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Tax Management in The Indonesian Banking Sector: The Moderating Role of Independent Commissioners on The Relationship Between Profitability and Firm Size Toward Effective Tax Rate

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ABSTRACT

Tax management is a key strategy for business entities to meet their tax responsibilities efficiently and legally. The purpose of this study is to examine how profitability and firm size impacts on tax management, as measured by the Effective Tax Rate (ETR), and the moderating role of independent commissioners in Indonesian banking companies from 2021 to 2023. The results show that profitability has a significant negative effect on ETR, while firm size has no effect. The interaction test shows that independent commissioners significantly moderate the relationship between profitability and ETR by weakening the negative effect. However, independent commissioners' moderating influence on the association between company size and ETR is statistically insignificant. These findings highlight the importance of good corporate governance, particularly the monitoring function of independent commissioners, in encouraging the responsible of tax behavior. The contributions of this study add to the literature on tax management and also corporate governance, and provides knowledge for regulators to strengthen tax compliance mechanisms in the banking sector.

Keywords: Effective Tax Rate (ETR); Firm size; Independent Commissioners; Profitability; Tax Management.

INTRODUCTION

In today's increasingly complicated and dynamic business world, tax administration has become an essential component that every firm must properly handle. Tax management is defined as a taxpayer's complete and ongoing effort to ensure that all parts of taxation are handled correctly, effectively, efficiently, and economically (Rusydi, 2017). Companies that apply efficient tax management may guarantee that that their tax obligations are handled in a profitable manner while adhering to current legislation (Rely, 2023). Tax management is critical for businesses to legally and efficiently lower their tax burden. Companies with a thorough grasp of current tax legislation might identify chances to obtain various tax benefits, such as tax credits or other tax reductions (Liani et al., 2023). However, on the other hand, overly aggressive tax management practices can also pose reputational risks, legal sanctions, and create negative perceptions among the public and stakeholders. Therefore, caution is needed when implementing this tax management strategy.

One relevant industry to examine in this context is the banking industry, as this sector is under strict regulatory monitoring and have relatively high profitability, thus contributing significantly to state revenue. Furthermore, one of the largest scandals in global tax evasion history involved the multinational bank HSBC. In 2015, the banking world was shaken by the finding that HSBC used its Swiss branch to facilitate systematic tax evasion by thousands of customers from various countries. According to leaked confidential documents (known as the Swiss Leaks), approximately 106,000 customers from 203 countries used HSBC Swiss accounts to hide funds worth more than USD 100 billion. The customers involved came from various backgrounds, and from the data, 75 customers were recorded from Indonesia, with accounts opened between 1986 and 2006, and total deposits reaching approximately USD 134.1 million based on the Swiss Leaks Scandal, 2016 in (Nindya, 2023). The disclosure of this case demonstrates the weakness of the cross-border oversight system and the suboptimal involvement of domestic authorities in following up on potential cross-jurisdictional tax violations.

In Indonesia, tax management issues have become a serious challenge to state revenue management, particularly in the banking industry, which has a highly complicated transaction structure. Aggressive practices in tax management are frequently employed through the regulatory gaps, which directly impact the reduction of a company’s Effective Tax Rate (ETR). In this context, profitability and firm size are believed to be factors that influencing the amount of tax liability paid. However, the presence of Independent commissioners in corporate governance has the potential to play an important moderating role in steering a more transparent and regulatory-compliant tax strategy. Several large banks report ETRs well below the official rate, indicating the potential for legitimate aggressive tax management strategies.

In the Indonesian banking sector, tax efficiency practices are inseparable to two key characteristics of large financial institutions: firm size and profitability level. Large banks tend to implement tax management strategies by leverage the company’s resources and expertise. This strategy also part of management effort to maintain a reputation as a reliable manager also to ensure the company's future sustainability, both from an investment and operational perspective, through a legal and well-planned reduction of tax liabilities (Wulandari et al., 2024). (Putri & Gunawan, 2018) found that business size and profitability had a considerable negative impact on the Effective Tax Rate (ETR) of foreign exchange banks listed on Indonesia's stock exchange. This finding indicates that the larger and more profitable a bank is, the lower the ETR paid, which may reflect the implementation of an active and efficient tax management strategy. This fact reinforces the hypothesis that banking entities with substantial resources have greater ability to manage their fiscal obligations through legal yet aggressive tax planning. This makes the Indonesian banking sector as a relevant object for examining the relationship between profitability, firm size, and the effectiveness of the role of independent commissioners in corporate fiscal monitor.

This study analyzes tax management using the Effective Tax Rate (ETR). This technique is consistent with earlier studies that have used ETR as a proxy for evaluating tax management strategies, including those undertaken by (Awaliah et al., 2022), (Dakhli, 2022), (Gaaya et al., 2017), and (Sutomo & Djaddang, 2017). The ETR is simply a proportion of the tax rate paid by a firm. The effective tax rate is computed or assessed using financial information supplied by the firm; hence, it is a method of estimating the company's tax rate (Saragih & Halawa, 2022). The measurement is based on a comparison between actual tax paid to pre-tax commercial profit; the lower the ETR value, the greater the tax management value, and vice versa. As a result, the effective tax rate is viewed as one tool to assess how successfully a firm handles its taxes (Widati et al., 2024). An effective tax rate (ETR) is one way to calculate a company's tax rate; Hence, the existence of an effective tax rate (ETR) has gained significant attention in numerous studies because it might provide an overview of the combined impact of several tax breaks and adjustments to corporate tax rates (Imelia et al., 2015). The effective tax rate seeks to calculate the percentage change in real tax payments against generated earnings. The lower a company's effective tax rate, the more effective its tax planning (Aulia & Ernandi, 2022). As a result, the link between ETR and tax management is negative, implying that a low ETR indicates a high level of tax management, and vice versa. Profitability and firm size are two corporate variables that have been shown to impact a company's tax management tendencies.

Companies with high profitability that measured by Return on Assets (ROA), are more motivated to lower their tax liability in order to preserve their profit margins. Similarly, larger companies, represented in this study by the firm size proxy of Ln Total Assets, generally have more resources and access to tax expertise. This makes them more likely to implement complex tax management strategies. (Ardyansah & Zulaikha, 2014) found that larger enterprises had lower effective tax rates (ETR), which is a significant indicator of legitimate tax evasion tactics. Furthermore, this study discovered that the presence of independent commissioners correlates favorably to raising ETR, highlighting the importance of corporate governance procedures in reducing management mobility towards tax evasion.

In these circumstances, the function of corporate governance is critical. A successful corporate governance structure necessitates supervision measures to oversee managerial activities, one of which is the function of independent commissioners. Independent commissioners are meant to provide objective review of corporate rules, such as tax compliance. As a result, independent commissioners can help to control the link between profitability and business growth in tax management. A larger share of independent commissioners is thought to diminish management's proclivity to engage in aggressive tax evasion. However, research into the moderating function of independent commissioners in the link between firm characteristics and tax management remains sparse, notably in the Indonesian banking industry. This sector is characterized by regulatory complexity and high compliance expectations, provides an ideal context to examine how corporate governance oversight mechanisms influence tax management strategies. Furthermore, the 2021–2023 period is a crucial post-COVID-19 pandemic phase, which banks facing pressure to restore profitability while improving fiscal efficiency. Thus, this study aims to measure the tax management strategies undertaken by banking companies in Indonesia by examining the influence of profitability and firm size on ETR, as well as exploring the role of independent commissioners as a moderating variable that can strengthen corporate governance in preventing excessive tax management practices.

LITERATURE REVIEW

Agency Theory

The conflict of interest between owners (principals) and management (agents) is described by a theory called agency theory. (Jensen & Meckling, 1976), the primary proponents of this idea, said that an agency relationship exists when the owner delegated responsibility to administer the firm to the management, with the assumption that the best interests of the owner will be prioritized in every step taken by the agent. However, differences in interests between the two can give rise to a conflict known as agency conflict. In the context of this research, management tends to maximize its personal interests, including through tax management that can detrimental the owner's interests. A board of commissioners, particularly independent commissioners, serves as a monitoring tool to help resolve this issue.

Profitability has a negative effect on ETR

According to agency theory, managers as agents have a desire to maximize their own interests, which frequently conflict with the goals of owners. Companies with high levels of profitability have a larger motivation to engage in tax management to decrease tax loads while maintaining high profit performance in the eyes of shareholders. This tax management operation results in a drop in the Effective Tax Rate (ETR).(Putri & Gunawan, 2018) found that profitability has a negative association with ETR, implying that enterprises with large profits are more likely to use lawful tax avoidance tactics to decrease fiscal responsibilities. since a result, the higher the profits earned, and then the ETR is lower, since businesses are more proactive in minimizing their tax responsibilities.

H_1: Profitability has a negative effect on the Effective Tax Rate (ETR).

Firm size has a negative effect on ETR

Larger businesses often have more resources, including access to experienced tax consultants and a better grasp of tax legislation. From an agency theory perspective, larger companies also face greater pressure from owners to achieve fiscal efficiency. This creates incentives for management to utilize the legal tax gaps to reduce their tax burden, ultimately lowering their ETR. Research by (Fisdiyah et al., 2020) and Ardyansah and Zulaikha (2014) found that firm size negatively impacts ETR, indicating that larger companies are more proactive in devising tax plans to reduce their tax obligations.

H_2: Firm size has a negative effect on the Effective Tax Rate (ETR).

The proportion of board of independent commissioners moderates the effect of profitability on ETR.

Within the agency theory paradigm, the existence of independent commissioners serves as a corporate governance method to review management decisions. When a corporation is profitable, there is more room for opportunistic tax management tactics. Independent commissioners should be able to control such activities through an impartial and independent monitoring function. (Ardyansah & Zulaikha, 2014), as well as (Fitriani & Widaryanti, 2024), found that having an independent board of commissioners gives a viewpoint focused on compliance and corporate ethics, which can encourage corporations to avoid tax evasion tactics. Thus, the proportion of independent commissioners has the potential to weaken the negative relationship between profitability and ETR, as they constraining management's tendency to engage in excessive tax efficiency.

H_3: The proportion of independent board of commissioners moderates the effect of profitability on Effective Tax Rate (ETR).

The proportion of board of independent commissioners moderates the effect of firm size on ETR.
Large companies face greater public pressure regarding fiscal transparency and accountability. However, in practice, large company management also has greater flexibility in designing tax management strategies. When a company wants to improve its management performance, independent commissioners can achieve this through effective supervision; management oversight can be tightened by increasing the proportion of independent commissioners (Asri & Suardana, 2016). The power of the presence of independent commissioners can reduce the detrimental impact of business size on ETR. This means that in large corporations, independent commissioners play an important role in restricting executive freedom to engage in excessive tax efficiency.
H_4: The proportion of independent commissioner's board moderates the effect of firm size on the Effective Tax Rate (ETR).

RESEARCH METHOD

This quantitative study intends to investigate the influence of profitability and business size on tax management, as measured by ETR, as well as the function of the proportion of independent board of commissioners as a moderator variable. This study's population covers all banking sector businesses that were listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023, a total of 47 companies. The sample methodology employed was purposive sampling, which was determined by specific criteria such as the availability of yearly reports and the completeness of the needed data. Based on these purposive sampling criteria, 1 company was excluded from the sample due to incomplete data during the observation period. Thus, the final sample size was 46 companies and the number of observations was 138 observations (46 companies x 3 years). Moderated regression analysis (MRA) was used to assess the direct effect of independent factors on ETR, as well as the interaction between independent variables and moderating variables. All data processing and analysis were performed with SPSS software.
$ETR=\beta0+\beta1ROA+\beta2SIZE+\beta3KI+\beta4(ROA\times KI)+\beta5(SIZE\times KI)+\varepsilon$

Definition of Operational Variables
Tax Management
In this research, tax management is defined as the endeavor to pay taxes in line with relevant legislation, but at the lowest feasible cost, so that the firm may achieve the desired profit and liquidity. The effective tax rate (ETR) serves as a proxy for tax management. The ETR is used as a proxy for tax management since it indicates the ratio of taxes paid by the firm to pre-tax earnings.
$ETR = \frac{Income\ tax\ expense}{Earnings\ Before\ Tax\ (EBT)}$

Profitability
According to (Gloria & Apriwenni, 2020), The ability of a business to turn a profit from its operations is referred to as profitability, which is measured using ROA. According to (Amelia & Sunarsi, 2020), ROA is one of the factors used to determine a company's profitability. As a result, a greater ROA implies better firm performance since it demonstrates the company's capacity to use assets to create after-tax profit. It also helps management evaluate the effectiveness of asset management.
$ROA= \frac{\text{Net income}}{\text{Total assets}}$

Firm size
Firm size refers to a classification based on the number of assets held, where assets are considered as a stable and continuous indicator across periods. The firm size variable can be calculated using total assets by applying the natural logarithm of the company's total assets, as conducted in the research by (Prabowo & Sahlan, 2021).
Firm size = Ln Total Assets

Proportion of independent board of commissioners
The presence of independent commissioners is a critical component in putting effective corporate governance into practice. Individuals serving as independent commissioners have no vested interests in the company's shareholders, board of directors, or other executive roles. The number of independent commissioners divided by the total number of board members in a corporation provides a quantitative measure of the proportion of independent commissioners (Marliza & Darsono, 2025).
Proportion of independent board of commissioners = $\frac{Number\ of\ independent\ commisioners}{Total\ number\ of\ board\ commisioners}$

RESULTS

Table 1 Classic Assumption Test

Variable	Normality	Multicollinearity		Heteroskedasticity	Durbin Watson
		Tolerance	VIF		
Profitability	0.470	0.986	1.014	0.531	1.833
Firm size		0.966	1.035	0.084	
Proportion of independent board of commissioners		0.972	1.029	0.257	

source: processed data,2025

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov Test, the Asymp. Sig. (2-tailed) value was 0.470. Because the significance value is greater than 0.05, we may assume that the residual data is normally distributed. As a result, the regression analysis's normality assumption was fulfilled, indicating that the model is eligible for further study.

The results of the multicollinearity test show that all independent variables in the regression model have a VIF (Variance Inflation Factor) value less than 10 and a Tolerance value more than 0.10. The VIF result for the Profitability variable is 1.014, firm size is 1.035, and the proportion of independent commissioners is 1.029. Meanwhile, the tolerances are 0.986, 0.966, and 0.972, respectively. Thus, it can be stated that there are no signs of multicollinearity in the model, implying that all independent variables do not have a strong correlation with one another and are appropriate for use in regression analyses.

The heteroscedasticity test using the Glejser technique yielded significance values greater than 0.05 for all variables. As a result, there are no signs of heteroscedasticity in the model, implying that the residual variance is constant and the model meets the classical regression requirements.

The autocorrelation test findings utilizing the Durbin-Watson (DW) value yielded a value of 1.833. With 138 observations and three independent variables, the DW value ranges from 1.720 to 4 - dU = 2.280. Because the DW value falls within this range, we may conclude that the regression model has no autocorrelation. This means that the classical assumption of residual independence is met, making the regression model suitable for further analysis.

Table 2 Moderated Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-3.185	4.069		-0.783	0.435
	Profitability	-0.185	0.053	-0.359	-3.498	0.001
	Firm size	-0.369	1.274	-0.026	-0.289	0.773
	Proportion of independent board of commissioners	-0.820	0.500	-0.274	-1.640	0.103
	X1 x Z	0.090	0.045	0.210	2.004	0.047
	X2 X Z	0.809	0.585	0.228	1.383	0.169

source: processed data,2025

Moderated Regression Equation:
$$ETR=-3{,}185-0{,}185X1-0{,}369X2-0{,}820Z+0{,}090(X1\times Z)+0{,}809(X2\times Z)$$

According to the t (partial) test results, profitability has a negative and substantial influence on the Effective Tax Rate (ETR), with a p-value of 0.001. This suggests that a company's effective tax rate decreases as its profitability increases. In contrast, business size and the number of independent commissioners had no significant effect on the ETR, with significance values of 0.773 and 0.103, respectively.

The interaction between profitability and the fraction of independent commissioners (X1 × Z) has a significant impact on the ETR (sig. = 0.047), suggesting positive moderation. This implies that the existence of independent commissioners mitigates the detrimental impact of profitability on ETR. However, the interaction between firm size and the fraction of independent commissioners (X2 × Z) is not significant (sig. = 0.169), indicating that it does not influence the association between company size and ETR.

Table 3 F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	7.107	5	1.421	2.896	0.016[b]
	Residual	64.786	132	0.491		
	Total	71.893	137			

source: processed data,2025

The F-test findings suggest a significance level of 0.016, which is less than the threshold of 0.05. The factors of profitability, business size, proportion of independent commissioners, and interaction of X1 × Z and X2 × Z all have a substantial impact on the Effective Tax Rate (ETR). Thus, the regression model utilized in this work is acceptable for explaining the variance in ETR.

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Table 4 Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.314[a]	0.099	0.065	0.7005752

source: processed data,2025

The coefficient of determination (R^2) test resulted in a R Square score of 0.099, or 9.9%. The independent factors (profitability, business size, proportion of independent commissioners, and interaction of X1 × Z and X2 × Z) can explain 9.9% of the variation in the Effective Tax Rate. Meanwhile, the remaining 90.1% is explained by variables other than the model. This suggests that, while the model is important, the independent variables' contribution to explaining the ETR remains very minor.

DISCUSSION

The Effect of Profitability on the Effective Tax Rate

The test findings indicate that ETR is significantly impacted negatively by profitability (β = -0.185, p = 0.001), supporting hypothesis 1. This result is in line with earlier research. (Felicia et al., 2024) and (Yohanes & Sherly, 2022) which stated that profitability has a negative effect on ETR. A negative effect indicates that the ETR decreases as the company's earnings increases. A better degree of tax management is indicated by a lower ETR. High-profitability businesses frequently have greater resources and incentives to design legitimate and legal tax avoidance strategies through complex tax management. Companies with high profits have the ability to access various more advanced tax management methods, such as utilizing debt structures to reduce taxes owed or using financial instruments that allow them to reduce taxes legally and effectively.

The Effect of Firm size on Effective Tax Rate

The test results show that firm size does not significantly influence ETR (β = -0.369, p = 0.773), thus Hypothesis 2 is rejected. This finding is consistent with previous studies (Pasha et al., 2024) and (Rahayu et al., 2023). This show that firm size does not always influence tax management, as larger companies tend to be more cautious in fulfilling their tax obligations due to the increased attention from the tax authorities, who closely monitor their tax compliance. Therefore, despite having more resources, larger companies do not necessarily have a higher level of tax management. This show that although larger companies theoretically have more resources to manage their tax obligations, in the context of this sample, size is not a dominant determinant of the effective tax burden paid.

The Moderating Role of Independent Commissioners on the Relationship between Profitability and ETR

The interaction regression results show that the interaction between profitability and independent commissioners has a significant positive effect on ETR (β = 0.090, p = 0.047), thus Hypothesis 3 is accepted. This means that independent commissioners weaken the negative effect of profitability on ETR, as hypothesized. This research is consistent with a previous study by (Asih & Darmawati, 2021), which discovered that the impact of profitability on tax evasion might be lessened when independent commissioners are present in a business. Gatekeeper, such as corporate networks, institutional investors, and tax advisors, play a crucial role in mitigating or facilitating the company's corporate tax aggression. Similar to the gatekeeper role in controlling tax aggressiveness, independent commissioners also play a crucial role in moderating the effect of profitability on the level of tax management reflected in the ETR. Independent commissioners can act as monitors, preventing companies from engaging in high-risk tax management practices, thereby encouraging more transparent and responsible fiscal strategies. Thus, companies with high profitability but a larger proportion of independent commissioners tend to be more accountable in paying taxes proportionally.

The Moderating Role of Independent Commissioners on the Relationship Between Size and ETR

The test results show that the interaction between firm size and independent commissioners is insignificant ($\beta = 0.809$, $p = 0.169$), thus Hypothesis 4 is rejected. Although the positive coefficient indicates a moderation direction that consistent with the hypothesis, however, there is insufficient evidence statically to stated that independent commissioners weaken the effect of firm size on ETR. This could be due to the role of independent commissioners being more effective in monitoring the explicit strategic decisions, such as earnings policy or investment, but less optimal in monitoring the structural implications that from the characteristics of firm size. Furthermore, this insignificant result could also be due to differences in governance compliance between large and small companies in the sample that studied, or because the measurement of the moderating variable does not capture the actual complexity of the monitoring mechanism. This finding is also similar to the study by (Susanto et al., 2024) who found that large companies tend to remain tax aggressive despite there is monitoring from independent commissioners.

CONCLUSION

According to this study, the Effective Tax Rate (ETR) is significantly impacted negatively by profitability, suggesting that profitable businesses typically practice more aggressive but lawful tax management. Their resources and incentives allow these companies to design complex and efficient tax management strategies. Conversely, firm size has no significant effect on ETR. Although larger companies have greater tax management capacity, but they also tend to be more cautious due to the monitoring of tax authorities. Therefore, firm size does not automatically determine the intensity of its tax management strategy.

Furthermore, it was demonstrated that independent commissioners had a crucial role in regulating the association between profitability and ETR. Their presence was able to weaken the negative impact of profitability on ETR, confirming their monitoring function in encouraging more responsible fiscal compliance. However, the moderation of independent commissioners on the relationship between firm size and ETR was not statistically significant. This indicates that independent commissioners are more effective in monitoring a direct and strategic managerial decisions, but their effectiveness is less dominant in controlling the indirect impact arising from the company's structural characteristics, such as large size company.

In practical terms, the results of this study emphasize the importance of profitability as a principal factor of tax management behavior. However, the existence of governance mechanisms such as independent commissioners has been shown to reduce this intensity, emphasizing the importance of strengthening the Good Corporate Governance in public companies. For regulators, these results highlight the importance of policies that encourage the effectiveness of the board of commissioners' function, not only in terms of structure but also in the quality of monitoring.

LIMITATION

This study has several limitations that need to be considered. The relatively low coefficient of determination (R^2), at 9.9%, shows that the variables in the model only explain a small portion of the Effective Tax Rate (ETR) variation. This indicates that other factors beyond profitability, firm size, and the proportion of independent commissioners also influence the tax management practices, but have not been captured in the research model. Furthermore, the scope of this study was limited to the banking sector listed on the Indonesia Stock Exchange during the 2021–2023 period, so the findings cannot be broadly generalized to other sectors with different tax structures and complexities. Furthermore, the measurement of the role of independent commissioners is carried out only through their proportionate presence on the board structure without considering aspects of quality, experience, or actual monitoring capacity. Therefore, the future research is suggested to consider additional variables, expand the scope of industry sectors, and use more comprehensive governance indicators to obtain deeper results.

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DECLARATION OF CONFLICTING INTERESTS

No potential conflicts of interest were reported by the authors.

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