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Effects of Profitability, Leverage, and Firm Size on Tax Avoidance of F&B Companies Listed on IDX

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Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh profitabilitas, leverage, dan ukuran perusahaan terhadap penghindaran pajak. Sampel penelitian terdiri atas 13 perusahaan manufaktur sub sektor *food and beverage* yang ditentukan dengan menggunakan metode *purposive sampling* selama kurun waktu 2019-2021. Jenis data yang digunakan adalah data sekunder berupa laporan keuangan tahunan. Teknik analisis data menggunakan analisis regresi data panel. Berdasarkan hasil penelitian, terbukti bahwa profitabilitas berpengaruh positif signifikan terhadap penghindaran pajak. Sementara itu, pengaruh *leverage* dan ukuran perusahaan terhadap penghindaran pajak tidak terbukti melalui hasil penelitian ini.

Kata kunci: profitabilitas, leverage, ukuran perusahaan, tax avoidance.

Abstract

This study analyzes the effect of profitability, leverage, and firm size on tax avoidance. The research sample consisted of 13 manufacturing companies in the food and beverage sub-sector, determined using the purposive sampling method from 2019 to 2021. The data type used is secondary data in the form of annual financial statements. The data analysis technique uses panel data regression analysis. Based on the results of the study, it is proven that profitability has a significant positive effect on tax avoidance. Meanwhile, the impact of leverage and firm size on tax avoidance is not proven through the results of this study.

Keywords: profitability, leverage, firm size, tax avoidance.

INTRODUCTION

Indonesia is a developing country with the most significant income in the tax sector. Tax is the source of income of a country that contributes the most when compared to other sources of income in efforts to organize activities. One of the tax subjects in Indonesia is a corporate taxpayer. Activities within the company have become part of forming a country's economic structure. Companies in the country's economy desire to process the resources of production factors already available in the community to maximize their profits. One way to obtain maximum profit is to avoid paying taxes. Taxpayers do not carry out their tax obligations due to several reasons, including low tax morale, low quality of tax remuneration, differences in perceptions of fairness and tax systems, lacking transparency and accountability of public institutions, high levels of corruption, weak fiscal jurisdiction and law enforcement, increased compliance costs, weak capacity to detect and prosecute improper tax practices, low level of public trust in the government, high tax costs, and weak tax administration (Hoque et al., 2011).

Table 1. Tax Contributors by Industrial Sector

No	Industrial Sector	Tax contributions
1	Manufacturing	30.2 %
2	Trade	22.6 %
3	Financial services and insurance	12.2 %
4	Mining	10.9 %
5	Construction and real estate	4.2 %
6	Information and communication	3.3 %
7	Transportation and warehousing and corporate services	2.7 %

Source: Faizi (2022)

The manufacturing industry in Indonesia is an industry that has a high contribution to the maintenance of the country's economy. This industry is the most significant tax contributor when compared to other sectors. The contribution is supported by the food and beverage sub-sector, which significantly influences the country's economy. The food and beverage sub-sector has a greater level of gross income when compared to other sectors. In addition, the food and beverage sub-sector is the most significant tax depositor in the manufacturing industry.

The Cash Effective Tax Rate (CETR) is calculated by dividing the cost of cash incurred by earnings before tax. CETR is used widely to measure tax avoidance. Based on Undang-undang Nomor 36 Tahun 2008, Income Tax Law in Indonesia, the income tax rate applied to taxable income for domestic corporate taxpayers and permanent establishments is 25% which has been effective since the 2010 tax year. Meanwhile, the tax rate for 2020 to 2022 is 22% (Peraturan Pemerintah Nomor 55 Tahun 2022). If CETR approaches the corporate tax rate of 22%, it indicates a lower rate of tax avoidance. However, if the CETR is lower or less than the applicable tax rate, it indicates tax avoidance by the taxpayer (Abidin et al., 2019).

Previous studies have examined factors that can be expected to influence tax avoidance by companies. Among these factors, there are three factors for which previous studies have yet to find consensus regarding their effect on tax avoidance: profitability, leverage, and the firm's size. Profitability is the company's ability to obtain and generate profits. Profitability is a description of financial performance by a company in generating profits obtained from asset management, known as Return on Assets (ROA). The higher the ROA, the higher the company's ability to manage its assets to generate net profit. This means that the higher the ROA, the higher the profitability. Companies with high profitability will be able to position themselves in reducing burdens and liabilities in the taxation (Mahdiana & Amin, 2020). Research results conducted by Tanjaya & Nazir (2021) show that profitability, as measured by ROA, significantly affects tax avoidance.

Leverage shows how much debt is used by a company to carry out the company's operating activities (Barli, 2018). Leverage is often measured using Debt to Equity Ratio (DER), which measures the debt burden borne by each Rupiah of a company's equity. The higher the use of debt, the higher the interest that a company will pay, the lower the taxable income, the lower the tax to be paid. Thus, indicating tax avoidance. Widodo & Wulandari (2021) find that leverage, as measured by DER, has a positive and significant effect on tax avoidance.

Firm size classifies a company into large or small categories based on total assets. The greater the total assets owned by a company, the greater the sales made by the company. Extensive sales will increase the profit obtained by the company (Mariani, 2021). Sulaeman (2021) founded that firm size, as measured by total assets, significantly affected tax avoidance.

This study intends to analyze the effect of profitability, leverage, and firm size on tax avoidance on food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021.

LITERATURE REVIEW

Agency Theory

Agency theory, as stated by Jensen & Meckling (1976)however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are easily apt to consider attention to small matters as not for their master's honour and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. Adam Smith, The Wealth of Nations, 1776, Cannan Edition (Modern Library, New York, 1937, explains a relationship as a contract in which one or more people (principles) involve another person (agent) to perform some action on their behalf that involves delegation of some decision-making authority to another person (agent). This theory raises conflicts between owners (principle) and agents regarding their interests. Agency conflicts will arise when management (agents) try to reduce the low tax burden by avoiding tax to obtain high company value. Meanwhile principal (the owner) does not want to do so because it is considered to have manipulated the financial statements.

Tax

Undang-undang Nomor 28 Tahun 2007 explains that taxes are compulsory contributions to the state owed by private persons or coercive entities under the law, with no direct remuneration, and used for state purposes for the greatest prosperity of the people. Tax is a form of state revenue, which can be used to finance routine expenditures and development, for the implementation and improvement of national development to achieve the welfare and prosperity of the community (Pramukti & Primaharsya, 2015).

Tax Avoidance

Tax avoidance is an effort taken legally and safely by taxpayers to take advantage of loopholes (a grey area) in tax laws and regulations to minimize the amount of tax owed (Pohan, 2013). Tax avoidance can occur in the provisions or written in the law or in the sound of the provisions of the law but contrary to the spirit of the law. According to Butarbutar (2017), the purpose of tax avoidance is to postpone or eliminate tax liability.

Profitability and Its Impact on Tax Avoidance

According to Hery (2016), profitability describes a company's ability to generate profit in a given period. The profitability ratio consists of Return on Assets (ROA), Return on Equity (ROE), Gross Profit Margin (GPM), Operating Profit Margin (OPM), and Net Profit Margin (NPM). ROA is a profitability ratio used to measure the level of effectiveness of a company in generating profits by getting benefit of their assets. Higher ROA reflects higher return on investment, so it will attract investors' attention to investing their capital.

Profitability is used to maintain the company's long-term viability because profitability indicates whether the company has good prospects in the future. Under agency theory, agents will try to increase company profits; when profits increase, the ROA will increase respectively, so the amount of income tax will also increase according to the increase in profits. It then triggers agents to do tax avoidance to avoid increasing the tax burden the company must pay. The agent then manages its tax burden to as little as possible. On the other hand, companies with a better level of profitability and less fiscal compensation will have a high CETR (Anderson & Reeb, 2003). High CETR rate indicates a lower level of corporate tax avoidance.

Several previous studies have found a positive effect of profitability as measured by ROA on tax avoidance (Koming & Praditasari, 2017; Sulaeman, 2021; Tanjaya & Nazir, 2021). Thus, the following hypothesis can be formulated:

H_1: Profitability has a positive effect on tax avoidance.

Leverage and Its Impact on Tax Avoidance

According to Kasmir (2019), leverage is a ratio used to measure how much a company's assets are financed by debt. Leverage measurements consist of Debt to Equity Ratio (DER), Times Interest Earned Ratio (TIE), and Debt Service Coverage (DSC) (Husnan & Pudjiastuti 2015). The DER ratio calculates how much of a company's liabilities it can be covered by its equity (Kasmir, 2019).

According to agency theory, conflicting principal and agent interests will not rise effective contracts in agency relationships. Therefore, the principal requires supervision from outside the company to supervise the agent, which can affect the attitude of the agents. The amount of supervision will make agents more careful in making decisions. The principal (owner or shareholder) can borrow funds from parties outside the company to meet the company's needs, and the party who serves as a creditor supervises the debtor to co-maintain its activities (Dewi & Noviari, 2017).

The higher the value of the DER ratio, the higher the amount of funding from third-party debt the company uses, and the higher the interest expense. The greater the company's debt, the smaller the taxable income because the tax incentive on debt interest expense is more significant. This indicates the increasing use of debt by such companies (Anggraeni & Febrianti, 2019). This is supported by previous studies that found a positive effect of leverage as measured by the ratio of DER to tax avoidance (Koming & Praditasari, 2017; Widodo & Wulandari, 2021). Thus, the following hypothesis can be formulated:

H_2: Leverage has a positive effect on tax avoidance.

Firm Size and Its Impact on Tax Avoidance

A company's size can be defined by examining at its entire assets, sales in total, or its value in the stock market (Hery, 2017). The size can be classified into three categories, namely large firms, medium-sized enterprises, and small firms. The size represents the company's size expressed by total assets or net sales. The greater the total assets or total sales of a company, the larger the size of the company. With more significant assets, the capital invested will be more outstanding, and more sales will occur in the company.

A company is said to be in the maturity stage by being determined by its total assets. The larger the assets owned, the company will have good prospects in the long run. The larger the company's size, the higher it is in tax avoidance. This is because companies with a larger size will have more extensive or maximum sales and profits, thus resulting in a more significant tax burden. Large companies will have an impact on tax avoidance because it has superior resources to make tax planning (Wulandari & Mahpudin, 2020).

Based on agency theory, companies that have resources can be used by agents to maximize agent performance compensation by reducing the tax burden of a company in order to maximize company performance (Dewi & Noviari, 2017). It is supported by Sulaeman (2021), which shows that firm size has a significant positive effect on tax avoidance. Thus, the following hypothesis can be formulated:

H_3: Firm size has a positive effect on tax *avoidance*.

RESEARCH METHODS

The object of this research are public companies in the food and beverage sub-sector during 2019-2021. The years 2019-2021 were selected for data recency. In addition, 2019-2021 is a year that allows for a research population related to the availability and completeness of data needed in research. The sample selection was carried out using the purposive sampling method with the criteria of food and beverage sub-sector companies that (1) were listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period consecutively; (2) published consecutive financial statement data for the period 2019-2021; and (3) did not experience consecutive losses in the period 2019-2021.

Based on purposive sampling, 13 companies met the criteria. With observations for three years, the number of observations was 39. The data type used in this study is the annual financial report published on the Indonesia Stock Exchange (IDX) web page. In addition, this study also utilizes other supporting data sources from the idnfinancials.com page.

This study uses Return on Assets (ROA), Debt to Equity Ratio (DER), and natural logarithms of total assets as proxies of independent variables: profitability, leverage, and firm size, respectively. Meanwhile, the Cash Effective Tax Ratio (CETR) approximates the dependent variable of tax avoidance.

RESULTS AND DISCUSSION

Based on the selected regression estimation , the best model to use in this study is the Random Effect Model. From the model, it is known that all of the classical assumptions are met, i.e. normality of the residuals, homoscedastic, no multicollinearity, and no autocorrelation. A more complete explanation can be seen in Table 2.

Based on the output of the REM estimation results in Table 2, the selected model has an F-statistic value of 12.33332 with a probability value of 0.000012. It can be concluded that all independent variables can affect the dependent variable and be ensured the model's goodness of fit.

Table 2. Panel Data Regression (Random Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.856089	9.304381	0.051914	0.6050
ROA	-0.449467	0.075327	-5.966861	0.0000
DER	-0.156671	0.139619	-1.144257	0.2603
FIRM_SIZE	-1.643419	2.754146	-0.596707	0.5545

Weighted Statistics			
R-squared	0.513889	Mean dependent var	-0.408030
Adjusted R-squared	0.472222	S.D. dependent var	0.365974
S.E. of regression	0.265874	Sum squared resid	2.474121
F-statistic	12.333320	Durbin-Watson stat	1.922724
Prob(F-Statistic)	0.000012		

The adjusted R^2 value of 0.472222 or 47.2222% was also obtained. This shows that the ability of the independent variable (ROA, DER, and firm size) can explain the dependent variable by 47.2222% in the regression model. In comparison, the remaining 52.7778% is affected by other variables that are not in the model.

The Impact of Profitability on Tax Avoidance

Table 2 shows that the ROA coefficient is -0.449467 with a probability value of <0.001, meaning that ROA has a negative and significant effect on CETR. In other words, profitability positively affects tax avoidance. Thus, the first hypothesis (H1) is supported by the results of the study.

The results of hypothesis testing show that profitability has a positive effect on tax avoidance. This shows that the high ability of companies to produce as a basis for imposing income tax encourages companies to avoid increasing the tax burden using tax avoidance (Koming & Praditasari, 2017). The findings of this study are consistent with those of Kusufiyah & Anggraini (2019) and Kurniati & Apriani (2021) studies, which found that profitability (ROA) has a favourable impact on tax avoidance.

The Impact of Leverage on Tax Avoidance

Based on Table 2, it is found that DER has a coefficient of -0.156671 with a probability value of 0.2603 means that DER has no significant effect on CETR. In other words, leverage does not influence tax avoidance. Thus, the second hypothesis (H2) is not supported by the results of the study.

These results show that the company's funding decisions are external and internal. The size of the debt will not affect the company's tax avoidance or failure. This can happen because not all companies in the study use debt to finance their assets. By using increasingly large debts, it will pose a significant risk that will be faced by the company, so the management will be careful and not take the risk of high debt to avoid taxes (Susanti, 2018). The results of this study support Puspita & Febrianti (2018), Dayanara et al., (2020), Moeljono (2020), and Tanjaya & Nazir (2021), which showed that leverage (DER) does not affect tax avoidance.

The Impact of Firm Size on Tax Avoidance

Table 2 shows that the firm size variable has a regression coefficient of -1.643419 with a probability value of 0.5545, which means that firm size does not have a significant effect on CETR. This means that the size of the company does not affect tax avoidance. Thus, the third hypothesis (H3) is not supported by the results of the study.

The results of hypothesis testing show that the company's size does not affect tax avoidance. This shows that the size of a company will not affect a company to, or not to, avoid taxes because paying taxes is an obligation for all citizens and corporates. However, large companies will be able to meet their obligations to pay taxes so they have good prospects in the long run. Thus, there is no need to avoid taxes. The company also wants to avoid being bothered with the process and acceptance of risky sanctions that can cause the company's image for being bad (Sinambela & Nuraini, 2021). The results of this study Puspita & Febrianti (2018) and Widodo & Wulandari (2021), which showed the result that the size of the company does not affect tax avoidance.

CONCLUSION

Based on the results of the analysis and discussion that have been described, it can be concluded that profitability proxied using Return on Asset (ROA) has a favourable impact on tax avoidance. On the other hand, leverage proxied using the Debt to Equity Ratio (DER) and firm size measured using the natural logarithm of total assets do not affect tax avoidance in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This study examines the object of manufacturing companies in the food and beverage sub-sector. For further research, it is recommended to examine other companies, considering this study's limitations that do not examine companies that are in loss. The results of this study are also expected to provide new views for stakeholders regarding tax arrangements for public companies to reduce loopholes for corporate taxpayers to carry out tax avoidance and companies whose profits increase do not avoid their taxes.

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