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Research Article

Tax Avoidance Influenced By Company Profitability, Leverage And Company Size

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Abstract

Tax avoidance is a technique to minimize taxes by taking advantage of the weaknesses of the tax law. Tax avoidance in this study is proxied by the Effective Tax Rate (ETR). This research aims to determine the effect of profitability, leverage and company size on tax avoidance. The population in this research are mining sector companies listed on the Indonesia Stock Exchange during the 2016-2019 period, by using sample collection technique of purposive sampling. The regression used in this research was data panel regression with random effect model as selection model. The results of this research show partially showed profitability and leverage positive affected the tax avoidance, while firm size did not affect the tax avoidance.

Keywords

Tax avoidance, profitability, leverage, size

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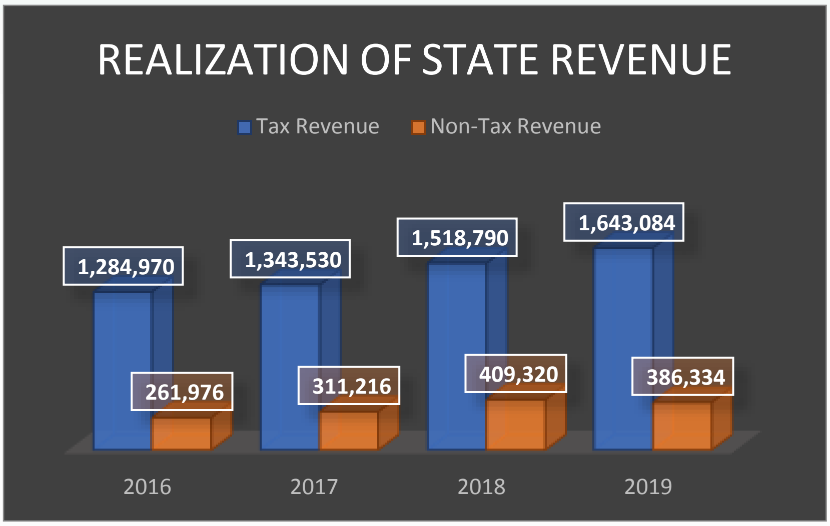
Introduction

The Indonesia Stock Exchange is a capital market management institution that provides the infrastructure for stock transactions and debt securities (bonds) transactions in Indonesia. The Indonesia Stock Exchange classifies companies into nine sectors, including the mining sector. the sector is determined by the Indonesia Stock Exchange based on an industry classification called the Jakarta Stock Exchange Industrial Classification (www.sahamok.com). Prof Djajadiningrat in (Sari, 2017) defines tax as obligation to provide a portion of wealth for a country where the obligation is paid not because of a penalty, but because of a law that has been enacted that is coercive. For that there is no direct feedback from the state. The revenue function (budgeter) explains that taxes are a source of government revenue to finance both routine and development expenditures. As a source of state finance, the government always strives to increase tax revenue. This is shown by the amount of tax revenue in the following graph (in billions).

Graph 1-1
Realization of State Revenue



Source: Badan Pusat Statistik (2021)

Chart 1-1 shows that the source of state revenue originating from tax revenue has increased from year to year. However, realization of tax revenue has still not reached the target expected by the government. In 2019, the achievement of tax revenues decreased when compared to 2018. The following is a table of the target and realization of tax revenues in the 2019 State Budget.

Table 1-1
Realization Tax Revenue

KETERANGAN	TAHUN		
	2017	**2018**	**2019**
TARGET	1.284	1.424	1.578
REALISASI	1.151	1.316	1.332
PENCAPAIAN	89,67%	92,38%	84,44%

Sumber: LAKIN DJP 2019

Table 1-1 shows the realization of tax revenue during the last few years, tax revenue always not achieved. Even in 2019 it decreased when compared to 2018 and 2017. In 2018 the realization of tax revenue reached 92.38%, while in 2019 the realization of tax revenue decreased to 84.44%.bTaxes are the main source of state income, but from the perspective of the taxpayer, the objective is to minimize tax payments without violating laws. This is the cause of taxpayers to avoid

tax (tax avoidance) by taking deficiency in Indonesia tax constitution to reduce payments of tax (Pohan, 2016).
Mining sector is a sector that has become the center of government attention in terms of taxation. Report on indications of Global Witness tax evasion against one of the major coal players in Indonesia. The Corruption Eradication Commission sees the mining sector as prone to corrupt practices, one of which is tax evasion. The KPK once noted that the underpayment of mining taxes in forest areas was IDR 15.9 trillion per year. This negative issue is a fiscal challenge in itself, one of which is related to the practice of transfer pricing. In this case, multinational companies are considered to always minimize the amount of their taxes through engineering transferred prices, especially in overseas affiliated entities (www.news.ddtc.co.id).bIn a Global Witness report entitled Taxing Times for Adaro, Adaro is said to have diverted profits from coal mining in Indonesia to a country that has a lower tax rate. From the report, it is stated that from 2009-2017, the company through its subsidiary in Singapore, namely Coaltrade Services International, paid USD 125 million or less than what should have been done in Indonesia, this was done to avoid taxes in Indonesia (www.merdeka.com). Companies have an orientation to get maximum profit so that companies carry out cost efficiency including the efficiency of tax burdens. Tax avoidance is seen as not breaking the law because it takes advantage of the weaknesses of the taxation policy and system in Indonesia, however, tax avoidance often gets the spotlight from the public because it has opportunistic connotations. There are several indications that companies are doing minimize of tax, through profitability, leverage and company size. Tax avoidance measurement techniques can be proxied by 12 measurement techniques, in this research tax avoidance is measured using the Effective Tax Rate (ETR). Effective Tax Rate is actual tax rate that must be paid by the company compared to the profit generated by the company. ETR was chosen because it can predict in detail the tax expense that will have an impact on accounting profit which can be seen in the notes of financial statements (Scott D Dyreng, 2008). Profitability is an indicator that can be used to measure the company's performance because it can measure or calculate the company's profit within a certain period (Kasmir, 2018). Large profits will have an impact on the tax expense that must be paid to be high, so that the company will take action to minimize taxes to reduce the tax expense that must be paid by the company. Research conducted by Sari (2013), Sukartha (2014), Setiawan (2016) found that profitability positive affected the tax avoidance. The results of this research indicate that the higher the profitability, then greater level of tax minimize. The results of this research contradict research conducted by Shuping Chen (2010), Anggi Syuhada (2019), and Mahrani (2019) which state that profitability negative affected the tax avoidance. Leverage ratio is a financial ratio used to measure how much the company's activities are financed by debt (Kasmir, 2018). Companies can use debt to meet operational and investment needs, but the debt will incur a fixed rate of return which is called interest. The bigger the debt, the smaller the taxable profit because the tax incentive for a debt interest is getting bigger. This has an impact on the increasing use of debt by companies (Jasmine, 2017). Research conducted by Lanis (2007), Annisa (2017), and Rasmini (2019) found that leverage positive affect the tax avoidance. The results of the research found that the higher the leverage of the company, the more likely the company was to do tax avoidance. However, the results of this study contradict research conducted by Noviari (2017) and Bambang Setyobudi Irianto (2017) suggesting that leverage negative affected the tax avoidance. The size of the company can determine the size of the total asset value so that it will produce maximum profit. Increasing profits will affect the level of tax payments. The size of the company can affect tax planning, large companies have ample space to plan effective tax payments to reduce the Effective Tax Rate (Arias, 2014).nResearch conducted by Lanis (2007), Zulaikha (2014) found that company size negative affected the tax avoidance. The results showed that the larger the company size, the less likely the company will do tax avoidance. The results of this research contradict the findings made by Bambang Setyobudi Irianto (2017) who found that size positive affected the tax avoidance. Problem in this research is that the Government expects maximum tax revenue and is in accordance with the target, but the company tries to minimize taxes because on the corporate side the tax is a burden. Efforts made by taxpayers to reduce taxes by exploiting the weaknesses of taxation law (tax avoidance). From these case, the research questions are as follows.
1. Does profitability have an influence on tax avoidance in mining sector companies listed on Indonesia Stock Exchange?
2. Does leverage have an influence on tax avoidance in mining sector companies listed on Indonesia Stock Exchange?

3. Does company size have an influence on tax avoidance in mining sector companies listed on Indonesia Stock Exchange?

Literatur Review

Profitability

Profitability is an indicator that can be used to measure the company's performance because it can measure or calculate the company's profit within a certain period (Kasmir, 2018). This research profitability is measured using Return On Assets because it reflects how much asset management is to generate profits. The following is the formula used to calculate Return On Assets.

$$\mathrm{ROA} = \frac{Net\ Profit}{\text{Total Assets}} \times\ 100\%$$

Leverage

Leverage used by investors to analyze the company ability and risk in knowing how much assets to cover debt company (Kasmir, 2018). The leverage used in this research is the Debt to Assets Ratio, this ratio is the ratio between total debt and total assets in a company. The following is the formula used to calculate the Debt to Assets Ratio.

$$Debt\ to\ Assets\ Ratio = \frac{Total\ Liabilities}{Total\ Assets}$$

Company Size

Company size is seen from the amount of equity value, sales value or asset value (Riyanto, 2008). The size of the company can be measured using the calculation of the logarithm value of total assets (Hartono, 2000). Company size research can use asset benchmarks, because the total asset value is usually very large compared to other financial variables (Asnawi, 2005). The following is the formula used to calculate company size.

$$Size = Ln\ (Total\ Asset)$$

Tax Avoidance

Tax avoidance is an action to minimize tax payments without violating the law. In this case, making tax savings by regulating actions through controlling the facts, to avoid the imposition of taxes that are greater or not taxable at all (Zain, 2008). In this research, tax avoidance techniques followed research conducted by Scott D Dyreng (2008) which was measured using the ETR. The ETR is proxied as follows.

$$Effective\ Tax\ Rate = \frac{Tax\ Expense}{Pretax\ Income}$$

Research Methodology

The influence of independent variable and the dependent variable is the goal in this research. Mining sector companies listed on the IDX during the 2016-2019 are the population in this research, by using sample collection technique of purposive sampling. The regression used in this research was data panel regression. The following are the criteria for taking the research sample.

Table 3-1
Sampling Criteria

No	Sampling Criteria	Total
1.	Mining sector companies listed on the Indonesia Stock Exchange in 2016-2019.	49
2.	Mining companies listed on the Indonesia Stock Exchange conducted IPO's during the research period.	(6)
3.	Mining companies that have been registered but delisted during the study period	(1)
4.	Companies with outlier data	(20)
Total sample		22

Result and Discussions

Panel Data Model Selection

a. Chow Test

The selection of the most appropriate fixed-effect or common effect model for the model used in this research was tested through the Chow Test (Ghozali, 2018). The following is the result of the chow test.

Table 4-1
Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.786579	(21,63)	0.0000
Cross-section Chi-square	120.414734	21	0.0000

Chow test results show that the prob value <alpha value 0.05, so conclusion from the result of chow test is a fixed effect model.

b. Hausman Test

The selection of the most appropriate fixed-effect or random-effect model for the model used in this research was tested through the Hausman Test (Ghozali, 2018). The following are the results of the Hausman test.

Table 4-2
Hausman test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.727726	3	0.6003

The results in table 4-2 show that prob 0.6003 > alpha 0.05, so the model chosen is the random effect model. After conducting two model tests through the Chow test and the Hausman test, the selection of the right model for this study was the random effect model. The following is the regression result of the selected regression model, namely the random effect model.

Table 4-3
Random Effect Model

Dependent Variable: ETR
Method: Panel EGLS (Cross-section random effects)
Date: 02/02/21 Time: 08:33
Sample: 2016 2019
Periods included: 4
Cross-sections included: 22
Total panel (balanced) observations: 88
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.325610	0.519595	4.475810	0.0000
ROA	0.197419	0.040811	4.837341	0.0000
DAR	1.657155	0.117633	14.08745	0.0000
SIZE	-0.093442	0.019258	-4.852112	0.0000

Effects Specification

	S.D.	Rho
Cross-section random	0.051340	0.5922
Idiosyncratic random	0.042607	0.4078

Weighted Statistics

R-squared	0.855989	Mean dependent var	0.137650
Adjusted R-squared	0.850846	S.D. dependent var	0.120207
S.E. of regression	0.046425	Sum squared resid	0.181040
F-statistic	166.4296	Durbin-Watson stat	1.150343
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.918277	Mean dependent var	0.359153
Sum squared resid	0.503168	Durbin-Watson stat	0.413893

Research Result

Coefficient of Determination

The results of the determination coefficient test shown in Tables 4-3 explain that the R-Squared value is 0.8559. These results explain that the independent variables that are proxied by profitability, leverage, and company size can affect the dependent variable proxied by tax avoidance by 85% and the remaining 15% is influenced by other factors not observed in this research.

Simultaneous Test (F-Test)

Result of the output eviews in table 4-3 explain probability 0.0000 <sig 0.05, the output result explain profitability, leverage, and company size simultaneous affected the tax avoidance. These results indicate that the model built in this study can be used to predict research regression.

Partial Test (T-Test)

a. Profitability

Results of the research in table 4-3 explain that the probability value of profitability is 0.0000. These results show that the probability < Significance 0.05. The hypothesis formed in the partial test is as follows:

$H0_1$: Profitability no positive affected the tax avoidance

$H1_1$: Profitability positive affected the tax avoidance

Based on the results of prob 0.0000 <sig 0.05 in the direction of the positive coefficient. Then $H1_1$ is accepted and $H0_1$ is rejected, which means that profitability positive affected the tax avoidance.

b. Leverage

Results of the research in table 4-3 explain that the probability value of leverage is 0.0000. These results show that the probability < significance 0.05. The hypothesis formed in the partial test is as follows:

$H0_2$: Leverage no positive affected the tax avoidance

$H1_2$: Leverage positive affected the tax avoidance

Based on the results of prob 0.0000 <sig 0.05 in the direction of the positive coefficient. Then $H1_2$ is accepted and $H0_2$ is rejected, which means that Leverage positive affected the tax avoidance.

c. Company Size

Results of the research in table 4-3 explain that the probability value of company size is 0.0000. These results show that the probability < significance 0.05. The hypothesis formed in the partial test is as follows:

$H0_3$: Company size has no positive effect on tax avoidance

$H1_3$: Company size has a positive effect on tax avoidance

Based on the results of prob 0.0000 <sig 0.05 with a negative coefficient direction. Then $H1_3$ is rejected and $H0_3$ is accepted, which means company size no positive affected the tax avoidance.

Discussion

The Effect of Profitability on Tax Avoidance

The results of research with model selection using the Random Effect Model found that profitability affected the tax avoidance with a positive coefficient direction. The results showed that the higher the profitability of a company, the greater the possibility of the company doing tax avoidance. Thus, the results of this study support the research conducted by Sari (2013), Sukartha (2014), Setiawan (2016) who found that profitability positive affected the tax avoidance. The positive coefficient value proves the logic of the theory and the hypothesis which states that companies that have a high level of profitability have a higher probability of companies doing tax avoidance. This happens because large profits result in high tax burdens to be paid, therefore the company will implement tax avoidance techniques. Profitability, which is proxied by Return On Asset, is influenced by large costs such as doing research and development for business development (Scott D Dyreng, 2008). Law No. 36 of 2008 article 6 paragraph 1F states that costs in doing research and development can be used as a deduction for taxable profits.

The Effect of Leverage on Tax Avoidance

The results of research with model selection using the Random Effect Model found that leverage affected the tax avoidance with a positive coefficient direction. The results showed that the higher the leverage of a company, the greater the possibility of the company doing tax avoidance. Thus, the results of this study support the research conducted by Lanis (2007), Annisa (2017), and Rasmini (2019) who found that leverage has a positive effect on tax avoidance. The positive coefficient value proves the logic of the theory and hypothesis which states that a company that has a large level of debt will likely increase the probability of the company doing tax avoidance. This happens because when a company borrows funds or credit, there will be an interest expense that must be paid by the company. Law No. 36 of 2008 article 6 paragraph 1a and article 18 paragraph 3 stipulate that the interest expense which can be used as a deduction for taxable profit is the interest expense incurred due to borrowing from creditors or third parties.

The Effect of Company Size on Tax Avoidance

The results of research with model selection using the Random Effect Model found that company size not affected the tax avoidance. The results show that company size is not a point of concern when companies do tax avoidance. Thus, the results of this study are different from research conducted by Lanis (2007) and Zulaikha (2014) who found that company size has a negative effect on tax avoidance. The negative coefficient value proves the logic of the theory and the hypothesis which states that companies with large companies have lower chances of companies doing tax avoidance. This is because companies with large categories have done tax planning well. Large companies have wider space in planning good taxes by adopting effective accounting practices (Arias, 2014). Assets owned by the company are related to the size of the company, assets will experience depreciation each year which can reduce the company's net income, thereby reducing the tax burden paid (Lanis, 2007).

Conclusion

This research aims to determine the effect of profitability, leverage and company size on tax avoidance. The population in this research are mining sector companies listed on the Indonesia Stock Exchange during the 2016-2019 period, by using sample collection technique of purposive sampling. The regression used in this research was data panel regression to determine the effect of the independent variable on the dependent variable. Based on the results of testing and discussion, the following conclusions are obtained.

1. Profitability positive affected the tax avoidance.
2. Leverage positive affected the tax avoidance
3. Company size negative affected the tax avoidance

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