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The Influence of Profitability and Leverage to Tax Avoidance (Empirical Study of Consumer Goods Industry in Indonesia)

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Abstract---*This study aims to determine whether profitability and leverage affect tax avoidance on consumer goods industry sector companies listed on the Indonesia Stock Exchange in the 2014-2018 period. The factors tested in this study are profitability and leverage as independent variables, while tax avoidance as the dependent variable. The research method used in this study is the verification method. The population in this study is companies in the consumer goods industry sector, amounting to 38 companies. The sampling technique used in this study was non probability sampling with a purposive sampling method, so the total sample was 30 companies. While the data analysis used in this study is panel data regression analysis at a significance level of 5%. The program used in analyzing data uses Eviews 9. The research results partially and simultaneously show that profitability and leverage affect tax avoidance. In addition the results of the study also showed that the magnitude of the effect of profitability and leverage in giving contribution to tax avoidance was 38.8%.*

Keyword---*Leverage, Profitability and Tax Avoidance*

I. Introduction

Taxes holding an important role in Indonesia's country development. Tax revenue is the largest source of income for Indonesia. The government's target in receiving this tax increases every year. Therefore, the government certainly expects that taxpayers or the public are obliged to participate so that the pace of growth and implementation of national development can go well for the welfare of the country. But from the taxpayer or the community tax payment is a factor that reduces their income or income, especially by paying the tax the public can not feel the benefits directly. Therefore this is the reason for personal and corporate taxpayers to tax avoidance.

Based on the State Budget data published by the Ministry of Finance the Republic of Indonesia the target and realization of tax revenue in the 2014-2018 period are follows:

Table. Target and Realization of 2014-2018 Tax Revenue

(in Trillions of Rupiah)

Year	Tax Revenue Target	Tax Revenue Realization	Percentage of Revenue
2014	1.246,1	1.143,3	91,7%

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2015	1.489,3	1.235,8	83%
2016	1.355,2	1.283,6	81,6%
2017	1.283,5	1.151	89,6%
2018	1.424	1.351,5	92,2%

Source : State budget data published by the Ministry of Finance The Republic of Indonesia

Based on table above, it appears that the realization of state revenue sourced from taxes in Indonesia has not yet reached the target set and has fluctuated. The percentage of tax revenue realization from the 2014-2016 period continued to decline. In the period 2016-2018 it increased.

Tax resistance is one of them carried out by means of tax avoidance where companies try to reduce their tax burden in a legal manner and do not conflict with applicable tax laws. The issue of tax avoidance is a complex and unique problem because on one hand tax avoidance does not violate the law (legal), but on the other hand tax avoidance is not desired by the government (Permata, Nurlaela, & W, 2018). This is the reason the authors are interested in researching about tax avoidance.

Taxation

The definition of tax based on Law Number 28 of 2007 concerning General Provisions and Tax Procedures which is the third amendment to Law Number 6 of 1983 is as follows:

"Taxes are the contribution of taxpayers to the state owed by individuals or entities that are coercive based on the law with no direct compensation and are used for the purposes of the state for the greatest prosperity of the people." Some definitions of taxes expressed by experts in the field of taxation to be a comparative material, among others:

tax definition according to Dr. Soeparman Soemohamijaya, quoted by (Diana Sari, 2016: 35) is as follows:

"Taxes are mandatory contributions in the form of money or goods collected by the authorities based on legal norms to cover the cost of producing collective goods and services in achieving public welfare."

So it can be concluded that taxes is the contribution from tax payers to the state in which form of money or goods by not getting reciprocal directly.

Tax Avoidance Calculation

According to Pohan, quoted by Moch Kohar Mudzakar (2019:93) Tax Avoidance is as follows:

"Tax avoidance is a tax avoidance effort that is carried out legally and safely for taxpayers because it does not conflict with tax regulations, where the methods and techniques used tend to exploit the weaknesses (gray areas) contained in the law and tax regulations themselves, to reduce the amount of tax owed. "

And according to Iman Santoso and Ning Rahayu (2013:4) Tax avoidance is as follows:

"Tax avoidance is defined as legal income manipulation that is still in accordance with the provisions of tax legislation to reduce the amount of tax owed".

From the explanation of tax avoidance above, it can be concluded that has an impact on tax obligations carried out in a way that is still fixed in the taxation provisions not violating the stipulated taxation provisions. It conducts transactions that are not charged with tax burden. The calculation of tax avoidance can be formulated as follows:

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

According to Sendi Gusnandar Arnan, Sari Retno Pramesti and Ignatius Oki Dewa Brata (2019):

"ETR is a corporate tax burden divided by pre-tax profit; measurement of tax avoidance. The greater the ETR indicates the lower the level of corporate tax avoidance"

Profitability

The company targeted maximum profit. Therefore, the company's management in practice is demanded to be able to meet the targets set. That is, the amount of profit must be achieved as expected and does not mean the origin of profit. The ultimate goal to be achieved by an important company is to obtain increase earnings (Kasmir, 2014: 196).

The author use Return On Assets (ROA). In the analysis of financial statements, ROA is considered to be able to show the success of a company making a profit. ROA can measure the company's profits from past activities and projected into the future. Assets that are calculated are all assets obtained from private capital or foreign capital that have been converted into company assets and used for company operations (Pradnyadari, 2015). The higher the ROA ratio, the higher the profitability in the company. The formula used to calculate return on assets is :

Return on Assets (ROA) = $\frac{Pretax\ Income}{Total\ Assets}$

(Kasmir, 2014:201)

Eduardus Tandelilin (2010: 372) Return on Assets illustrates the extent to which the ability of assets owned by the company can generate profits.

Leverage

Usually in using solvency or leverage ratios adjusted to the company's goals. This means that companies can use leverage ratios in whole or in part from each of the existing solvency ratios. The use of ratios as a whole, means that all types of ratios owned by the company, while some means the company only uses a few types of ratios that are considered necessary to know (Kasmir, 2014:155).

In this study, the Leverage measurement tool used by the author is Debt to Assets Ratio (DAR). Debt affects the management of assets (Kasmir, 2014: 156)

II. Research Hypothesis Thinking Framework

Profitability to Tax Avoidance

Profitability is a greater image of a company's financial performance in generating profits from asset management, known as Return On Assets (ROA). According to Dewinta and Setiawan (2016), that the higher the return on assets, the greater the profits of the company and vice versa.

Leverage to Tax Avoidance

Preponderant the level of company capital, the higher the risk faced by companies such as bankruptcy. However, the existence of long-term debt or leverage on the company will cause a permanent burden that is the interest to be paid. In the taxation regulations of Article 6 paragraph 1 letter number 3, loan interest is a deductible expense on taxable income that will result in reduced taxable income of the company.

Profitability and Leverage to Tax Avoidance

Profitability is a company's ability to earn profits in relation to sales, total assets and own capital (Fahmi, 2014). Companies with large retained earnings will first use retained earnings before deciding to use debt (Kasmir, 2014).

Leverage is total debt / total assets , while in practice to cover the lack of funding needs, the company has several choices of funding sources that can be used, one source of funds used is loan capital (debt), loan capital is relatively unlimited in number and motivates management to work more actively and creatively because they are burdened to pay the burden of their obligations (Kasmir, 2014). While increasing the amount of debt will result in interest expense that must be paid by the company.

formulated through a framework and hypotheses can be drawn for examined as follows Profitability and Leverage has affect on Tax Avoidance.

The objectives of this research are to determine the effect of Profitability and Leverage on Tax Avoidance.

III. Research methodology

Nazir (2011: 91) states that the verification method is as follows:

"The verification method is a research method that aims to determine the causality relationship between variables through a hypothesis test through a statistical calculation so that evidence can be produced that shows the hypothesis is rejected or accepted."

Based on the results of purposive sampling criteria showed that companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in the 2014-2018 period that were sampled in this study were 30 companies.

IV. Research result

Results of Descriptive Statistics Analysis

Descriptive analysis aims to find a picture of each variable used in research. Descriptive statistics used in this study include minimum, maximum, average values, standard deviations, skewness, and kurtosis.

Descriptive Statistics

	PROBABILITY	LEVERAGE	TAX AVOIDANCE
Mean	0.130849	0.410039	-0.207535
Maximum	0.709149	1.174088	0.874559
Minimum	-0.239431	0.140557	-5.797048
Std. Dev.	0.154118	0.193731	0.542642
Skewness	1.331845	1.063061	-7.481418
Kurtosis	5.376697	4.746297	77.59969

Panel Data Regression Analysis

The regression equation model formed based on the results of the study are as follows:

$$Y = -0{,}706760 + 1{,}446672\ X1 + 0{,}759996\ X2 + e$$

From the regression equation model it can be explained that:

1. If the constant value of -0.706760 means that if the independent variable is a variable that is profitability and leverage, is considered constant (value 0), then the dependent variable that is the tax avoidance variable will be worth -0.706760.

2. If the regression coefficient value of the profitability variable shows 1.446672, it means that if the profitability variable has increased by (one) unit, while other independent variables namely the leverage variable are considered constant (value 0), then the dependent variable that is the tax avoidance variable will increase amounted to 1.446672.

3. If the regression coefficient value of the leverage variable shows 0.759996, it means that if the leverage variable has increased by (one) unit, while the other independent variable is the profitability variable is considered constant (value 0), then the dependent variable, namely the tax avoidance variable will increase amounted to 0.759996.

The significance value of the regression model is obtained simultaneously at 0,000, this value is smaller than the significance level of 0.05 (5%), which is 0.0000 <0.05. In addition, it can also be seen from the results of a comparison between Fcount and Ftable which shows a Fcount value of 46.575 while Ftable of 3.06. From these results it can be seen that Fcount> Ftable is 46.575> 3.06, it can be concluded that H3 is accepted, meaning that together or simultaneously the profitability and leverage variables influence the tax avoidance variable.

The value of R2 is 0.388 which means that the variability of the dependent variable is tax avoidance that can be explained by the independent variables namely profitability and leverage in this study amounting to 38.8%, while the remaining 61 , 2% is explained by other variables outside the research model.

reducing the company's tax burden. The higher the value of the company's debt, the value of the company's effective tax rate (ETR) will be lower.

The Effect of Profitability and Leverage on Tax Avoidance

The results showed that profitability and leverage affect tax avoidance. The magnitude of the effect of profitability and leverage in contributing influence to tax avoidance of 38.8%. This shows that the greater the profitability and leverage of the company, the higher the level of tax avoidance it does. It can be said in both ratios that the tendency of a company to avoid taxes is caused by the profit motive and the debt motive as a way that is considered capable of suppressing corporate tax payments.

V. Conclusions and Suggestion

Conclusions

Based on the results of research and discussion in the previous chapter, the following conclusions are obtained The results of the study indicate that profitability and leverage affect tax avoidance. So the higher the profitability and leverage, the higher the tax avoidance.

VI. Suggestion

Based on the results of the study, the authors intend to submit several suggestions that are expected to be useful input for the parties concerned. The suggestions that researchers can convey based on the results of research that has been carried out are as follows:

a. Increase company profitability by increasing company management performance in increasing company sales, as well as minimizing company operating costs. In addition, companies also still need to pay attention to various external factors (macro factors including inflation, economic growth, the rupiah exchange rate, etc.) that may affect the company's sales policy.
b. Reducing leverage by minimizing the use of debt as a source of capital in financing the assets or operations of the company. The use of capital sourced from debt is also limited so that the leverege ratio is not too high, so it does not negatively impact the company's financial distress.
c. Minimizing tax avoidance efforts, but tax avoidance efforts to reduce corporate tax burden is an unethical act because it causes state tax revenue to be reduced, while tax is one of the largest state revenues.

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