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TAX AVOIDANCE, FIRM SIZE, AND LEVERAGE: Evidence From Indonesia Listed Companies

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Abstract---*This study aims to reveal firm size and leverage on tax avoidance in the Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange in 2016-2018. The method used in this study is explanatory. This research was conducted on data in the form of financial statements. To analyze the research data, multiple linear regression analysis was used. Based on the results of multiple linear regression analysis shows that the firm size has no influence tax avoidance in the Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange in 2016-2018. Leverage influence tax avoidance in the Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange in 2016-2018*

Keywords---*firm size, leverage, tax avoidance.*

I. Introduction

Taxes are the largest source of revenue for the state which is used to finance development and government spending. For the state, taxes are a source of income, but this is different from companies. For companies, taxes are an expense that reduces net income.

Tax avoidance as tax savings arising from utilizing tax regulations carried out legally to minimize tax payments (Lim, 2011). Tax avoidance practices carried out by the management of a company solely to minimize tax obligations that are considered legal, making the company has a tendency to do various ways to reduce the tax expense. Therefore the problem of tax avoidance is a unique and complicated problem because on one hand tax avoidance does not violate the law, but tax avoidance isn't desired by the government.

In August 2019 there was news that In August 2019 there was news that PT. Bentoel Internasional Investama Tbk. avoided tax in two ways, namely the payment of debt interest through the company's internal costs and royalties, fees and IT costs.. In the report, Bentoel announced the payment of debt interest of US $ 164 million or Rp 2.25 trillion for loans and royalties between companies in one group, IT fees and rewards to the holding company BAT. Resulting in a net loss of 27 percent that was borne by Bentoel. From this scheme, Indonesia could actually get revenues of US $ 33 million or US $ 11 million a year. Other transfer schemes carried out by Bentoel are through the payment of royalties, fees, and fees. Costs must be spent worth US $ 19.7 million to several BAT subsidiaries in the UK. For this financing, Indonesia imposes a 25 percent tax on royalties, fees, and IT fees. However, because there is an Indonesia-British tax agreement, the tax to be paid is only 15 percent. So from this scheme, Indonesia has the potential to lose tax revenue worth US $ 2.7 million a year.(kontan.co.id)

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Factors affecting tax avoidance include firm size and leverage. Firm size is a value that can group a company into big or small categories. Jogiyanto (2010) suggested that asset size is used to measure the size of the company.

Leverage is a ratio that shows the amount of debt a company to finance its operating activities. Increasing the amount of debt will result in interest expense. Interest expense will be deducted from the company's pre-tax profit, which causes the tax paid to be reduced (Hussain et al., 2019).

Previous research shows different results. The results of the study (Dewinta and Setiawan 2016; Octaviana, et al. 2018) showed that firm size influences tax avoidance, while (Rusydi 2013; Masnawati 2019) stated that firm size does not influence tax avoidance. Research (Aprianto and Dwimulyani 2019; Swingly and Sukartha 2015) show that leverage influences tax avoidance, while (Dewinta and Setiawan 2016; Irianto, et al. 2017) .

Agency Theory

Definition of agency theory according to Scott (2009), namely “Agency theory is a branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent’s interests would otherwise conflict with those of the principal”.

Agency conflict can affect the level of tax avoidance treatment. This is because on the one hand management wants to increase compensation through high profits while the other hand shareholders want to reduce tax costs through low profits. So in order to bridge the agency problem, tax avoidance behavior arises in order to optimize both interests.

Tax Avoidance

Tax Avoidance is a way to reduce the company's tax expense by exploiting weaknesses in the applicable tax laws so that it can be said as a legal method rather than illegal. This study uses a tax avoidance measure with Cash ETR. CETR is calculated using the ratio of cash tax paid to pretax income. Cash tax paid is the amount of tax cash paid by company in a year based on the company's financial statements (D. Dyreng & Hanlon, 2009).

The smaller the CETR value means the greater the company's tax avoidance. CETR values range from more than 0 and less than 1 (Astuti & Aryani, 2016).

Firm Size

Firm size is a grouping into several groups, including large companies, medium-sized companies, and small companies. The firm size can be calculated from total net sales, total assets, total debt, and total equity of the current year up to the next few years (Brigham & Houston, 2009).

The greater the size of the company, the greater the CETR of the company, which means a decrease in the level of tax avoidance (Putri & Bella, 2017). Siregar and Utama (2005), the larger the firm usually the information available to investors in making better decisions. Therefore, the quality of financial statements must be reliable, free from earnings management because it can obscure the available information. Especially about profit minimization to minimize taxable income, so that tax payments are also small

H1: Firm size influences tax avoidance

Leverage

Fakhrudin (2008) leverage is the amount of debt used to finance company assets. In this determination, leverage is measured using Debt Ratio (DR). Debt Ratio is a debt ratio used to measure the ratio between total debt to total assets.

A high level of debt indicates a high tax avoidance activity in the company. This is because the existence of debt will reduce the cost of taxes with the aim that costs that are supposed to pay taxes can be used for other things. These costs can be used to pay off the debt owned and used to finance other expenses (Putri, 2017; Saudi, 2018).

H2: Leverage influences tax avoidance.

II. Method

The research method used in this study is explanatory. The data used in this study are annual financial reports on Customer Goods Industry Sector Companies on the Indonesia Stock Exchange in 2016-2018. The object in this study is the firm size, leverage, tax avoidance. The sampling technique used in this study was purposive sampling, based on criteria namely on Customer Goods Industry Sector Companies on the Indonesia Stock Exchange and published financial reports and annual reports in 2016-2018, the financial report contains complete information related to all the variables studied in 2016-2018, total sample is 54. The variables in this study are:

Independent variable (X)

In the study of the independent variable (X1) is the Firm Size with the formula:

$$\text{Firm Size} = \text{Ln Total Asset}$$

The independent variable (X2) is the Leverage. In this study, leverage was measured using Debt Ratio with the formula:

$$DR = \frac{\text{Total Liability}}{\text{Total Asset}}$$

(Kasmir, 2017)

Dependent variable (Y)

In this study, the dependent variable (Y) is Tax Avoidance. In this study, tax avoidance was measured using CETR with formula:

$$CETR = \frac{\text{Cash Tax Paid}}{\text{Pretax Income}}$$

(Dyreng,et al. 2009)

The smaller the CETR value means the greater corporate tax avoidance, conversely the greater the CETR value means the smaller corporate tax avoidance.

III. Discussion and Conclusion

Descriptive analysis

The following are the results of descriptive analysis of the data of each variable:

Descriptive Statistics

	Min.	Max.	Average
Firm Size	11.39	18.39	15.36
Leverage	0.08	0.73	0.38
Tax Avoidance	0.09	0.54	0.26

The average of firm size is 15.39. The lowest value of firm size is 11.39 namely PT. Akasha Wire International Tbk. in 2018, the highest firm size is 18.39 namely PT. Indofood Sukses Makmur Tbk. in 2018.

The average value of leverage is 0.38. The lowest leverage is 0.08, namely PT. Industri Jam & Farmasi Sido Muncul Tbk. in 2016, the highest leverage was 0.73, namely PT. Unilever Indonesia Tbk. in 2017.

The average of tax avoidance is 0.26. The lowest tax avoidance of 0.09 namely Akasha Wire International Tbk. in 2018, the highest tax avoidance was 0.54, namely PT. Wismilak Inti Makmur Tbk. in 2017.

Determination Coefficients

The following is the results of data processing obtained by the coefficient of determination:

Model Summary[b]

R Square	Sig.
0.124	0.035

The determination coefficient value of 0.124 shows that firm size and leverage simultaneously have an effect of 12,4% on tax avoidance.

Partial Test

Following are the partial test results:

Partial Test (t Test)

Model	Coefficients	Significant
Firm Size	0.009	0.204
Leverage	0.149	0.022

The Influence of Firm Size on Tax Avoidance

T-test results (partial) obtained a significance value of firm size variable of 0.204 which means that the value of prob. greater than the level of significance (0.0000> 0.05). Based on these results that means H1 was rejected. The firm size does not influence tax avoidance. Research supports the results of research conducted by (Rusydi 2013; Masnawati 2019), show that firm size does not influence on tax avoidance.

The Influence of Leverage on Tax Avoidance

T-test results (partial) obtained a significance value of the variable leverage of 0.022 which means that the value of prob. greater than the level of significance (0.0000> 0.05). Based on these results it can be concluded that H2 is accepted. This means that leverage influence the avoidance of tax avoidance. A positive coefficient of leverage means that the higher the leverage, the higher the CETR, or conversely the lower the leverage the lower the CETR. The smaller the CETR means the greater the company's tax avoidance and vice versa the greater the CETR means the smaller the company's tax avoidance. Then the results of this study state the greater the leverage the lower the tax avoidance. This can occur because the greater the use of debt by the company, the more external parties are involved in funding corporate activities, so as to improve the oversight function of the company's management. In addition, the company is able to effectively use its debt for the company's operational activities, so that even though its leverage is high, it can generate high profits which automatically affects tax payments.

Research supports the results of research conducted by (Aprianto dan Dwimulyani 2019; Swingly dan Sukartha 2015) shows that leverage influence tax avoidance.

IV. Conclusions

The conclusion is that firm size and leverage simultaneously influence tax avoidance. Partial test results are only leverage which influences tax avoidance.

V. Suggestion

Based on the conclusions from the results of the study, in analyzing financial statements presented by companies, financial statement users can use leverage as indicators to detect tax avoidance practices.

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