirical Model**

This study employs multiple linear regression analysis to test the research hypotheses regarding the influence of company reputation, available slack, company size, and leverage on tax avoidance. The study controls for fixed-year effects by including dummy variables for each year [38]. Therefore, the empirical model used is as follows:

\[
TA_{i,t} = \beta_0 + \beta_1 \text{REP}_{i,t} + \beta_2 \text{SLACK}_{i,t} + \beta_3 \text{FSIZE}_{i,t} + \beta_4 \text{DER}_{i,t} + \beta_5 \text{Year FE}_{i,t} + \varepsilon_{i,t} \]

(1)

**Results and Discussion**

**Descriptive Statistics**

Table 3 presents a summary of descriptive statistics for the variables used in this study. The results of descriptive statistical testing show that the variable TA has a minimum value of -0.868 while its maximum value is -0.000, with a mean of -0.277. Furthermore, the variables REPU and SLACK have respective mean values of 29.034 and 0.475. For FSIZE and DER, the mean values are 29.423 and 1.279, respectively. The overall positive value of DER indicates that all samples used in the study have positive equity values.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA</td>
<td>-0.277</td>
<td>-0.235</td>
<td>-0.868</td>
<td>-0.000</td>
</tr>
<tr>
<td>REPU</td>
<td>29.054</td>
<td>29.034</td>
<td>24.594</td>
<td>32.696</td>
</tr>
<tr>
<td>SLACK</td>
<td>0.480</td>
<td>0.475</td>
<td>0.068</td>
<td>0.980</td>
</tr>
<tr>
<td>FSIZE</td>
<td>29.423</td>
<td>29.870</td>
<td>24.952</td>
<td>32.513</td>
</tr>
<tr>
<td>DER</td>
<td>1.279</td>
<td>0.708</td>
<td>0.044</td>
<td>9.030</td>
</tr>
</tbody>
</table>

**Pearson Correlation**

Table 4 shows the results of Pearson Correlation testing. From these results, it is known that REPU correlates positively but insignificantly with TA. Furthermore, SLACK correlates positively and significantly with TA. FSIZE correlates negatively but insignificantly with TA, while DER correlates negatively and significantly with TA. One possible explanation for the insignificant relationship between REPU and
FSIZE with TA is that there are other factors of TA that need to be controlled in the analysis to more clearly measure the relationship between independent variables and TA. Pearson correlation cannot capture this because this test only looks at the monotonic relationship between two variables. Therefore, to answer the research questions, multivariate testing, namely multiple linear regression, is used. Additionally, the results of Pearson correlation can also be used to determine the presence of intercorrelation or multicollinearity among independent variables in a regression model [52]. The test results show that the coefficient values between variables are less than 0.9, indicating that the data in this study does not have multicollinearity problems.

### Table 4. Pearson Correlation

<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[1]</td>
<td>TA</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[2]</td>
<td>REPU</td>
<td>0.015 (0.865)</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[3]</td>
<td>SLACK</td>
<td>0.341*** (0.000)</td>
<td>-0.262*** (0.002)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[4]</td>
<td>FSIZE</td>
<td>-0.074 (0.389)</td>
<td>0.821*** (0.000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[5]</td>
<td>DER</td>
<td>-0.405*** (0.000)</td>
<td>-0.098 (0.253)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>[3]</td>
<td>SLACK</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>[4]</td>
<td>FSIZE</td>
<td>-0.385*** (0.000)</td>
<td>1.000</td>
</tr>
<tr>
<td>[5]</td>
<td>DER</td>
<td>-0.087 (0.310)</td>
<td>0.234*** (0.006)</td>
</tr>
</tbody>
</table>

* t statistics in parentheses
* * * p < 0.01

### Multiple Linear Regression

Table 5 presents the results of multiple linear regression testing. From these results, it can be observed that the variable REPU has a negative and significant effect on TA at the 10% significance level (coef. = -0.030, t-value = -1.920). Thus, H1 is not rejected, meaning that companies with better reputations tend not to engage in tax avoidance practices. Furthermore, the variable SLACK has a positive and significant effect on TA at the 1% significance level (coef. = 0.322, t-value = 4.210). Hence, H2 is not rejected, indicating that companies with more available slack are more likely to engage in tax avoidance practices. Table 5 also indicates that there is a positive and significant effect of FSIZE on TA at the 5% significance level (coef. = 0.043, t-value = 2.380), meaning that larger companies tend to be involved in tax avoidance practices. Thus, H3 is not
rejected. Lastly, the variable LEV has a negative and significant effect on TA at the 1% significance level (coef. = -0.062, t-value = -6.300). This result confirms that H4 is not rejected. It means that companies with higher leverage are less likely to engage in tax avoidance practices. Additionally, from Table 5, it can be observed that the variance inflation factor (VIF) values are less than 10, indicating that the regression model used in this study does not suffer from multicollinearity [53].

Table 5. Multiple Linear Regression

<table>
<thead>
<tr>
<th></th>
<th>(1) TA</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>REPUR</td>
<td>-0.030*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-1.920)</td>
<td></td>
</tr>
<tr>
<td>SLACK</td>
<td>0.322***</td>
<td>1.21</td>
</tr>
<tr>
<td></td>
<td>(4.210)</td>
<td></td>
</tr>
<tr>
<td>FSIZE</td>
<td>0.043**</td>
<td>4.86</td>
</tr>
<tr>
<td></td>
<td>(2.380)</td>
<td></td>
</tr>
<tr>
<td>DER</td>
<td>-0.062***</td>
<td>1.48</td>
</tr>
<tr>
<td></td>
<td>(-6.300)</td>
<td></td>
</tr>
<tr>
<td>_cons</td>
<td>-0.782**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-2.430)</td>
<td></td>
</tr>
<tr>
<td>Year FE</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.305</td>
<td></td>
</tr>
<tr>
<td>R²_adjusted</td>
<td>0.273</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>139</td>
<td></td>
</tr>
<tr>
<td>Mean VIF</td>
<td>2.50</td>
<td></td>
</tr>
</tbody>
</table>

t statistics in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

The Influence of Corporate Reputation on Tax Avoidance

Corporate reputation can be seen as an intangible asset reflecting the global perception of how much a company is valued or esteemed [54]. Corporate reputation can reduce risk or uncertainty [55], help achieve and maintain high financial performance [56], enhance customer loyalty and stakeholder trust [57], and create competitive advantage [46]. Companies with a good reputation have more reputation risks than companies with a bad reputation if they engage in tax avoidance practices deemed unethical or aggressive [54]. In agency theory proposed by Jensen & Meckling [20], management acts as agents for shareholders and is expected to act in the shareholders' interests. Management has a responsibility to protect and enhance the company's reputation. Research by Toly et al. [58] explain that involvement in aggressive tax avoidance practices can damage the company's reputation and affect shareholder trust. Controversial tax avoidance practices can lead to negative media coverage and public sentiment, resulting in decreased sales, decreased consumer trust,
and legal or administrative sanctions [26]. Consistent with the above argument, the research results indicate that corporate reputation has a negative and significant effect on tax avoidance. This supports the statement that to avoid reputation risk, companies with a good reputation tend not to engage in tax avoidance practices.

The Influence of Available Slack on Tax Avoidance

The research results show that available slack has a positive and significant effect on tax avoidance. These findings support the argument by Siladjaja et al. [30] stating that companies with high levels of available slack make it easier for management to fund good projects using internal funds. In the context of tax avoidance, having high available slack helps companies to engage in investments that receive tax incentives or hire tax consultants to develop complex tax planning strategies. In this way, companies can optimize available tax benefits while minimizing tax liabilities. Therefore, the availability of high available slack provides flexibility and opportunities for management to implement tax avoidance strategies that can enhance corporate profits.

The Influence of Company Size on Tax Avoidance

Company size plays a crucial role in determining the capacity and ability of a business entity to generate added value. The larger the total assets owned by the company, the greater the potential for long-term success, as revealed in the studies by Dewi [31], Rizky and Puspitasari [32]. Additionally, company size also serves as an indicator of efficiency in planning tax avoidance strategies, as suggested by [33].

The test results indicate that company size has a positive and significant influence on tax avoidance. With growth and expansion in its operational scale, large companies tend to face greater complexity in their business transactions. This also implies that the company’s income increases over time. However, with the increase in income comes greater tax obligations. Therefore, large companies tend to seek ways to reduce the tax burden they have to bear, including through tax avoidance practices. Agency theory supports this view by showing that management may have incentives to increase their personal profits by engaging in tax avoidance practices. In larger companies, management has access to larger and more complex resources. This gives them greater ability to plan more sophisticated and efficient tax avoidance strategies. These research findings support previous studies conducted by Suryatna et al. [33] and Paramita et al. [21].

The Influence of Leverage on Tax Avoidance

The research findings indicate that leverage has a negative and significant impact on tax avoidance. Companies with high debt-to-equity ratios have a significant portion of their financial obligations supported by debt [23]. In agency theory, management often has incentives to maximize their own interests, which can conflict with the long-term interests of shareholders [20]. However, when companies face higher risks of
bankruptcy due to excessive debt usage, management also has incentives to maintain the company as it can affect their performance evaluations. Therefore, management focuses more on strategies to sustain long-term business, such as improving operational efficiency and maintaining competitiveness [36].

Companies with high levels of debt often also receive greater tax benefits because loan interest can be tax deductible [37], reducing management’s incentives to engage in risky tax avoidance practices. Management understands that the high risk of bankruptcy due to excessive debt can damage the company’s reputation [36], leading to loss of shareholder trust, decreased consumer loyalty, and increased scrutiny from regulators and creditors [26]. This could potentially result in decreased financial performance of the company, increasing the risk of default and bankruptcy. These research findings support the findings of Siregar et al. [37].

Conclusion

This study aims to examine the influence of corporate reputation, available slack, company size, and leverage on tax avoidance in mining and construction sector companies listed on the Indonesia Stock Exchange (BEI) from 2020 to 2022. The research findings indicate that corporate reputation and leverage have a negative and significant impact on tax avoidance. On the other hand, available slack and company size have a positive and significant influence on tax avoidance.

This research is expected to contribute to expanding understanding of the factors influencing tax avoidance practices in the mining and construction sectors and provide a foundation for further research. This study is also expected to contribute to the development of theory and understanding of tax avoidance in general. This research implies that it provides a strong foundation for governments and regulators to increase tax revenue by considering the factors that affect tax avoidance practices in the mining and construction sectors. It also helps to improve tax compliance and prevent reductions in national revenue.

However, this research has several limitations. Firstly, the research sample consists only of companies from the mining and construction sectors, making the results specific to these industries. Secondly, the study only uses one type of tax avoidance measurement out of several applicable measures in Indonesia. Thirdly, the research focuses only on testing financial factors that may influence tax avoidance. Given these limitations, recommendations for future research include: First, conducting studies with samples from various industry sectors to predict factors influencing tax avoidance across sectors. Second, using different measurements of tax avoidance to obtain robust results. Third, conducting research on other factors influencing tax avoidance, such as corporate governance, management characteristics, and corporate disclosure (such as corporate social responsibility disclosure, environmental disclosure, etc.), thereby enriching the existing literature on factors influencing tax avoidance.
References


