Tax Avoidance from Managerial Ownership and Profitability Aspects in Registered Mining Companies on the Indonesia Stock Exchange

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Abstract:

The purpose of this study is to ascertain the direct and indirect influence of management ownership on tax evasion in mining businesses listed on the Indonesian Stock Exchange via profitability (IDX). The population for this study was comprised of all mining businesses listed on IDX, a total of 51. Purposive sampling was performed, resulting in up to 44 sample firms. The data were analyzed using path analysis and SPSS Version 26 software. The findings indicate that: 1) managerial ownership has a positive and significant effect on profitability; 2) managerial ownership has a positive but insignificant effect on managerial ownership; 3) profitability has a positive and significant effect on tax avoidance; and 4) managerial ownership's indirect effect on tax avoidance has a positive and significant effect.

Keywords: managerial ownership, profitability, tax avoidance

A. INTRODUCTION

Tax is one of the main sources of state revenue whose role is very important for the survival of a country. Based on the Central Government Financial Report (LKPP), the total state revenue from tax revenues in 2018 was IDR 1,518,791,948,866 or 98.64%. of total state revenue. Meanwhile, in 2019 tax revenue reached Rp. 1,546,134,751,863,724.00 or 99.31% of total state revenue. This shows that over the past two years, state revenues from the tax sector have been the backbone of state revenues.

As we know, corporate taxpayers are one of the biggest tax contributors in our country. Corporate Taxpayers consist of several sectors, such as the financial services industry sector, the processing industry, and the mining sector. However, when viewed from data from the ministry of finance, the mining sector is a sector with negative tax growth of -23.25%. This decrease can be caused by many factors, one of which is tax erosion.

According to the finance ministry, one of the things that causes a decrease in a country's tax revenue is due to the widespread practice of Base Erosion and Profit Shifting (BEPS) carried out by business actors. This of course will result in the loss of potential revenue from the tax sector in a country. BEPS is carried out by business actors by exploiting the weakness of a country's domestic regulations and resulting in the erosion of the tax base and the transfer of profits to other countries with lower tax rates.

Based on data from The Organization for Economic Co-operation and Development (OECD) , the losses caused by BEPS practices reach USD 100-240 billion from the potential receipts of corporate income tax each year. This loss will be felt by developing countries more than developed countries, because most of developing country's revenue still comes from taxes. BEPS is practiced by exploiting the weaknesses of domestic regulations. This is consistent with the tax avoidance concept. According to Halim et al. (2020), tax avoidance is legal tax planning that involves decreasing the tax object that serves as the foundation for taxes while being compliant with applicable tax regulations.

Jensen and Meckling (1976) said that when management owns a bigger percentage of a company's stock, management will work more to serve the interests of shareholders who are also stockholders, thereby lowering agency conflicts. The implementation of corporate governance can be done through a monitoring mechanism to align various interests, including increasing management ownership of the company 's shares (managerial ownership) so that the interests of the owners or shareholders can be aligned with the interests of managers. In fact, most managers do tax avoidance because they want to get big profits, so that their image can be guaranteed in the eyes of shareholders.

Profitability is the ability to generate profits (Prihadi, 2019:180). Chytis, et. all . (2019), reveals that corporate profitability can significantly improve corporate tax avoidance practices. In line with Oktaviani, et al. (2019), Prabowo (2020), Angelia and Dwimulyani (2020), Dewinta and Setiawan (2016) who concluded that increasing company profitability could also increase corporate tax avoidance practices. This is because the higher the profitability (profit) owned by the company, the company's income tax burden will increase. If so, then company managers will be more motivated to practice tax avoidance activities.

As discussed previously, managerial ownership and profitability of businesses can have an effect on the extent of corporate tax avoidance activity. Regardless of whether the effect is favorable or negative, it is worth noting that the above phenomenon has not studied whether company profitability can operate as a mediating factor in the relationship between management ownership and corporate tax avoidance strategies.

Based on the explanation above, it is important for researchers to develop the concept and analysis. Based on this, the researcher is interested in conducting a research entitled "The Effect of Managerial Ownership on Tax Avoidance with Profitability as an Intervening Variable in Mining Companies Listed on the Indonesia Stock Exchange."

B. LITERATURE REVIEW

1. Agency Theory

One or more persons (referred to as the principal) hire another person (referred to as the agent) to carry out specific tasks on their behalf, and this is what Jensen and Meckling (1976) refer to as a "agency relationship." It is a concept that outlines the connection between the primary (contractor) and agent (contract recipient), when the principle hires a representative to represent his or her interests or aims and delegated decision-making authority in order to achieve those objectives. An agency theory subfield, according to Abdullah and Awaluddin (2016), focuses on the construction of contracts that motivate a rational agent to act in the best interests of the principal. The agent's goals will conflict with those of the principal if he or she isn't properly trained.

No matter who signs the contract, whether it's a shareholder or a manager, they will all be subject to tax. According to the literature on principal-agent interactions, tax considerations are mostly absent from the discussion. Given the many occasions in which taxes have an impact on decision-making, this is surprising (Bauer, et al. 2018). This is because the tax burden on the business might lower the value of the contractual advantages enjoyed by shareholders and managers. Contracts can be avoided entirely due to taxation, for example, if the manager's projected benefits are less than his reservation benefits. Additionally, taxes have the ability to alter knowledge and influence incentives through managerial performance measurement. Performance measurement is carried out after calculating interest and tax expenses, of course, will motivate managers to engage in tax avoidance activities.

2. Signaling Theory

According to Hartono (2014), signaling theory is defined as information issued by a corporation as an announcement that serves as a signal to investors when they make investment decisions. At the time of information or shareholder meetings, to encourage people to invest in the firm in order to boost its future worth.

Signaling theory has served as a solid theoretical foundation and is being gradually applied to management research on financial markets' impact on market signaling (Bergh et al., 2014). Additionally, signaling theory is frequently employed to explain financial decisions (Alsos & Ljunggren, 2017). To give a good signal to parties outside the company, the management needs to show a healthy financial condition of the company. One way to make a company look healthy and attract the attention of investors is to reduce expenses in order to generate greater profits. The tax burden is an expense whose amount can be material in a company. Usually, the company's tax burden will look large, especially on companies that go public. These reasons will certainly motivate companies to do tax avoidance.

3. Managerial ownership

If the manager holds a certain amount of the company's stock, then they are considered to be shareholders who actively engage in decision-making and bear and share directly the advantages and risks associated with those actions (Hanafi & Halim 2016).

Mangoting et al. (2019) suggest that management's vision could influence its decisions, including tax evasion.. Additionally, there is an owner class in the ownership structure. Managerial ownership appears to be the most important class in the ownership structure with regard to tax evasion quantity and efficiency as per previous studies (Landry et al., 2013; Richardson et al., 2016).

4. Profitability

According to Prihadi (2019), profitability is a company's ability to generate profits. On the other hand, profitability is defined as the business's ability to generate profits using all of its current resources, including sales activities, cash, capital, employees and branch count, according to Sofyan Syafri Harahap (2013).

Increased profitability can lead to an increase in tax-dodging practices by corporations (Cytis, et al., 2019). Businesses use tax avoidance tactics to increase their profits (Salhi, et al. 2020). Business profitability influences the amount of income tax the company must pay and encourages the company to maximize its tax planning in order to reduce the tax (Prabowo, 2020).

5. Tax

Under Law No. 16 of 2009, taxes are owed by individuals and businesses that are coerced under the law, without receiving any remuneration, and are used to achieve the state's stated goals of maximizing people's wealth. In this context, it means that tax collecting adheres to the idea of legality, which means that tax collection actions are predetermined by law.

6. Tax evasion

Halim et al. (2020) define Tax avoidance is lawful tax planning that involves minimizing the tax object that serves as the foundation for taxes while remaining within the restrictions of the applicable tax legislation. There are consequences to tax evasion. Corporate tax evasion tactics might result in considerable financial costs for the company (Desai & Dharmapala, 2009).

There is a possibility that the company's conduct will be recognized by the tax authorities, resulting in increased taxes, interest, and fines, which will reduce cash flow and reduce the wealth of investors (Hanlon & Heitzman, 2010). On the other side, tax evasion may gain from the monetary savings associated with tax evasion. This financial savings will boost the company's worth and cash flow. Additionally, owners will get increased dividends and a boost in the value of their shares. Effective tax management benefits the manager as well (Annuar at al., 2014).

7. Research Hypothesis

a. The Effect of Managerial Ownership on Profitability

Numerous efforts were made to boost the company's profit margins. Among the approaches made is managerial participation in share ownership. This approach is motivated by agency theory (Jensen & Meckling 1976) and aims to limit management's proclivity for opportunistic behaviors that may harm shareholders.

Research conducted by Katper et al. (2018); Hossain (2016); and Lima and Hoossein (2018); states that managerial ownership can increase the company's profitability. this is because the owner who is also the manager of the company certainly wants a good return , because the peacock is part of the recipient of the return. One way to increase the return is to increase the company's profitability.
H1: Managerial Ownership has a positive and significant effect on profitability

b. The Direct Effect of Managerial Ownership on Tax Avoidance

Fama and Jensen (1983) predict that managers and owners will be less likely to participate in risky enterprises if capital ownership and corporate decision-making are concentrated in a few hands. According to Alkurdi and Mardini (2020), interested parties and linked parties must recognize that growing managerial ownership, which is utilized to align their interests with those of the owners, can assist eliminate agency difficulties and minimize their involvement in tax evasion (paraphrase).

Cabello et al. (2019) discovered a correlation between management ownership and tax evasion practices. Alkurdi and Mardini (2020) concluded that managers with a greater total shareholding had a substantial negative effect on ETR and CFETR values. Following a review of many theories, prior research, and the aforementioned explanation for management ownership and tax evasion, the researchers can present the following hypotheses:
H2: Managerial ownership has a negative effect andsignificant effect on tax avoidance.

c. The Effect of Profitability on Tax Avoidance

The study's comprehensive tax theory, which includes insurance theory, interest theory, carrying power theory, devotion theory, and the principle of purchasing power theory, all point to a reciprocal relationship between the state (as a tax collector) and taxpayers. Between the two relationships, of course, must be mutually beneficial.

Moreover, tax collection in Indonesia aims to finance all activities and development of the country, which in essence will increase the prosperity of the people.

Angelia and Dwimulyani (2019); Prapitasari and Safrida (2019); Dewi and Yasa (2020); in his research stated that high profitability will increase tax avoidance practices. High profitability in a company maximally indicates that the company can manage assets efficiently to earn a profit. Profits owned will be managed as well as possible by doing tax planning. Planning is done by maximizing expenses that can reduce taxable income such as amortization and research and development expenses. Naturally, businesses with a high degree of profitability pay more taxes than businesses with a low level of profitability. Thus, businesses with a high level of profitability have a proclivity towards tax avoidance. The researcher formulates the following hypothesis in light of the foregoing explanation:

H3: Profitability has a significant effectagainst tax evasion.

d. Effect of Managerial Ownership on Tax Avoidance through Profitability

Profit is one of the main goals of establishing a company. Every manager always works with the aim of improving their performance in order to have a positive image in front of shareholders and the public. One of the things that can give a positive image is when the company can generate profits. Increasing profits in a company will certainly be liked by shareholders in which there are shareholder managers. Therefore, managers always want to work hard to increase their profitability. This situation is in line with the sound of signaling theory which states that managers always want their companies to look good in front of shareholders and the public.

Tax avoidance is one of the management efforts to achieve the expected profit through tax management. Tax avoidance is a subset of tax planning that aims to minimize tax payments. Tax evasion is not forbidden by law, but it is frequently brought to the attention of the tax office because to its perceived negative connotation. In contrast to tax evasion, which is an attempt to avoid paying taxes by violating applicable tax laws. Tax avoidance is punishable both administratively and criminally. Tax avoidance is an attempt to decrease legal (lawful) tax bills, whereas tax evasion is an attempt to reduce illegal tax debts (unlawful).

H4: Profitability mediates the relationship between managerial ownershipagainst tax evasion.

C. METHOD

This study examined companies that are publicly traded on the Indonesian Stock Exchange (IDX). The population of this study is comprised of all mining industry businesses that have been listed on the Indonesian Stock Exchange between 2017 and 2019. There are 51 companies in total. The researcher used a purposive sampling strategy to determine the sample size. The reason why researchers use purposeful sampling This is because of the 51 mining companies listed on the IDX, not all of them reported their annual reports between 2017 and 2019. The sample in this study was 44 mining companies.

Qualitative and quantitative data were analyzed in this study. A literature search was used to acquire data. The research instrument this time was using the company's annual report as the research sample and the IBM SPSS Version 26 application software. The data analysis technique used in this research is path analysis with two sub structures. The two path sub-structures can be written using the formula:

$$\mathbf{Y = + Y . X + \ldots\ldots\ldots\ldots (1)}$$

$$Z = + Z.X + Z.Y + \ldots\ldots\ldots (2)$$

Information:
Z : Tax Avoidance
X : Managerial Ownership
Y : Profitability
A : Constant
ρY, ρZ : Path Coefficient _
ε (epsilon) : Intruder Error

Table 1. Variable Operational Definition

No.	Variable	Description	Formula	Scale
1.	Managerial ownership	Managerial ownership can be interpreted as managers who are also owners of the company because they own some or part of the shares of the company	$\frac{\textit{Managerial Stockial}}{\textit{Shares Outstanding}} X\ 100\%$	Ratio
2.	Profitability	Profitability is the company's ability to earn profits.	$\frac{\text{Profit Before Interest and Tax}}{\text{Total Assets}}$	Ratio
3.	Tax evasion	Tax avoidance is an activity aimed at eroding corporate taxes.	$\frac{\textit{Cash Tax Paid}}{\textit{Operating Cash Flow}}$	Ratio

D. Results and Discussion

1. Description of Research Data

The research data needed are information related to share ownership by company managers, information on total company assets, information on company profits and losses, information on tax burdens paid and information on company operating cash flows. The data was collected based on a time series between 2017 and 2019. The reason the researcher limited the data to only in 2019 (not until 2020) was because the company's performance in 2020 was a performance that was influenced by the Pandemic Covid 19. The uncertainty of the global economy caused by the pandemic will most likely be another factor affecting the company's performance that year, so researchers need to limit the research data analyzed in order to avoid bias from the research results.

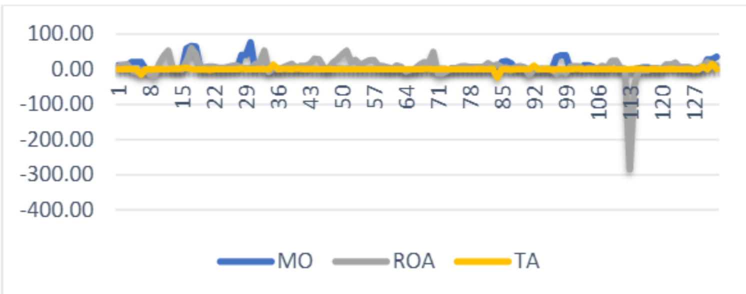

Figure 1. Research Data for Each Variable

Based on the data in the diagram above, the maximum value of the Managerial Ownership Variable is 76.72%, Profitability is 60.46% , and Tax Avoidance is 15.81%.

The minimum value of the Managerial Ownership Variable is 0%, Profitability is -284.67%, and Tax Avoidance is -23.18%. The average value of the Managerial Ownership Variable is 6.22%, Profitability is 6.66%, and Tax Avoidance is 0.40%. The median value of the Managerial Ownership Variable is 0.09%, Profitability is 6.49%, and Tax Avoidance is 0.27%.

2. Data Quality Test

The quality of the test data in the form of images is presented as follows:

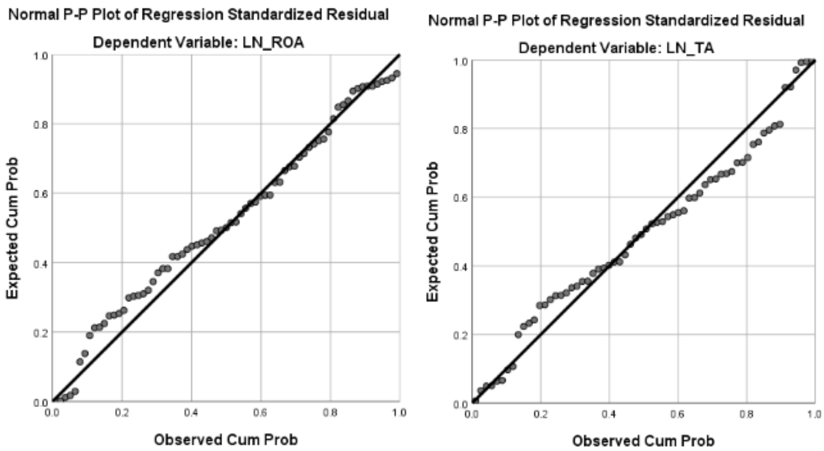

Figure 2. Normal Probability Plot Equations 1 and 2

On the graph, the normal probability plot graph is represented by the dots dispersed around the diagonal line, and the distribution follows the diagonal line's direction. Thus, the regression model derived from the two equations is usable and conforms to the criteria of normalcy.

Table 2. Multicollinearity Test of Equation 1

Coefficients a

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	5.099	1.436			
	MO	.495	.091	.429	1,000	1,000

a. Dependent Variable: ROA

Source: Research data processed in 2020.

Table 3. Multicollinearity Test of Equation 2

Coefficients a

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-.662	.252			
	MO	.024	.017	.107	.816	1.226
	ROA	.112	.015	.576	.816	1.226

a. Dependent Variable: TA
Source: Research data processed in 2020.

As seen in the table above, the regression model for all independent variables has a tolerance value greater than 0.10 and a VIF value of 10. Thus, the regression model demonstrates that there is no correlation between the independent variables, indicating that neither model exhibits multicollinearity.

Table 4. Autocorrelation Test Equation 1
Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.429 [a]	.184	.178	15.15330	1,930

a. Predictors: (Constant), MO
b. Dependent Variable: ROA
Source: Research data processed in 2020.

Table 5. Autocorrelation Test for Equation 2
Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.629 [a]	.395	.386	2.54105	1.444

a. Predictors: (Constant), ROA, MO
b. Dependent Variable: TA
Source: Research data processed in 2020.

The results of Durbin Watson's value from the two equations are 1.930 and 1.444, respectively. This means that the value is still between 1 to 3, which means that there is no autocorrelation.

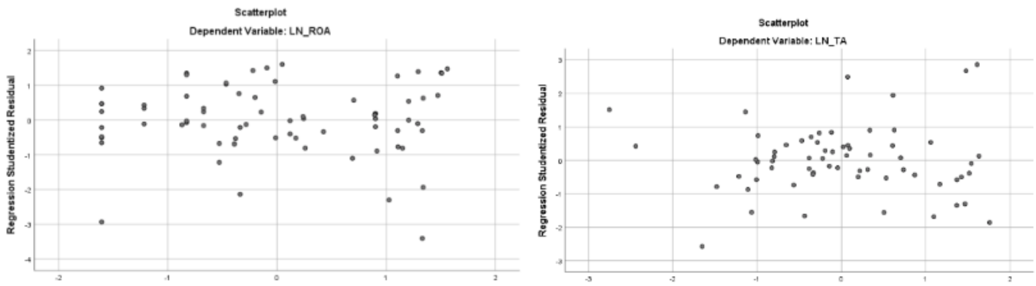

Figure 3. Heteroscedasticity Test of Equations 1 and 2
Source: Research data processed in 2020.

There is no evidence of heteroscedasticity based on the results of the scatterplots above. For three reasons: 1) the scatter data points are above and below the number 0; 2) the dots do not accumulate predominantly above or below the number 0; and 3) the spread of data points does not form a wave pattern that widens before narrowing and expanding again.

3. Description of Multiple Linear Regression Analysis

The route analysis method was used to process the data in this study with the assistance of IBM SPSS 26. This was done to ascertain whether the independent variables had an effect on the dependent variable. As a consequence of data processing, the following values were obtained:

Table 6. Multiple Linear Estimation Results Equation 1

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	5.099	1.436		3.551	.001
	MO	.495	.091	.429	5.422	.000

a. Dependent Variable: ROA

Source: Research data processed in 2020.

Table 7. Multiple Linear Estimation Results Equation 2

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.662	.252		-2.626	.010
	MO	.024	.017	.107	1.406	.162
	ROA	.112	.015	.576	7.592	.000

a. Dependent Variable: TA

Source: Research data processed in 2020.

Based on the results of the regression coefficients in tables 5 and 6 above, the path coefficients can be obtained as follows:

ROA = 5.099 + 0.429MO + ……. (1)

Tax Avoidance= -0.662 + 0.107MO + 0.576ROA + …….. (2)

4. Hypothesis test

Hypothesis testing can be done by comparing t_{count} with t_{table}or t-sig value with : 0.05. If t - $_{count}$ > t - $_{table}$ or t-sig < from : 0.05, then H_1accepted or H $_0$rejected . On the other hand, if t- $_{count}$ <t - $_{table}$ or t-sig > from : 0.05 then H $_1$rejected or H $_0$accepted . _ As seen in tables 5 and 6 , it can be concluded as follows:

(H_1) Managerial ownership has a positive and significant effect on profitability

Value of t - $_{count}$ for variablemanagerial ownershipwhich is equal to5,422 >from t - $_{table}$ that is equal to 1.97810 or with a significance level of 0.000< of = 0.05, then from the test results it can be concluded that H $_1$accepted .

(H_0) Managerial ownership has a positive and not significant effect on tax avoidance

Value of t - $_{count}$ for variablemanagerial ownershipwhich is equal to1.406 <from t - $_{table}$, which is 1.9 7810 or with a significance level of 0.162 >from = 0.05, so from the test results it can be concluded that H $_0$ $_{is}$ accepted .

(H_3) Profitability has a positive and significant effect on tax avoidance

Value of t - $_{count}$ for variableprofitabilitywhich is equal to7,592 >from t - $_{table}$ that is equal to 1.97810 or with a significance level of 0.000< of = 0.05, then from the test results it can be concluded that H3 $_{is}$ accepted .

(H_4) Profitability mediates the relationship between managerial ownership and tax avoidance

Based on the calculation using the Sobel Test Formula, the t-count is 4.3710 > t-table, which is 1.97810 . So from the test results it can be concluded that H4 is accepted. The total effect of managerial ownership on tax avoidance through profitability is 0.429 x 0.576 + 0.429 = 0.676.

5. Coefficient of Determination (R)

Based on table 4above, it is known that the magnitude of R2 (R-Square) for equation 1 is 0.184 . This shows that the direct influence of the managerial ownership variable (X) on profitability (Y) is 18.4% . This means that there are other variables or variables eps i lon (ε) of 81.6 % that affect variable Y but are not measured in this study.

Based on table 5above, it is known that the magnitude of R2 (R-Square) for equation 2 is 0.395 . This shows that the direct influence of managerial ownership (X) and profitability (Y) variables on tax avoidance (Z) is 39.5%. This means that there are other variables or variables eps i lon (ε) of 60.5 % that affect variable Z but are not measured in this study.

6. Discussion

a. The Effect of Managerial Ownership on Profitability

According to the research cited above, managerial ownership has a favorable and significant effect on profitability. Numerous initiatives have been undertaken to enhance the company's performance, particularly in terms of profitability. Among the approaches made is managerial participation in share ownership.

This approach is motivated by agency theory (Jensen & Meckling 1976) and aims to limit management's proclivity for opportunistic behaviors that may harm shareholders. This is because the owner who is also the manager of the company certainly wants a good return, because they are part of the recipient of the return. One way to increase the return is to increase the company's profitability. Therefore, the results of this study are in line with agency theory.

The findings of this study corroborate those of Katper et al. (2018); Hossain (2016); and Lima and Hossain (2018), all of which indicate that managerial ownership can greatly boost a business's profitability. The findings of this study contradict those of Rasyid and Linda (2019); Obembe et al. (2016), who assert that managerial ownership has no discernible effect on profitability.

b. Effect of Managerial Ownership on Tax Avoidance

According to the studies cited above, managerial ownership has a beneficial but not statistically significant effect on tax avoidance. According to Jensen and Meckling (1976), there are numerous ways to manage agency conflict, including raising managerial shareholdings. The more control management has over a company's stock, the less likely it is that the interests of the company's shareholders will collide with those of management, thus reducing agency conflicts. So Alkurdi and Mardina (2020) argue that it's crucial for interested parties to recognize that growing management ownership, which is employed in alignment with the owners' interests, can assist reduce problems with agencies and minimize their involvement in tax evasion.

Rent extraction is a term used by agency theorists to describe tax avoidance. Managers that want to enrich themselves at the expense of the interests of their owners or shareholders engage in lease eviction (Pattiasina, et al., 2019). Also to cover up illegal activity that could hurt the company's owners or shareholders, as well as the tax authorities' opinion (Septiadi et al., 2017). The findings of this study contradict agency theory, because managers who also act as owners prioritize common interests by adopting regulations that prevent tax evasion.

The findings of this study corroborate previous studies by Yulistia et al. (2020); Jamei (2017); and Zahirah (2017), which concluded that management ownership has no substantial effect on tax evasion. However, the findings of this study contradict those of Alkurdi and Mardini (2020); Cabello et al. (2019); Jefri and Khoiriyah (2019); and Putri and Lawita (2019), who all assert that managerial ownership has a major impact on tax evasion.

c. Influence Profitabilityt on Tax Avoidance

Profitability has a favorable and significant effect on tax avoidance, according to the research hypothesis testing. That is, the more profitable the business, the more tax avoidance will be practiced. Management decision-making on tax avoidance strategies is viewed as something that should be done. Profitability increases the tax base of the business. The hefty costs are undoubtedly a source of contention for the company's management. In accordance with positive accounting theory, which states that all management choices must be made in the interest of the company's financial health. This finding defies the premise of agency. Agency theory describes managers' opportunistic attitude toward aggressive tax planning for personal advantage. Profitability has no bearing on tax aggression. Low profitability translates into low investor confidence in the business. On the other side, high profitability shows that the business is in good financial health, including the ability to meet its tax responsibilities (Dianawati & Agustina, 2020).

The findings of this study corroborate those of Marsahala (2020); Stawati (2020); Angelia and Dwimulyani (2019); and Prapitasari and Safrida (2019), who all concluded that profitability has no discernible effect on tax evasion. The findings of this study contradict Dianawati and Agustina (2020); Sarpingah (2020); Salhi et al. (2020); and Prabowo (2020), who all assert that profitability has no discernible effect on tax evasion.

d. Indirect Effect of Managerial Ownership on Tax Avoidance Through Profitability

Using a Sobel test formula, it may be concluded that management ownership has an indirect effect on the practice of company tax avoidance. Managerial ownership has a favorable indirect effect on tax avoidance, with an effect size of 0.676. In signaling theory, a signal or signal is a management activity that provides investors with a sense of how management views the company's future prospects. This hypothesis demonstrates that investors can discern between companies with high and low values (Brigham and Houston, 2013).

The ROA metric indicates how much profit is generated from the assets utilised. Thus, a high ROA is a positive indicator for investors, since it implies that the company is performing well in terms of profit generation. This increases investor interest in investing in securities or shares. Therefore, management is always trying to increase their profits in order to attract investors.

Company management has numerous options for increasing profit, one of which includes reducing costs, including tax costs. Managers will be encouraged to engage in tax evasion as a result. So, according to the findings of this study, managers who also own a stake in their companies are more likely to engage in tax-dodging activities.

E. CONCLUSION

Based on the results of the research and discussion above, it can be concluded that: 1) Managerial ownership has a significant effect on profitability, with a positive direction of influence; 2) Managerial ownership does not have a significant direct effect on tax avoidance; 3) Profitability has a significant effect on tax avoidance, with a positive direction of influence; and 4) Profitability is able to mediate the effect of managerial ownership on tax avoidance.

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