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Effect of Profitability, Leverage and Company Size on Tax Avoidance

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Tax avoidance is interesting to study because avoidance of tax can be performed as long as it does not violate applicable tax regulations. Therefore, this study aims to examine the effect of profitability, leverage and firm size on tax avoidance. The study was conducted by observing data on manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) for four years of observation. The choice of sampling uses purposive sampling. Analysis of the data used in this study is by using multiple linear regression. The results of this study provide empirical evidence that profitability does not affect tax avoidance while leveraging and firm size influence tax avoidance.

Key words: *Profitability, leverage, company size, tax avoidance.*

Introduction

Tax is an important source of income for each country, and a support for state revenues. In Indonesia, tax is a source of state revenue with a high percentage level compared to other sources of income. Therefore tax is the backbone of State revenue (Suparmono, 2005; 2). Tax revenue is expected to increase from year to year in accordance with predetermined targets. Differences in interests from tax authorities who want large and continuous tax revenues is contrary to the interests of companies that want to minimise tax payments. (Hardika, 2007; Fatula, 2018).

Along with the economic development, a company seeks to maintain profits so that it can provide attractive financial reports and tax reporting. This encourages the company to minimize taxes through efforts that do not violate tax laws, but that utilize imperfections of existing laws (Sanchez, 2018).

Tax avoidance is everything that a company does that results in a reduction in corporate taxation (Dryeng, Hanlon and Maydew, 2008) Tax evasion as an effort to minimize taxes that occur in Indonesia is a serious problem. Every year more than Rp110 trillion worth of tax evasion occurs by taxpayers. There are substantially more corporate taxpayers who engage in tax avoidance when compared to individual taxpayers (Adithya, 2017).

The fact is that the company conducts tax scrutiny, with the aim of minimizing the tax debt that must be paid; this is due to the profits obtained by large companies, they are reluctant to pay large taxes. The company will try to minimize profits by charging as much as possible as long as it is permissible according to the law and looking for alternative financing with debt so that the interest burden that must be paid by the company will materialize. In line with increasing profits, it will affect the value of the company's assets; this will impact the company's size, so managers will tend towards engaging in tax avoidance (Olkiewicz, 2018).

This study aims to determine how much influence profitability, leverage, and company size have on tax avoidance in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) for the period 2014 - 2017. This study is expected to provide empirical evidence regarding the effect of profitability, leverage and the size of the company towards tax avoidance and is expected to provide additional insights, information and references for the academic environment, managers and regulators in decision making.

Literature Review

Tax Avoidance is a business transaction scheme aimed at minimizing the tax burden by utilizing the weaknesses (loopholes) of a country's tax provisions (Gusti Maya Sari: 2014). According to Lim (2011), tax avoidance as a tax saving method arises by utilizing tax provisions carried out legally to minimize tax liabilities. This tax avoidance is said not to contradict the tax laws because the practices of tax avoidance take advantage of loopholes in the tax laws (Matgoting, 1999 in Ni Nyoman and I Ketut, 2014). Tax Avoidance is measured using the Effective Cash Tax Rate (CETR) having a nominal scale, namely 1 indicates tax avoidance and 0 indicates no tax avoidance. Companies are categorized as engaging in tax avoidance if CETR is less than 25%, and if CETR is more than 25% it is categorized as not engaging in tax avoidance (Gambling Budiman and Setiyono, 2012)

One measurement of a company's performance uses profitability. The profitability of a company shows the ability of a company to generate profits during a certain period at the level of sales, assets and certain share capital. Profitability consists of several ratios, one of which is the return on assets (ROA) (Hussain, Sallehuddin, Shamsudin, & Jabarullah, 2018). ROA serves to measure the effectiveness of a company in its use of resources (Siahan, 2004). ROA is used because it can provide adequate measurements of the overall effectiveness of the company and can take into account profitability. The higher the value of ROA, the better the management of assets of a company is; it will generate larger profits for the company. When the profit earned increases, the amount of income tax will increase according to the increase in company profits, this will motivate a company to engage in tax avoidance (Ida Ayu, 2016).

H1: Profitability has a positive effect on Tax Avoidance

Leverage is one of the financial ratios that describe the relationship between debt to capital and company assets. The leverage ratio describes the source of operating funds used by the company (Wirna Yola Gusti, 2013). Companies that have large amounts of debt will face the risk of lost operating funding so they will have a good effective tax rate (Noor et al., 2010). Leverage is measured by the ratio between total debt and equity.

H2: Leverage has a negative effect on tax avoidance.

Company size is a classification of a company based on the number of assets it has. Assets are considered to have a fairly sustainable level of stability (Maria and Kurniasih, 2013). According to Keiso (2011: 192) "Assets are a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity". The size of the company is generally divided into 3 categories, namely large firm, medium firm, and small firm.

The maturity stage of the company is determined based on total assets; the greater the total assets indicates that the company has superior prospects over a relatively long period of time (Gusti Maya Sari, 2014). Companies that have greater total assets will increase the amount of company productivity so that it will generate increased profits and affect the level of tax payable. Large companies tend to have more space for good tax planning and adopt effective accounting practices such as utilizing depreciation and amortization expenses arising from expenditures to obtain assets, this aims to reduce the company's effective tax rate (Ardyansah and Zulaikha, 2014). Large size companies are more stable and can generate profits and pay their tax obligations compared to smaller companies. In this study, the size of the company uses the proxy logarithm of natural total assets.

H3: The size of the company has a positive effect on Tax Avoidance

Methodology

The approach used in this study is quantitative. This research is carried out in the consumer goods industry sector, on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period of 2014-2017. The sampled companies have published their financial statements consistently during the observation period through the website www.idx.co.id. The data taken from the company's annual financial report is quantitative data.

Sample selection uses a purposive sampling method, where sample selection is done by fulfilling certain criteria. Of the 37 consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the period of 2014 - 2017 only 10 companies met the criteria so that the samples taken were as much as 40.

Results and Discussion

Result

Table 1: descriptive statistic

	TX_AVOIDANCE	ROA	DER	UK_P
Mean	0.265897	0.105298	0.453250	15.29477
Median	0.254888	0.099600	0.420000	15.25125
Maximum	0.368107	0.253200	1.130000	18.33547
Minimum	0.206574	0.015400	0.070000	11.98020
Std. Dev.	0.037431	0.056238	0.263579	2.083285
Skewness	0.986271	0.601175	0.694268	-0.034706
Kurtosis	3.492155	2.887913	3.027018	1.704661
Observation	40	40	40	40

The average value of the Tax Avoidance dependent variable during the observation period of 0.265897, this illustrates the Effective Cash Tax Rate (CETR) that exceeds the effective taxpayer tax rate that applies in accordance with the Law of 25%. This indicates that the company during the observation period was obedient to the applicable tax regulations so that it did not seem to have engaged in tax avoidance. But with a minimum value of 0.206574, there are still companies that engage in tax avoidance. There were 12 samples during the observation period with CETR below 25%. As such, it was proven that there were still companies engaged in tax avoidance.

The average value of Profitability proxied by Return on Assets (ROA) during the observation period of 0.105298 has decreased every year; only 3 companies of the 10 companies observed have increased profits. This is due to economic situation that are not in favour of companies.

The level of debt or leverage, with an average value of 0.453250, each year is also experiencing a decline. This situation illustrates the company does not want to take risks by having a large amount of debt as long as the economic situation remains unimproved.

For the size of the company, the average value of the company is recorded at 15.247477. Companies that are able to utilize optimal assets will increase their income. When a company has large total assets, it can be said that the company's performance that occurs in the company is good and it can be said that the company has a relatively large size.

Data normality test using Jarque - Bera gave results of0.203291 which is smaller than 2 and the probability value of 0.903350 is greater than the error rate of 5%, so it can be said that this study has fulfilled one of the regression testing requirements.

Multicollinearity test results of the Centered Variance Inflation Factor (Centered VIF) value of each variable is not more than 10 (VIF <10); there is no data multicollinearity. And the results of heteroscedasticity test, with Glejser test, did not show heteroscedasticity symptoms in the regression model.

The autocorrelation test using Durbin Watson obtained a value of 1.729486. This value will be compared with the DW table obtained by the table value (du) = 1.6589. Therefore DW 1.729486 is above the du value = 1.7209 but is below the 4-du value = 2.2791 which is (1.6589 <1.729486 <2.2791). Because the DW value is between the du and 4 -du values, there is no positive and negative autocorrelation.

Table 2: Determination results, F test results, partial tests (t test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.232517	0.046541	4.995989	0.0000
ROA	0.001386	0.000899	1.541472	0.1325
DER	0.131290	0.022045	5.955647	0.0000
UK_P	-0.006618	0.002403	-2.753983	0.0094
TX_AVOIDANCE(-1)	0.224353	0.111032	2.020621	0.0513

R-squared	0.629043
Adjusted R-squared	0.585401
F-statistic	14.41371
Prob(F-statistic)	0.000001

TA (Y) = 0.232517 + 0.001386ROA + 0.131290DER – 0.006618UK_P + e

The independent variable is zero, the constant tax avoidance value is 0.232517. If each one unit increases over the other independent variables, then tax avoidance will increase as much as the acquisition of the coefficient.

R square of the regression model shows that the coefficient is terminated at 62.9%, it appears that the dependent variable of tax avoidance is influenced by profitability (ROA), leverage (DER) and the size of the company, only by 62.9%. The rest is influenced by other factors not examined in this study.

Discussion
Effect of Profitability on Tax Avoidance

Hypothesis testing displayed by t-test (partial) in the regression model obtained a significance value of profitability variable of 0.1325 (> 0.05) and t value of 1.541472, then H0 was accepted which means that profitability does not affect tax avoidance. The ROA generated during the observation period has declined, so companies tend not to engage in tax avoidance. Companies assume that tax avoidance is a risky activity, so managers will not take risks in minimizing their investment risks. Conversely, a company that has a high ROA indicates that the company is able to cover or fulfil its tax burden and is able to comply with applicable tax provisions (Rachmitasari, 2015; Cahyono et al, 2016).

Effect of Leverage on Tax Avoidance

T-test results (partial) Leverage variable is 0.0000 (<0.05) and the t-test count value is 5.955647 which shows that H0 is rejected, meaning that partially the Leverage variable has a significant effect on tax avoidance. Leverage symbolized by debt is a high risk for the company, the higher the debt, the lower the tax burden that will be borne by the company, so the smaller the company's efforts to carry out tax avoidance. When a company decides to borrow or take on debt, the company's tax burden will be smaller because of the increase in interest expense. The reduction in tax burden is very meaningful for companies that are subject to high taxes. So, companies that have a high tax burden can engage in avoidance by increasing the company's debt.

Effect of Company Size on Tax Avoidance

The significance value of the Company Size variable is 0.0094 (<0.05) and the t count is -2.753983. Therefore, H0 is rejected, meaning that partially the firm size variable has a significant effect on tax avoidance. Companies that have large total assets will be able to generate profits and pay their obligations compared to companies with smaller total assets, the greater total assets indicates that the company has good prospects over a relatively long period of time. Large companies tend to be likely to practice accounting practices to charge costs optimally so as to minimize apparent profits and reduce tax rates (Ardyansah and Zulaikha, 2014).

Conclusion

Based on the results of research that has been carried out, and supported by theory and previous research, the conclusions are obtained descriptively that during the period of observation of tax avoidance, proxied by CETR, the value is still high. Profitability reflected in ROA decreases annually, as well as leverage tends to decrease and the size of the company assessed by total assets has increased.

After testing the hypotheses, the results are that profitability does not affect tax avoidance while leverage and firm size do affect tax avoidance.

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