RISET
JURNAL APLIKASI EKONOMI AKUNTANSI DAN BISNIS
https://ejournal.ibik.ac.id/index.php/riset E-ISSN : 2656-7113 P-ISSN : 2797-4057 DOI : doi.org/10.37641/riset.v6i1.2066

THE IMPACT OF THE INFLUENCE OF PROFITABILITY, COMPANY SIZE, AND LEVERAGES ON TAX AVOIDANCE

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ARTICLE INFO

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Submitted:
15 – January – 2024
Revised:
12 – February – 2024
Accepted:
08 – March – 2024

ABSTRACT

The research aims to empirically test the influence of profitability, company size, and leverage on tax avoidance. The independent variables are profitability with the Net Profit Margin, firm size with the natural logarithm of total assets, leverage with debt to equity ratio and the dependent variable uses tax avoidance with the Effective Tax Rate minus the Cash Effective Tax Rate. The samples tested in the research were the substance of the property and real estate subsector listed on the IDX for the 2019 to 2021 period. There are financial reports for 17 entities, with 51 data assessed as meeting the criteria. The research method uses descriptive statistical tests, which then perform classical tests of hypotheses, including normality, heteroskedasticity, multicollinearity, and autocorrelation. In addition, the hypothesis regarding the influence of the independent variable on the dependent variable is tested. This test uses F-test statistics (simultaneous), T-test (partial), and coefficient of determination, which are then continued in the study using multiple regression analysis. Based on the subtest results, it was found that profitability and debt have significantly favorable effects on tax avoidance and that firm size has no effect on tax avoidance.

Keywords: Profitability, Firm Size, Leverage, Tax Avoidance

INTRODUCTION

Tax revenues in Indonesia are the most significant contributor to state income compared to other sources of revenue (Hanum & Febyola, 2023). It means that the government always strives to maximize tax revenues so that the development and improvement of Indonesia's infrastructure can increase and ensure the welfare of the people. However, there are differences in points of view between entities and the government. According to the entity, tax is an expense that can reduce its net profit, so the entity will tend to ignore tax as an object (Hendrani et al., 2020). It makes the entity avoid tax.

Tax avoidance is a legal scheme to avoid paying taxes by using loopholes in state tax laws so that entities can minimize the existing tax burden. They do this by taking advantage of existing deficiencies in the tax regulations without committing violations of the tax regulations themselves (Permata et al., 2018). So this is done to minimize the nominal tax payments the entity must pay.

Rahmini & Nordiansyah (2022) explained that the overall realization of tax revenues was not in line with 2019 and improved in the 2020-2021 range. As of 31 December 2019, it reached Rp.1,332.10 trillion paid or 84.40 percent of the state tax revenue target, namely Rp.1,577.56 trillion, which means it only experienced growth of around 1.40 percent from the previous year. The failure to achieve the 2019 tax revenue target was caused by moderation in commodity prices and the impact of global economic turmoil, such as the trade war between the United States and China. Then, in 2020, total tax revenue decreased by 18.80 percent, namely only around Rp.991.00 trillion or 70.60 percent of the target of Rp.1,404.50 trillion, which was achieved due to the escalating case of the Covid-19 pandemic.

As one of the industrial entities that plays a significant role in the economy and development in Indonesia, property and real estate entities still need help with tax avoidance. The increasing population of Indonesia has increased people's need for housing, offices, and shopping centers. It has led to rapid growth in the property industry and real estate, and there is an increasingly competitive business competition to continue its existence by developing new strategies and innovations. However, many cases of entity fraud in paying state taxes on property and real estate companies in the 2019-2021 range also exist. For example, it was discovered that there were tax avoidance efforts at PT. Agung Podomoro Land, Tbk. This entity experienced a data leak of 11.50 million Panama papers, meaning confidential documents created by Panama services (Hidayat & Prawesty, 2022). PT. Agung Podomoro Land, Tbk. has hidden wealth amounting to Rp.5.40 billion to avoid state taxes in 2019.

Based on the above phenomenon, researchers here are interested in further examining the state of tax revenues in 2019-2021 by carefully and wisely considering all aspects of the entity's finances so that the entity's objectives can be achieved. Several aspects have an impact on tax avoidance related to profitability. Profitability is explained as the skill of an entity in generating profits from all the resources available at that time, including income, cash, and capital (Gartika & Wijaya, 2018). Meanwhile, according to Silaban (2020), profitability is an indicator used to measure management performance efficiency by paying attention to the level of profit obtained by the entity running the business. Tamburaka et al. (2022) explain profitability in tax avoidance as the entity's ability to gain profits at the sales, capital, and asset levels within a specific time. Profitability related to tax obligations is seen when the profitability value of an entity is higher; the entity tends to try to avoid taxes; this is because the income tax burden that needs to be paid will also be higher (Sopiyana, 2022). Net Profit Margin (NPM) in profitability is used to calculate income by comparing profit after tax with the entity's total income, where at a percentage ratio level above 5.00%, the entity can be said to be good.

Apart from profitability factors, company size is another factor that influences tax avoidance. Company size is a comparison for grouping entities, including oversized, medium, or small entities. This grouping can be done using various methods, such as total assets, income, capital, and market capitalization (Kurniasih & Hermanto, 2020). In avoiding entity tax using the Natural Logarithm of Total Assets, it is assumed that the larger the company size, the higher the complexity of the transactions. It means that there are more excellent opportunities available for entities to carry out tax avoidance activities (Sopiyana, 2022).

The next factor is the leverage as an entity ratio, which can explain the amount of debt an entity has to finance its fixed assets (Solihin et al., 2020). The leverage describes the state of the entity's capital structure to explain the magnitude of the entity's risk of bad debt. Debt to Equity Ratio (DER) calculates the leverage ratio. The higher the leverage, the higher the entity's tax avoidance level. Rahayu et al. (2022) explain that the interest burden borne by the entity will increase along with the amount of debt the entity has. This interest expense can reduce the amount of tax the entity pays because income before tax is reduced due to the increase in interest expense.

Several previous studies showed varying results. Mulyati et al. (2019), on the effect of profitability, leverage, and company size on tax avoidance, found that profitability hurt tax avoidance activities, while leverages also positively affected tax avoidance efforts. In Sarpingah's (2020) research on the effect of company size and profitability on tax avoidance with leverage as an intervening variable, company size, and leverages negatively influence tax avoidance efforts, and profitability does not directly influence tax avoidance. Research by Ernawati & Purwaningsih (2022) on the influence of profitability, leverages, and fixed asset intensity on tax avoidance reveals that profitability has a beneficial effect on efforts to avoid taxes, and leverages have a detrimental impact on efforts to avoid taxes. Tamburaka et al. (2022), with the topic of tax avoidance from managerial ownership and profitability aspects in registered mining companies on the Indonesia stock exchange, found that managerial ownership hurts tax avoidance while profitability positively affects tax avoidance efforts.

However, further research was carried out regarding financial factors in the form of variables of company size using LN Total Assets and leverage with DER. The level of debt in an entity can give rise to interest expenses. The existence of this interest expense will result in a reduction in the entity's profits, which will also lead to a reduction in the tax burden and then have an impact on the entity, which tends to use debt to minimize the tax burden, which leads to tax avoidance. This research uses the NPM ratio as an indicator of the profitability variable. It uses property and real estate entities listed on the Indonesia Stock Exchange (IDX) in the research timeframe, namely the 2019-2021.

The objectives here are to complement previous research, which produces different results by empirically reviewing the influence of profitability, company size, and leverages on tax avoidance in properties and real estate sectors from 2019 –2021. This sector was chosen because it tends to experience rapid development and continues to increase yearly, becoming a significant source of tax revenue. This research is helpful for internal management in attracting investors to capital investment in property entities and actual estate. It is helpful for external parties to evaluate the entity's performance properties and real estate from its taxation perspective.

Positive accounting theory is a science that explains management behavior in preparing financial reports. This theory explains and predicts the actions of entity managers in choosing accounting methods so that the financial reports presented produce results as expected by certain parties (Pangaribuan et al., 2023).

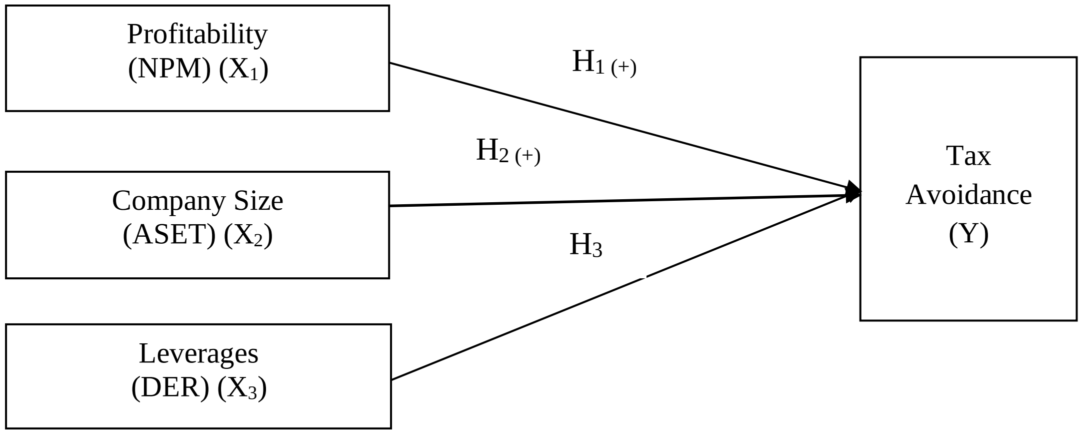

Figure 1. Research Conceptual Framework

Profitability is explained as an entity's ability to generate profits from all existing resources at that time, including income, cash, and capital (Gartika & Wijaya, 2018). Meanwhile, according to Silaban (2020), profitability is an indicator used to measure management performance efficiency by paying attention to the level of profit obtained by the entity running the business. Based on positive accounting theory, managers will regulate the amount of profit the entity must pay so that it is not too high. The company can avoid tax by reporting all income in the current period as income in the future (Pramesti, 2019).

Net Profit Margin (NPM) in profitability is used to calculate income by comparing profit after tax to the entity's total income, where at a percentage ratio level above 5%, the entity can be said to be good. Increased profitability can lead to increased tax avoidance. An entity with a considerable profitability measure optimally indicates that the entity can generate greater profits. This increase in profits also increases the tax burden (Sumiati & Ainniyya, 2021). Finally, this leads entities to optimize their tax planning so that the tax burden does not increase by reducing the political costs the entity is willing to pay. This technique is an entity's effort to avoid tax (Puspitasari et al., 2021).

It follows research by Tamburaka et al. (2022), Ernawati & Purwaningsih (2022), and Safitri & Wahyudi (2022), who argue that profitability produces a positive influence on tax avoidance efforts. Based on the previous explanation, a hypothesis can be made, namely:

H_1: Profitability has a positive effect on tax avoidance.

According to Solihin et al. (2020), company size is a form of comparison that groups entities into large, medium, and minor in various ways, such as based on the number of assets, capital, profits, share market value, and sales volume to avoid taxes, and company size can be measured using the Natural Logarithm of Total Assets. A large entity will have significant assets so that the entity may avoid tax. The political cost hypothesis in positive accounting theory is used to explain that entities dealing with political costs tend to reduce political costs because the larger the size of the entity, the greater the tendency of the entity to decide on accounting policies to reduce profits, thus the entity can minimize tax avoidance (Sartika & Prastyatini, 2023).

Entity size is measured from the entity's size by looking at the total assets in the financial statements (Santini & Indrayani, 2020). If the total assets of an entity increase, business complexity will also increase. An increase in the number of entity assets can have implications for increasing the entity's profits, meaning that all assets owned will be utilized to produce optimal profits, so large entities tend to carry out accounting practices by minimizing visible profits and reducing tax rates. This accounting practice is an effort to avoid taxes (Oktafiani et al., 2023).

Research by Mulyati et al. (2019), Sembiring (2022), and Suliana & Suhono (2020) explains that company size has a positive influence on tax avoidance efforts. Based on the previous explanation, a hypothesis can be made, namely:

H_2: Company size has a positive effect on tax avoidance.

Leverage is the ability to describe an entity's capital and the extent to which the entity is financed by debt or external parties. Leverages are related to interest expenses, which can reduce the entity's tax burden. When an entity makes a loan to a third party, the entity needs to pay interest on the loan. These interest payments will then increase the entity's expenses so that the entity's profits can decrease. Based on positive accounting theory, managers will arrange the amount of the entity's debt in such a way that it can reduce the amount of tax that the entity must pay, which is not too high.

Leverages reflect the complexity of an entity's financial transactions. Leverages can be used as a benchmark for an entity to determine how much it can generate the highest profit from its debt to pay back all its debt (Solihin et al., 2020). Debt to Equity Ratio (DER) calculates the leverage ratio. Entities with significant leverages can incur interest burdens, and these high-interest expenses are used to reduce the entity's tax burden. Hence, an increase in debt indicates that the entity is avoiding tax (Sarpingah, 2020).

Research by Alfina et al. (2018), Sarpingah (2020), and Solihin et al. (2020) shows that leverages have a positive influence on tax avoidance efforts. From the previous explanation, a hypothesis can be made, namely:

H_3: Leverages have a positive effect on tax avoidance.

RESEARCH METHODS

Causality research uses a research design that utilizes secondary data sources from the entity's 2019-2021 financial reports to extract the information needed for each variable. The first independent variable is profitability using Net Profit Margin (NPM), which compares the entity's profit after tax with all its income (Mauren & Purwaningsih, 2022). The following independent variable, company size, is used as a proxy for the natural logarithm of all assets (Indriani & Juni, 2020). The third independent variable is the level of debt using the debt-equity ratio (DER), which compares the total liabilities owned with the entity's equity (Ernawati & Purwaningsih, 2022). The dependent variable is tax avoidance, achieved by reducing the effective tax rate (Effective Tax Rate - ETR) with the cash tax rate (Cash et al - CETR) entity. ETR is obtained by comparing the tax burden with the entity's profit before tax. CETR is calculated using the entity's tax payments compared to the entity's net profit before tax (Tang, 2020).

The research population covers the property and real estate sectors publicly traded on the IDX for 2019-2021 and the annual financial reports of 87 entities with 261 data. The sample was obtained using a purposive sampling method, criteria for property and real estate sub-sector entities registered on the IDX with the entity's annual published financial report for the 2019-2021 period, the entity's net profit for the 2019-2021 period, and the availability of complete financial data presented about the variables in research here. After data processing, data was collected from 17 entities over three years, resulting in a sample size of 51.

Normality, heteroscedasticity, multicollinearity, and autocorrelation were also tested. Then, the hypothesis is tested to explain how the independent variable process can influence the dependent variable. F-statistic test (simultaneous), t-statistic test (partial), and coefficient of determination. Moreover, finally, a study was carried out using multiple regression analysis using a multiple regression equation model:

$$\mathbf{TA = \alpha + \beta1\ .NPM + \beta2.\ ASSETS + \beta3.\ DER + \varepsilon}$$

Information:

TA = Tax evasion (Tax Avoidance)

α = Constant

β1 β2 β3 = Regression Coefficients

NPM = Profitability (Net et al.)

ASSETS = company Size (Natural Logarithm of Total Assets)

DER = Leverage (Debt to Equity Ratio)

E = Error

RESULTS AND DISCUSSION

Next, the results of research data processing will be explained, as follows:

Table 1. Descriptive Statistical Testing

Descriptive Statistics

	N	Minimum	Maximum	Mean.	Std. Deviation
NPM	51	.0161	.5244	.1994	.1357
Assets	51	25.8686	31.7496	29.2996	1.6554
DER	51	.0071	2.0571	.6238	.4886
TA	51	-.9893	.4172	-.1220	.2624
Valid N (listwise)	51				

Source: Data Processed, 2023

The table shows the results of the profitability variable producing numbers at PT. Natura City Developments Tbk. as a minimum value, namely 0.0161 for the 2021 period, at PT. Duta Pertiwi Tbk. Worth 0.5244 in 2019; the maximum and average numbers are 0.1994, with a standard deviation value of 0.1357. In this situation, most entities generate net profits of 19.9400% of their total net income. An entity is still considered good because it has a percentage greater than 5.000% and a standard deviation value smaller than the average, so the net profit margin (NPM) data variation can be considered reasonable.

The size of the company produces numbers at PT. Puri Global Sukses Tbk. is the minimum value, namely 25.8686 for 2019. PT. Bumi Serpong Damai Tbk. It is worth 31.7496 in 2021, the maximum number, and the average number is 29.2996, with a standard deviation of 1.6554. Regarding here, the average entity acquires assets of 29.3000% or the equivalent of Rp. 13,594,019,448,958. It shows good condition because the company's size can be categorized as large. After all, it has more than 10 billion assets.

Regarding leverages, numbers were found on PT. Repower Asia Indonesia Tbk. as a minimum value, 0.0071 for the 2021 period, at PT. PP Properti Tbk. Worth 2.0571 in 2020 is the maximum number and the average number is 0.6238, with a standard deviation value of 0.4886. Regarding this, the average entity has a debt value of 0.6238 times or 62.3800% greater than its equity. This means that the entity's equity is still considered good if it experiences default. The entity's equity has been proven to be able to pay its debts.

In terms of tax avoidance, numbers were generated at PT. Jababeka Industrial Area Tbk. is the minimum value, -0.9893 for 2020, at PT. Summarecon Agung Tbk. is the maximum number worth 0.4172 in 2020, and the average number is worth -0.1220 with a standard deviation of 0.2624. It means that, on average, entities in this industry do not avoid tax due to overpayment of the tax burden, and the TA value proxied by ETR – CETR is below 0.5000 or 50%, which means the entity's tax avoidance actions are low.

Table 2. Testing the Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.392[a]	.154	.100	.249

a. Predictors: (Constant), DER, NPM, Assets

Source: Data Processed, 2023

From the results of the simultaneous test findings depicted in Table 3, it is known that the calculated F is 2.846 (with an F table of 2.79) and a significance level of 0.048. This research shows that the F count > F table also has a probability < 0.050, meaning that Ha is accepted. Hence, conclusions were drawn that profitability, company size, and leverages simultaneously influence tax avoidance efforts.

Table 3. F Testing (Simultaneous)

Model Summary

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.529	3	.100	2.846	.0480[a]
	Residual	2.914	47			
	Total	3.443	50			

a. Predictors: (Constant), DER, NPM, Assets
b.Dependent Variable : TA

Source: Data Processed, 2023

he results of hypothesis testing (partial t) in Table 4 show that the regression equation from the research here is as follows :

$$TA = 0.017 + 0.732.NPM - 0.014.ASSET + 0.180.DER + \varepsilon$$

It can be seen that the regression equation in the research has a constant (α) of 0.017, which can be interpreted as assuming that the profitability, company size, and leverage variables are constant or have a value of zero, which will increase the tax avoidance variable of 0.017. The profitability variable has a beta value of 0.732, so if there is an increase in profitability by one unit, it can increase tax avoidance by 0.732. The beta of the company size variable is -0.014, so if the company size increases by one unit, it can reduce tax avoidance by -0.014. The beta of the leverage variable is 0.180, so if the leverage increases by one unit, it can increase tax avoidance by 0.180.

Table 4. T Testing (Hypothesis)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.017	.685		.025	.980
	NPM	.732	.292	.379	2.508	.016
	ASET	-.014	.025	-.086	-.548	.587
	DER	.180	.086	.336	2.106	.041

a. Dependent Variable : TA

Source: Data Processed, 2023

The Effect of Profitability on Tax Avoidance

The hypothesis here presents that profitability has a positive influence on tax avoidance. Research studies show that the profitability variable using NPM has a positive coefficient of 0.732 and a significance level of 0.016, which is smaller than 0.050. Based on the partial profitability test, it has a significantly positive effect on profitability. Thus, the first hypothesis (H_1) proposed is accepted. It explains that profitability is one of the factors in the tax avoidance efforts carried out by entity management.

The bigger the net profit margin, the better the entity manages its capital to gain significant profits. The higher an entity generates profits, the higher the scale of tax avoidance because it is believed that if an entity succeeds in making significant profits, it can increase the amount of tax paid. It gives rise to tax avoidance by the entity. Entities with enormous profitability must pay more taxes than those with smaller profitability. Thus, highly profitable entities are less likely to engage in tax avoidance practices.

Tamburaka et al. (2022) explain that an entity's profitability influences the amount of income tax it pays and encourages entities to maximize tax planning to reduce the tax they pay. This planning works by maximizing costs that can reduce tax revenues, such as depreciation, development, and research costs (Prapitasari & Safrida, 2019). Of course, entities with a high level of profitability pay more taxes than entities with a low level of profitability. Thus, entities with high profitability tend to avoid taxes.

The research findings here are in line with Safitri & Wahyudi (2022), Siregar et al. (2020), and Ernawati & Purwaningsih (2022), who stated that profitability has a positive effect on tax avoidance efforts.

The Influence of Company Size on Tax Avoidance

The second research hypothesis explains that company size positively influences tax avoidance efforts. Research shows that the company size variable using LN total assets has a negative coefficient of -0.014 and a significance level of 0.587 > 0.050. Based on this partial test, there is no impact between company size (LN total assets) and tax avoidance, which makes the second hypothesis (H_2) proposed rejected. It is because the company size ratio uses a natural logarithm of total assets to classify the size of an entity with the same obligations as a taxpayer. Large and small entities will still have the same taxpayer status if an entity can collect income categorized as subject to tax.

Entities listed on the IDX are under the supervision of the tax office. The larger the entity, the greater the attention of the tax authority to obtain the correct tax amount, making it necessary for the entity to fulfill its tax obligations without tax evasion. It is done by the entity so that it will be OK with tax audits, resulting in a good image and reputation for the entity. On the other hand, if tax avoidance is considered unlawful, small entities usually do not attempt to implement tax avoidance behavior. It is done to avoid penalties or fines and, of course, can reduce the net profit that the entity should get. Whether managers are in large or small companies, they recognize the importance of the same obligations on each entity to have the same status as taxpayers regardless of the business size, whether they work for large or small entities (Virhan & Aprilyanti, 2022). It correctly explains that company size is not the reason for tax avoidance. The entity's size illustrates that the company's ability and stability are the focus of the government's attention in carrying out all its economic activities. Therefore, the entity will fulfill tax matters and not commit tax evasion.

The research findings here are in line with Mauren & Purwaningsih (2022), Safitri & Wahyudi (2022), and Solihin et al. (2020), which explain that Company size does not influence tax avoidance efforts.

The Effect of Leverages on Tax Avoidance

The third hypothesis explains that leverages positively affect tax avoidance. The research results show that the leverage variable uses DER with a positive coefficient of 0.180 and a significance level of 0.041, less than 0.050. Based on this partial test, the level of debt (Debt to Equity Ratio) has a significantly positive effect on profitability. Thus, the third hypothesis (H_3) is proposed and accepted. This explains that the level of debt is one of the tax avoidance factors carried out by entity management.

The greater the level of debt, the greater the tax avoidance. Leverages cause interest expenses, which can reduce their taxable profits and then influence tax avoidance activities (Solihin et al., 2020). The lower the entity's profit, the smaller the amount of tax burden payments will be so that the entity achieves maximum profits. It is related to positive accounting theory, which explains that management uses accounting principles to obtain the best profits. One thing that can be done is to use the amount of debt to cover the business. The higher the debt, the higher the interest rate that the entity must pay (Fadhila & Andayani, 2022).

The research here is in line with research by Faramitha et al. (2020), which explains that leverages influence tax avoidance. Leverage refers to an entity (economic) to carry all its short-term and long-term expenses. If the entity's debt is higher, the taxable profit will be lower due to tax incentives for higher interest expenses. It has implications for the greater use of debt by business actors. Entities with high tax liabilities can obtain larger loans and deliberately obtain debt to reduce their tax burden so that these entities can be said to be tax-aggressive.

The research findings here are in line with Sembiring (2022), Solihin et al. (2020), and Sarpingah (2020), presenting that leverages have a positive influence on tax avoidance efforts.

CONCLUSION

Based on research findings on the influence of profitability (NPM), company size, and leverage (DER) on tax avoidance (TA) in the property and real estate industry listed on the IDX from 2019 to 2021 with a total of 51 data from 17 research entities, it can be concluded that profitability is used as a Net Profit Margin (NPM) proxy. Partially gives positive significant results on efforts to avoid taxes, company size using the LN Total Assets proxy is not proven to have an impact on tax avoidance, and the level of debt using the Debt to Equity Ratio (DER) proxy partially gives positive significant results to avoid taxes.

The research here has various limitations. The number of entities that meet the sample criteria is relatively small during the period used because many property and real estate entities do not produce positive profits and include tax payment accounts. The independent variable used to determine its relationship with tax avoidance is only 10%, of which 90% is explained by other variables that have yet to be considered in the research. It is hoped that further research can provide additional independent variables that can be applied to entities with negative profits, such as compensation for fiscal losses and so on, to obtain more diverse results and explain entities' tax avoidance efforts.

Entities must be more vigilant and careful in their actions because tax imposition has increased supervision and implementation. It is done to avoid making mistakes that cause state losses and to protect the good image of the entity by focusing on the level of profit, which reflects profitability, as well as on the state of the capital structure owned as a reflection of the entity's leverage and its impact on the entity in efforts to avoid tax.

Investment in the property and real estate sector on the IDX requires investors to pay close attention to the entity's performance before investing, thereby creating good entity governance and financial analysis that can explain the direction of pre-investment information, especially regarding the entity's income and capital structure, which can describe profitability, level debt and the impact of an entity's tax avoidance activities.

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