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Research Article

Leverage And Profitability on Tax Avoidance: Evidence on Mining Sector Companies Listed on The Indonesia Stock Exchange (Idx)

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Abstract
This study aims to determine the effect of leverage and profitability on tax avoidance. The research method used in this research is explanatory. The data analysis method used is panel data regression analysis. Sources of data for this study are data in the form of annual financial statements of mining sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019. The population in this study was 141 observations. The sampling technique used in this study was purposive sampling, the total sample is 30. The results showed that leverage did not affect tax avoidance. Profitability affects tax avoidance.

Keywords
Leverage, Profitability, Tax Avoidance.

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Introduction

The tax function for the State is a source of state revenue, while for companies, taxes are considered an expense because taxes reduce company profits. Income tax is imposed on the income earned by the taxpayer. The greater the income earned by the company, the higher the income tax will be. So the firm is trying to find ways to minimize the cost of taxes that must be paid by planning and arranging the taxes to be paid. Generally, companies identify tax payments as an expense so that they will minimize the tax expense to optimize profits (Suandy, 2011). Tax avoidance is a transaction scheme that aims to apply taxes by exploiting the weaknesses in the taxation of a country so that the tax is declared valid because it does not violate tax regulations. (Hutami, 2010). Company owners will encourage management to take aggressive tax actions to reduce the tax expense that arises (Chen et al, 2010).

The government through the Directorate General of Taxes continues to strive so that the tax revenue target can be achieved effectively and efficiently, by continuously improving tax regulations and maximizing tax services so that it is expected to increase the awareness of taxpayers to contribute to the country's development. The expected contribution of taxpayers is to pay taxes on time and in the right amount.

During 2013 – 2018 Realization of corporate income tax revenue experienced a fluctuating trend. In 2013 was Rp. 149.3 trillion, while in 2014 it decreased to Rp. 148.4 trillion. Furthermore, corporate income tax revenue in 2015 increased to Rp 183.0 trillion when compared to the previous year. The decline in corporate income tax revenues again occurred in 2016 to Rp 169.7 trillion. The decline in corporate income tax revenue can be caused by several things, one of which is the incompatibility of corporate income tax payments made by the company.

Financial statements are a form of management responsibility to provide financial information to interested parties as material for economic decision-making. The firm's ability to generate profits is used as a measure of the corporate's success in improving and maintaining business continuity. Profitability describes the firm's ability to generate profits during a certain period (Maharani and Suardana, 2014). Operating Profit Margin (OPM) measures the corporate's ability to generate operating profit at a certain level of sales. A high ratio value will have a good influence on the efficiency of the company. A high operating ratio indicates a high operating profit, then income tax will increase so that companies tend to use a policy of minimizing tax payments

Leverage is the level of corporate capital support obtained from outside parties. Leverage on the company will cause a fixed expense, namely the interest that must be paid. Interest on the loan is a deductible expense, causing the firm's taxable profit to decrease, thereby reducing the tax paid by the firm. Previous research shows different results. Research conducted by Wijayanti & Merkusiwati (2017) states that leverage affects tax avoidance. Meanwhile, research conducted by Putri & Putra (2017) show leverage doesn't affect tax avoidance. Oktamawati (2017) show profitability affects tax avoidance, while Permata, et al., (2018) show profitability doesn't affect tax avoidance.

Literature Review

Tax Avoidance

Tax avoidance is an effort made by the corporate to minimize the tax expense borne by the company, legally or not violating tax regulations. According to the OECD tax avoidance is an attempt by taxpayers to reduce the tax payable, this effort may not violate the law, but it is contrary to the purpose of making tax laws and regulations. Effective tax rate (ETR) as a measure of tax avoidance. ETR is the ratio of the tax expenseto the corporate's profit before income tax is sacrificed to pay the corporate's tax expense. ETR is the corporate's tax expense divided by profit before tax. The greater the ETR indicates the lower the level of tax avoidance by the corporate (Budiman dan Setiyono,2012).

Leverage

Leverage measures how much the firm is financed by debt. This ratio serves to find out each rupiah

of own capital used for debt guarantees (Kasmir, 2013). The existence of debt to the company will cause a fixed expense, namely the interest that must be paid. Deductible expense loan interest on taxable income This will result in the corporate's taxable profit being reduced which in the end the amount of tax paid by the corporate is reduced.
H1: Leverage affects tax avoidance

Profitabilitas

Pprofitability ratio shows the corporate's ability to generate profits (Munawir, 2010). Harningsih & Spriyanto (2012) stated that Operating Profit Margin (OPM) measures the corporate's ability to generate operating profit at a certain level of sales. A high ratio value will have a good influence on company efficiency. A high operating ratio indicates a high operating profit so that it can cover operating costs. Operating profit is contained in the company's comprehensive income statement. The operating profit is derived from gross profit plus other income and then deducted by operating expenses such as general & administrative expenses, marketing expenses, selling expenses, and other expenses.

H2: Profitability affects tax avoidance.

Method

The research method used is verification. The object of this research includes the variables of leverage, profitability, and tax avoidance. The data used is the annual financial statements of mining sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019. The total population is 141 observation data. This research uses the purposive sampling method in sampling technique. Based on the obtained sample of 30. The data analysis method used is panel data regression analysis. Panel data technique is by combining cross-section and time-series data types. The variables in this study are:

Independent Variable (X)

The independent variable (X1) is the leverage with the formula: . In this study, leverage was measured using Debt to Equity Ratio with the formula:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

(Munawir, 2010)

The independent variable (X2) is the profitability. In this study, profitability was measured using operating profit margin with the formula:

$$OPM = \frac{\text{Operating Profit}}{\text{Sales}}$$

(Syamsudin, 2009)

Dependent Variable (Y)

The dependent variable (Y) is tax avoidance. In this study, tax avoidance was measured using ETR with formula:

$$ETR = \frac{\text{Tax Expense}}{\text{Pretax expense}}$$

(Bouassidi & Hamed, 2015).

Discussion And Conclusion

Hypothesis Test

Chow-Test

Table 4.1
Chow-Test Model Test Result

Probabilitas	Conclusion
0.000	Fixed effect model

Source: *Eviews 9 Output*

In table 4.1 shows that the probability value (Prob) in the F cross-section is 0.000 <0.05. so it can be concluded that the selection of the most appropriate model to use is the Fixed Effect model.

Hausman Test

Table 4.2
HausmanTest Result

Probabilitas	Conclusion
1.000	Random effect model

Source: Eviews 9 Output

In table 4.2, shows that the prob. of a random chi-square cross-section of 1,000 is greater than the prob. value of 0.05, namely (1,000> 0.05) so it can be concluded that the selection of the most appropriate model to use is the random effect model.

Lagrange Multiplier

Table 4.3
Langrage Multiplier Test Result

Breusch-Pagan	Conclusion
0.0069	Random effect model

Source: *Eviews 9 Output*

In table 4.3 it can be seen that the Breusch-Pagan value of 0.0069 is smaller than the prob. value of 0.05, namely (0.000 <0.05), Then the selection of the most appropriate model to use is the random-effects model.

Panel Data Regression Analysis

The following is the estimation of the panel data regression model using Eviews 9

Table 4.4
Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.349879	0.020492	17.07375	0.0000
DER	-2.088905	0.000338	-0.061761	0.9512
OPM	-0.274391	0.121845	-2.251970	0.0327

Source: *Eviews 9 Output*

The panel data regression equation:

$Y = 0.3499 - 2.0889X_1 - 0{,}2744\,X_2$

Explanation :

Y = Tax Avoidance
X_1 = Leverage
X_2 = Profitability

Interpretation of the results:

1. The constant of 0.3499 indicates the average tax avoidance if leverage and profitability are equal to zero.
2. Leverage has a negative coefficient of 2.0889, meaning that every time the company's leverage increases by 1, the ETR value will decrease by 2.0889. Then increase tax avoidance by 2.0889.
3. Profitability has a negative coefficient of 0.2744, it means that when the company's profitability increases by 1, it will reduce the value of ETR by 0.2744. Then increase tax avoidance by 0.2744.

Partial Testing

The Effect of Leverage on Tax Avoidance

Table 4.5
Test Results of the Effect of Leverage on Tax Avoidance

Regression coefficient	t_{count}	*Prob.*	t_{table}
-2.0889	0.0617	0.9521	2,048

Source: Eviews 9 Output

In table 4.5, it is obtained that the t_{count} value of the leverage variable is 0.0617 with a prob. value of 0.9521. Because the value of t_{count} (0.0617) > t_{table} (2.048), at an error rate of 5% it was decided that leverage hasn't effect on tax avoidance. Previous research conducted by Permata, et al., (2018), Putra & Merkusiwati (2016), Saifudin and Yunanda (2016), Pustipa and Febrianti (2017) which leverage doesn't affect tax avoidance.

The Effect of Profitability on Tax Avoidance

Table 4.6
Test Results of the Effect of Profiyability on Tax Avoidance

Regression coefficient	t_{count}	*Prob.*	t_{table}
-0,2744	2.252	0.033	2,048

Source: Eviews 9 Output

In table 4.6 obtained the t_{count} value of the profitability variable of 2.252 with a prob.value of 0.033. Because the value of t_{count} (2.252) > t_{table} (2.048), at an error rate of 5%, it was decided that profitability has an effect on tax avoidance.
The smaller the ETR value means the corporate's tax avoidance is getting bigger, the greater the ETR value means the corporate's tax avoidance is getting smaller. The profitability variable has a negative value, which means that the greater the profitability, the lower the ETR. This means that the higher the profitability, the higher the tax avoidance of a corporate. The higher the profitability value, the better the corporate's performance by using assets in obtaining net income. Profitability is the corporate's ability to generate profits from the activities carried out by the corporate. Harningsih (2012) states that a high operating ratio indicates a high operating profit, when the profit earned is high, the amount of income tax will increase following the increase in company profits so that the tendency to do tax avoidance will also increase. Thus, the greater the profitability, the lower the ETR value, which means the greater the tax avoidance. Previous research by Darmawan & Sukartha (2014), Oktamawati (2017) which states that profitability affects tax avoidance.

Conclusions

Based on the results of the study, shows that leverage doesn't affect tax avoidance. Profitability affects tax avoidance. The greater the profitability, the greater the tax avoidance.

Suggestion

Suggestions from this research, it is expected that the corporate's management will improve good financial management and be more effective and efficient in carrying out company activities to reduce tax avoidance practices and the company can show good quality performance.

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