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# The Effect of Executive Characteristics and Financial Constraints on Tax Avoidance: Manufacturing Listed Companies in Indonesia

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## Abstract

This study examined the effect of executive characteristics and financial constraints on tax avoidance. The population of this study is made up of manufacturing companies listed on the Indonesia stock exchange during the observation period of 2016–2018. The method used is purposive sampling, with a total of 135 samples obtained from manufacturing companies during 2016–2018. The type of data used is secondary data taken from IDX (2018). The data analysis was processed using multiple linear regression. The results showed that executive characteristics had a positive and significant effect on the company's tax avoidance. Financial constraints had a positive and significant effect on the company's tax avoidance for manufacturing companies listed on the Indonesia stock exchange during the period 2016–2018. Executives who are risk-takers are more courageous in taking tax avoidance because they have a strong incentive to have higher income and welfare, which aims to maximize company profits.

**Keywords:** executive characteristics, financial constraints, manufacturing companies, risk averse, risk taker, tax avoidance.

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## I. INTRODUCTION

Taxes are an important element for a country. Taxation is not only a form of compliance with the state, but it is also a very strategic and reliable source of state revenue. The largest source of Indonesian state revenue comes from tax revenues, which greatly affect the rate of growth and national development. Tax is the most potent source of state revenue in Indonesia and occupies the highest percentage in the state budget (APBN) compared to other revenues. Therefore, Indonesia is always trying to optimize revenue in the tax sector (Kemenkeu RI, 2018).

Meanwhile, companies that are subject to tax consider that tax is an expense that can reduce income for an activity of a business unit or entity. This is what causes many companies to fight against the imposition of taxes so that the value of the income received does not decrease. Companies, as taxpayers, will try to maximize profits through various kinds of expense efficiencies, including corporate tax burdens.

Based on data obtained from the Indonesian ministry of finance website in 2019, it was noted that the realization of tax revenues until August 2019 reached IDR 801.02 trillion, or 50.78% of target APBN 2019, which amounted to IDR 1,577.56 trillion. The figure is still less than the target of around IDR 776.54 or 48.22%; this indicates that there are still many other individuals, entities, or businesses that have not paid taxes through tax avoidance, resulting in less tax acceptance than the target (Kemenkeu RI, 2019).

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To maximize tax compliance, the government has established regulations in the form of tax laws for taxpayers to carry out their obligations as corporate taxpayers. However, the company sees that the law stipulated still has a gap that can be reduced to maximize corporate profits, namely by taking tax avoidance measures. According to Hutagaol (2007), tax avoidance is an effort taken by taxpayers to reduce tax expenses legally (which does not violate tax regulations) by reducing the amount of tax expense by looking for weaknesses in tax regulations.

Budiman (2012), the company that conducts tax avoidance, does so, of course, through the policies taken by the company's executives. Company executives usually have two characteristics: being risk-takers and being risk-averse. Company executives who have the characteristics of risk-takers and risk-averse individuals are reflected in the level of the company's risk. The higher the risk of a company, the more executives tend to be risk-takers. Conversely, the lower the risk of a company, the more likely the executive is to be risk-averse. Company executives who are risk-takers will tend to be more courageous in making decisions, even if those decisions are high-risk (Low, 2006). Executives who have the character of risk-takers will have more influence on corporate tax avoidance compared to risk-averse executives.

One obstacle to optimizing tax revenues is the presence of tax avoidance. To maximize the value of the company, the owner made an aggressive reduction in tax payments (Chen et al., 2010). Therefore, companies tend to minimize the tax expense in various ways, one of which is tax avoidance (Hanlon & Slemrod, 2009; Chen et al., 2010).

Companies experiencing financial constraints generally have limited internal funding. The company will gain greater benefits when conducting tax avoidance. Examples of benefits acquired by the company are increased cash flow efficiency (Mills, 1998) and alleviation of financial constraints (Edwards et al., 2016). Thus, one of the factors that causes failure to achieve the tax revenue target from year to year is tax avoidance by companies that are experiencing financial constraints. Financial constraints have greater potential because they can impact the economy simultaneously. If the company simultaneously conducts tax avoidance when faced with its financial constraints, it will have the potential to impact the economic contraction of government revenues. Government revenue tends to decrease due to the reduction of the tax base due to lower taxable income (Hanlon & Heitzman, 2010).

We raised a new research measure from Rachmawati et al. (2019) by developing a new measure of financial constraint that is more comprehensive. Rachmawati et al. (2019) developed a new measure of financial constraint that considers all three of these factors in the form of net debt ratio, interest coverage ratio, and dividend payout ratio. This step is combined with confirmatory analysis so that the weights of each measure are precise. In measuring tax avoidance using the effective tax rate differential, calculated by reducing the statutory tax rate by the regulation of tax law of 25% or 0.25 with the company's effective tax rate (ETR), The calculations are more reliable and reflect tax avoidance. The remainder of this paper is organized as follows: Section 2 reviews the literature available and develops hypotheses; Section 3 outlines the research methodology; and Section 4 presents our sample selection, descriptive statistics, test results, and sensitivity analysis. Finally, Section 5 presents our conclusions.

## **II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **2.1. Agency Theory**

According to Jensen and Meckling (1976), agency theory is the relationship between the agent (management) and principal (company owner), who are bound by a

contractual principle that assigns tasks to agents for the interests of the principal. Shapiro (2005) stated that management does not always act in the interests of shareholders because management must have a personal interest. This is the underlying reason for a conflict of interest between shareholders and management.

In this case, the conflict occurred in the form of the company's profit interests between the tax collector and the taxpayer (management). The tax collector hopes for a large income from the taxpayer. However, the taxpayer (corporate management) has the view that the company should maximize the profit of the company by minimizing the tax expense to be paid so that they can get the most profit to get the compensation that will be given by shareholders in the form of salary increases, positions, welfare, and higher authority. From two different viewpoints, this is what leads to a conflict of interest.

## **2.2. Tax Avoidance**

Lim (2011) defines tax avoidance as a tax-saving activity arising from utilizing tax provisions that are done legally to minimize corporate tax. Tax avoidance is also called part of the tax planning conducted to minimize the company's tax payment. Tax avoidance is not legally prohibited, although it is often under the spotlight of the tax office because it is considered to have a negative connotation. As with the definition of Pohan (2011), tax avoidance is an attempt to avoid tax that is done legally and securely for taxpayers without contradicting the prevailing taxation provisions, which benefit from the weaknesses contained in the laws and taxation regulations to minimize the amount of tax expense.

## **2.3. Executive Characteristics**

According to Budiman (2012), the company's policy is not separated from the role of the company's executive in making policy, as well as tax avoidance. Corporate executives have different characteristics in terms of decision-making and policy in the company. The level of the company's risk is a reflection of the characteristics of company executives who are risk-takers or risk-averse. Executives who are risk-takers are bolder individuals in making every business decision and in utilizing every opportunity, even though the odds are fairly high. The main focus of this executive is achieving results or maximizing company value. Conversely, risk-averse executives are less fond of risk. Executives who have a risk-averse character will consider every opportunity and choose a business opportunity that will not pose a high risk. This executive's main focus is on security (MacCrimmon & Wehrung, 1990; Lewellen, 2003).

## **2.4. Financial Constraints**

The term financial constraint was first introduced by Fazzari et al. (1988), with the meaning condition of companies that are experiencing difficulties in obtaining funding sources, resulting from the high cost of debt as well as the expensive cost of equity, which appears from their low market-to-book ratio and cash flow. Koh and Lee (2015) in Rachmawati et al. (2019), companies that experience financial constraints generally have limited internal funding and thus need additional capital from external parties, either through bank loans or the issuance of stocks or bonds (Shyam-Sunder & Myers, 1999; Frank & Goyal, 2003; Claessens et al., 2006; Schrand & Zechman, 2012; Koh & Lee, 2015; and Edwards et al., 2016).

Companies with financial constraints have a greater motivation to pursue opportunistic actions aimed at maximizing their utility by aggressively presenting financial reports to owners of capital. If companies have unfavorable financial reports, they will have difficulty getting additional capital from outside parties. Also, companies cannot issue stocks or bonds at a sufficient price (Koh & Lee, 2015; Rachmawati et al., 2019).

## **2.5. Hypothesis Development**

### **2.5.1. The effect of executive characteristics on tax avoidance**

The character of the executive has a very important role in carrying out tax avoidance because the executive can influence a company's decision to engage in tax avoidance (Dyreg et al., 2010). According to Low (2006), carrying out obligations as the head of a company executive has two characteristics, namely the character of a risk-taker and a risk-averse. The level of the company's risk is a reflection of the characteristics of company leaders who are risk-takers or risk-averse. The executive who has a risk-taking character will not be afraid of the risks taken for their actions and decisions, regardless of the impact that will occur to maximize company profits and minimize the tax expense that must be paid. It aims to be able to maximize company profits. So the characteristics of the executive risk-taker can be used to take tax avoidance action because the executive is a character risk-taker who will not be afraid of the risks taken for his actions and decisions without seeing the risk that will occur. So the first hypothesis in this study is as follows:

**H<sub>1</sub>:** the executive character of the risk-taker has a positive effect on tax avoidance.

### **2.5.2. The effect of financial constraints on tax avoidance**

Firms suffering financial constraints generally have limited internal funding (Koh & Lee, 2015) and thus need additional capital from external parties, either through bank loans or the issuance of stocks or bonds (Shyam-Sunder & Myers, 1999; Frank & Goyal, 2003; Claessens et al., 2006; Schrand & Zechman, 2012; Koh & Lee, 2015; Edwards et al., 2016). Companies with financial constraints generally have limited cash flow (Koh & Lee, 2015). So that companies with financial constraints tend to make tax payments more efficient.

According to Edwards et al. (2016), companies experiencing limited cash flow will strive to increase their new internal funding source through tax avoidance. The company will reduce taxes paid because tax avoidance does not negatively impact the company's long-term performance. The company will increase savings on tax payments through tax avoidance measures (Bayuaji & Firmansyah, 2016). It is said that companies experiencing financial constraints will take tax avoidance measures. Based on the research description, the second hypothesis in this study is:

**H<sub>2</sub>:** financial constraints have a positive effect on tax avoidance.

### **2.5.3. Sample**

We use a sample of manufacturing companies listed on the Indonesia stock exchange (IDX) in 2016-2018. Manufacturing companies are chosen in this study because manufacturing companies are a sector that provides a high contribution to gross national income and tax payments (Kemenperin, 2020). Although the contribution of taxes to manufacturing companies is high and continues to increase, there is a gap between tax revenue realization and tax revenue received by the Directorate General of Taxes. The gap in tax revenue occurs due to low compliance with tax payments, the underground economy, and action for tax avoidance.

The population in this study is manufacturing companies listed on the Indonesia stock exchange (IDX) in 2016-2018. The sample selection technique used in this study is the purposive sampling method, meaning that the sample is determined by considering the criteria against the corresponding object. Determined in sampling are as follows:

- (1) Manufacturing companies listed on the Indonesia stock exchange (IDX) from 2016 to 2018.
- 1) Manufacturing companies that have complete data related to the variables used in the study period from 2016 to 2018.

- (2) Manufacturing companies that issue financial statements did not experience losses from 2016 to 2018.

#### **2.5.4. Variable operationalization**

Tax avoidance proxy is measured by the ETR statutory minus the effective tax rate (GAAP ETR) of the company. And the effective tax rate (GAAP ETR) is calculated by dividing the income tax expense by earnings before tax (Hanlon & Heitzman, 2010). This calculation is called the ETR differential, with the interpretation that the larger the ETR differential, the higher the tax avoidance carried out by the company.

The measure of how brave company executives are in taking risks, according to Paligorova (2010), is calculated by calculating the standard deviation of earnings before interest, taxes, depreciation, and amortization divided by total assets, where T is the total research sample for year t. It can be said that the greater the standard deviation of EBITDA or total assets, the greater the deviation that occurs. The amount of deviation from earnings indicates a large corporate risk, or, in other words, company executives are risk-takers who dare to take risks.

Research journal Rachmawati et al. (2019) calculated the development of a new measure that combines these three measures of financial constraint using confirmatory factor analysis to generate a new financial constraint variable (FINCON). Confirmatory factor analysis is a model that analyzes a construct that can be measured from several observed variables, where the number and composition of these observed variables are predetermined by the theory (Anderson & Gerbing, 1988; Ariefiara, 2017). Through the confirmatory factor analysis model, this study can see the weights of each exact measure. Thus, the new measure of financial constraints is more comprehensive and able to simplify the interpretation of results. The greater the FINCON value, the greater the financial constraints faced by the company (Rachmawati et al., 2019).

Based on the second factor, companies with poor financial performance are more likely to face financial constraints than companies with good financial performance. In this study, financial performance associated with financial constraints is proxied by the net debt ratio (Linck et al., 2013). So it can be said that companies with high net debt ratios tend to face financial constraints because their internal funding is limited. The net debt ratio is scaled to total assets for year t. The net debt ratio is measured as the sum of long-term debt and short-term debt minus excess cash, scaled by total assets for year t. Because the relationship between the interest coverage ratio and financial constraints is negative, the interpretation of the results is facilitated by the value of the interest coverage ratio being multiplied by -1.

The second factor is that companies with high financial costs are more likely to face financial constraints than companies with low financial costs. These study proxies the financial costs borne by the company with an interest coverage ratio (Claessens et al., 2006). Companies with low interest coverage ratios are more likely to face financial constraints than firms with high interest coverage ratios. Claessens et al. (2006) The interest coverage ratio is measured by earnings before interest and taxes divided by interest expenses (Claessens et al., 2006). If, in a given year, firms have no interest expenses, then these firms are excluded from the sample. Since the relationship between the interest coverage ratio and financial constraints is negative, the interpretation of the results is facilitated by the interest coverage ratio value multiplied by -1.

The last factor is that companies that are unable to distribute their income to shareholders are more likely to face financial constraints than companies that can distribute revenue. This research is proxied by the dividend payout ratio (Almeida et al., 2004; Claessens et al., 2006; Rauh, 2006; Linck et al., 2013; Demonier et al., 2015; Dyreng

& Markle, 2016; and Kurt, 2017). Claessens et al. (2006) stated that companies that have low dividends are said to be experiencing financial constraints because they have little or no income that can be distributed to shareholders (Fazzari et al., 1988). The dividend payout ratio is measured by dividends per share divided by earnings per share. Because the relationship between the dividend payout ratio and financial constraints is negative, the value of the dividend payout ratio is multiplied by -1 to facilitate the interpretation of the results.

This study uses three control variables, namely firm size, sales growth, and leverage. Based on previous research, these three variables have been proven to influence tax avoidance. Firm size is measured by Ln total assets. According to Ngadiman and Puspitasari (2014), the larger the company, the more complex the transactions carried out by the company. Thus, the larger the company, the more likely it is to avoid tax. Based on Singly and Sukartha (2015), sales growth can be measured by dividing the end-of-period sales in year t by the end-of-period sales in the previous year. If a company has an increase in sales growth, the company's profits will increase, and the tax expense will also increase. Thus, companies that are growing tend to avoid taxes. Based on Kurniasih and Sari (2013), leverage is measured by total debt to equity (DER). The trade-off theory states that the use of debt by a company can affect interest expense, which is a deduction from taxable income. Thus, companies that have a high level of leverage tend not to engage in tax evasion.

### III. RESEARCH METHODOLOGY

#### 3.1. Research Model

The analysis of the data used in this research is multiple linear regression analysis using a statistical measurement tool, namely STATA 14. The data is processed by the panel data method. The main research models proposed by the authors are as follows:

$$ETRdiff_{it} = \alpha + \beta_1 Risk_{it} + \beta_2 Fincon_{it} + \beta_3 Size_{it} + \beta_4 Growth_{it} + \beta_5 DER_{it} + e \dots\dots 1$$

Where:

$ETRdiff_{it}$ : the value of tax avoidance, which is measured by the ETR statutory minus the effective tax rate of the company in year t.

Independent variables in this research:

$Risk_{it}$  : the value executive characteristics measured by the standard deviation of EBITDA/total assets in the company i in year t.

$Fincon_{it}$  : the value of financial constraints that are measured using confirmatory analysis by combining three factors, namely net debt ratio, interest coverage ratio, and dividend payout ratio, from the results of confirmatory calculations that meet the requirements of factor analysis in the form of KMO and Bartlett's test results, Anti-image Matrices, Communalities, Total Variance Explained and Component Matrix.

Control variables, including:

$Size_{it}$  : the size of a i in year t, measured by the natural logarithm of total assets at the end of the year.

$Growth_{it}$  : the growth of the i in year t measured by total sales in year t minus total sales in year t-1 divided by total sales in year t-1.

$DER_{it}$  : the level of debt (leverage) of a company i in year t, measured by the ratio of total debt to total equity.

## IV. RESULTS AND DISCUSSIONS

### 4.1. Empirical Results

#### 4.1.1. Sample selection

Based on the above criteria, there were as many as 45 manufacturing companies listed on the IDX during 2016–2019. So the study sample with 3 years of observation was 135 observations.

**Table 1**

**Sample Selection Based on Criteria**

Criteria	Total Company
Manufacturing companies listed on the IDX	184
Companies that do not have complete data on the required variables	(74)
Companies whose net income before tax incurs a loss	(44)
Companies that have outlier data	(21)
Total companies used in the research	45
<b>Total research sample (2016-2018)</b>	<b>135</b>

**Table 2**

**Descriptive Statistics and Pearson Correlation**

**Panel A: Descriptive statistics**

Variable	N	Mean	Median	Std. Dev	Min	Max
ETRDIFF	135	0,0148	-0,0032	0,1518	-0,3273	1,1157
RISK	135	0,0383	0,0269	0,4994	0,0011	0,5528
FINCON	135	-0,0095	0,0300	0,8017	-2,6810	1,4890
SIZE	135	19,3218	19,0711	1,7812	15,7003	22,8924
GROWTH	135	0,1272	0,0994	0,1692	-0,2420	0,8588
LEV	135	0,4297	0,3325	0,5930	-2,2145	2,2478
<b>Valid N (listwise)</b>	<b>135</b>					

**Panel B: Pearson Correlation**

	ETRDIFF	RISK	FINCON	SIZE	GROWTH	LEV
ETRDIFF	1.000					
RISK	0.5596	1.000				
FINCON	0.1615	0.0534	1.000			
SIZE	-0.1297	-0.0654	0.0921	1.000		
GROWTH	0.1873	0.1402	-0.0050	0.0473	1.000	
LEV	-0.1352	-0.0934	0.5066	0.4513	0.1774	1.000

**Table description:**

This table is used to present the correlation matrix between the dependent variables in this equation (1) ETRDIFF, namely the value of tax avoidance, which is measured by reducing the tax rate by the tax laws and ETR company  $i$  in year  $t$ . The independent variable in this equation (2) RISK is the value of executive characteristics as measured by the standard deviation of EBITDA/total assets in company  $i$  year  $t$ . (3) FINCON is the value of financial constraints measured using confirmatory analysis by combining three factors in the form of net debt ratio, interest coverage ratio, and dividend payout ratio, from the results of confirmatory calculations that have met the requirements of factor analysis in the form of KMO and Bartlett's Test, Anti- image Matrices, Communalities, Total Variance Explained and Component Matrix. Other independent variables are used as control variables, including: (4) SIZE is the size of company  $i$  in year  $t$ , measured by the natural logarithm of total assets at the end of the year; (5) GROWTH is the growth of company  $i$  in year  $t$  measured by total sales in year  $t$  minus total sales in year  $t-1$  divided by total sales in year  $t-1$ . (6) LEV is the level of debt (leverage) of company  $i$  in year  $t$ , measured by the ratio of total debt to total equity.



#### **4.1.2 Descriptive statistics**

Table 2, Panel A, provides the descriptive statistics for dependent and independent variables in the full sample. Based on the results of the descriptive statistical analysis in Table 3, 135 observations for the ETRDIFF or tax avoidance variable have a maximum ETRDIFF of 1.1157 and a minimum of -0.3273, with a mean of 0.0148. The median is -0.0032, and the standard deviation is 0.1518. The RISK variable or executive characteristics, has a maximum RISK of 0.5528, a minimum RISK of 0.0011, a mean of 0.0383, a median value approaching 0.0269, and a standard deviation of RISK of 0.4994. The FINCON variable has a maximum value of 1.4890 and a minimum of -2.6810, with a mean of -0.0095 and a median of 0.0300. And the standard deviation value of 0.8017. The SIZE control variable or company size has the maximum value of the variable SIZE of 22.8924 and the minimum of the variable SIZE of 15.7003, with the mean variable SIZE of 19.3218, the median of 19.0711, and the standard deviation value of 1.7812. The growth control variable, or sales growth, has a maximum value of 0.8588, a minimum value of -0.2420, a mean of 0.1272, a median of 0.0994, and a standard deviation value of 0.1692. The LEV, or leverage control variable, has a maximum value of 2.2478 and a minimum value of -2.2145, with an average or mean of 0.4297, a median of 0.3325, and a standard deviation value of 0.5930.

In Panel B of Table 2, for the Pearson correlation, the results of the correlation coefficient analysis on the independent variable on the dependent variable, that is, the correlation coefficient of H1 between the executive characteristics variable and the tax avoidance variable, is 0.5596, indicating that there is a positive correlation or a positive and significant correlation to tax avoidance. The result of the correlation coefficient H2 between the financial constraint variable and the tax avoidance variable is 0.1615. This shows that there is a positive correlation, or a positive and significant relationship, to tax avoidance. The result of the correlation coefficient between the firm size variable and the tax avoidance variable is -0.1297. This shows that there is a negative correlation, or a negative and insignificant correlation, with tax avoidance. The result of the correlation coefficient between the sales growth variable and the tax avoidance variable was 0.1873. This shows that there is a positive correlation, or a positive and significant correlation, to tax avoidance. The result of the correlation coefficient between the leverage variable and the tax avoidance variable is -0.1352. This shows that there is a negative correlation or negative significance to tax avoidance.

#### **4.2. Results**

Table 3 shows the estimation results of the effect of the independent variable on the dependent variable. Between the stages of the Chow test, Hausman test, and Pagan Lagrange multiplier Breusch test. Based on the testing conducted, the best choice that can be made is to use the random effect model. As for the random effect regression using the GLS (generalized least squares) regression results, they are as follows:

Insert Table 3 here.

The results show that the probit F-statistic of this model is 0.0000. This number is smaller than the  $\alpha$  value of 0.05. So all the independent variables simultaneously affect tax avoidance. The results of the coefficient of determination R-squared are 0.3627 or 36.27%, which means the ability of executive characteristic variables, financial constraints, size, sales growth, and leverage to explain the tax avoidance variable of 36.27%.

**Table 3**  
**Regression Results**

ETRDIF	Predicted Sign	Coefficient	T	{P> t }
RISK	+	1,5181	7,21	0,000
FINCON	+	0,0289	3,20	0,001
SIZE		-0,0017	-0,27	0,788
GROWTH		0,1452	2,31	0,021
LEV		-0,0611	-2,60	0,009
_Cons		0,0040	0,03	0,974
<b>R-Squared</b>				0,3865
<b>Adjusted R-squared</b>				0,3627
<b>Prob (F-Statistic)</b>				0,0000

Based on Table 3, executive characteristics partially have a positive and significant effect on tax avoidance because  $\text{sig.} = .000 < 0.05$ . The results of the hypothesis mean that the higher the risk value of the company, the more likely the executive is to be a risk-taker, which is indicated by the fact that the greater the risk of the company, the higher the company's tax avoidance. Executives who are risk-takers are more daring in taking tax avoidance actions because they have a strong drive to maximize large corporate profits. Tax avoidance measures taken affect the tax expense paid by the company, which becomes smaller. The implication of the small tax expense paid can increase the company's cash flow. According to agency theory, there is a conflict of interest between the agent and the principal. In the context of taxation, conflicts of interest occur between taxpayers and tax regulators. On the one hand, taxpayers want small taxes. On the other hand, the tax regulator wants taxpayers to pay taxes according to the income they earn. When a manager has the characteristics of a risk-taker, the company's tendency to carry out tax avoidance is higher.

Table 3 show that financial constraints partially have a positive and significant effect on tax avoidance because the p-value is  $0.001 < 0.05$ . The hypothesis results mean that companies experiencing high financial constraints will take tax avoidance measures. Company financial constraints are an important factor that can influence motivation to take tax-avoidance measures. With tax avoidance measures, companies that have limited financing can save company cash to assist in resolving investment shortages experienced by companies experiencing financial constraints.

Based on Table 3, the control variable, company size partially does not affect tax avoidance, because the sig is  $0.788 > 0.05$ . The results of this hypothesis mean that company size does not affect tax avoidance. According to the results of this study, on average, the company is large. Large companies will get the most attention from the tax authorities because they will be taxed under applicable tax regulations. This makes the company have low motivation to avoid tax. The results of this study are in line with the research shown by Dewi and Jati (2014) that company size does not affect tax avoidance because paying taxes is something that must be carried out by both large and small companies.

Based on Table 3, the sales growth control variable partially has a positive and significant effect on tax avoidance because  $\text{sig.} = 0.021 < 0.05$ . In the results of this hypothesis, we mean the development in the level of sales that occurs from year to year, which shows that the greater the sales volume, the greater the profit generated by the company will be. So companies tend to take tax avoidance measures. States that large profits in companies can create a large corporate tax expense, so companies tend to take advantage of tax avoidance.

Based on Table 3, the leverage control variable partially leverage has a negative and significant effect on the tax avoidance variable because  $\text{sig } 0.009 < 0.05$ . Hypothesis results suggest that the higher the value of the leverage ratio, the smaller the taxable profit, which is due to the higher tax incentives on debt interest. Higher interest costs will reduce the company's tax burden. This research is in line with the research of Kurniasih and Sari (2013), which states that the greater the liabilities, the lower the tax avoidance.

## V. CONCLUSION

Based on the results of the research that has been done, it has been concluded that executive characteristics have a positive and significant effect on tax avoidance. Thus, a high level of risk indicates that executives are risk-takers. Executives who are risk-takers are more courageous in taking tax avoidance because they have a strong incentive to have higher income and welfare, which aims to maximize company profits. The results of this study support the study of Oktamawati (2017). Financial constraints have a positive and significant effect on tax avoidance. Thus, the higher the financial constraints that occur, the greater the company's tax avoidance measures. Companies that experience limited funding will seek to increase their internal funding sources by reducing their tax expenses. The results of this study support the research of Rachmawati et al. (2019; 2020).

The limitation of this study was that it had an observation period of 2016-2018, so the research data could not represent the entire data contained in the Indonesia stock exchange. Also, this research uses manufacturing companies on the Indonesia stock exchange as a sample, so the research results cannot be generalized to other types of industrial sectors listed on the Indonesia stock exchange. Based on the results of the research that has been done, it is concluded that the limitation of this study was that it had an observation period of 2016-2018, so the research data could not represent the entire data contained in the Indonesia stock exchange. Also, this research uses manufacturing companies on the Indonesia stock exchange as a sample, so the research results cannot be generalized to other types of industrial sectors listed on the Indonesia stock exchange.

Suggestions that can be given are further research that can increase the period of observation to see the relationship between executive characteristics and financial constraints on tax avoidance over a long period, and the results obtained are of higher quality. As well as adding other industrial sectors that will be used as research samples, such as all companies listed on the Indonesia stock exchange, so that the research results can be more generalized.

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