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THE EFFECT OF PROFITABILITY, LEVERAGE AND COMPANY SIZE ON CORPORATE TAX AVOIDANCE

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ABSTRACT

Indonesia is a nation that uses taxes as a means of supporting its state treasury. As a tax collection tool, Indonesia uses various types of taxes. The value of the tax is determined from the results of the collection of public funds, and the tax is then used as a condition for carrying out state development. The study sought to ascertain how profitability, leverage, and company size affect tax evasion. The approach used in this study is qualitative and involves collecting information from cigarette manufacturers listed on the IDX for the years 2016 to 2021. The findings of this study show that although leverage has little impact on tax evasion, profitability has little impact.

Keywords: *Profitability, Leverage, Company Size, Tax Avoidance*

INTRODUCTION

Indonesia is a country that makes taxes as one of the funding and sources of state treasury, Indonesia has many classifications of tax objects as part of the source of tax collection. The value of the tax amount is obtained from the collection of funds from citizens then, the tax is used as an obligation to carry out state development. This is supportive because national development in Indonesia is a government product that requires community participation. Thus, every citizen is required to be able to contribute to tax payments (Haula et al., 2011). Taxes can be a source of funding and state treasury revenues which have a position as a very important source of state revenue and affect the development of a country (Sudrajat & Ompusunggu, 2015). Indonesia uses tax proceeds to be used as a source of revenue and funding for the country's principal treasury. This is because taxes have a stable nature, and have the potential for high amounts of funding and as a form of active community participation in the context of development (Rahayu & Suhayati, 2010).

Based on theoretical studies, taxes have an understanding as the obligation of citizens who have income, so that public participation can be forcibly welcomed. But in conditions in the field, tax obligations actually present different data (Hardiningsih & Yulianawati, 2011). The Indonesian state adheres to a self-assessment system in which taxpayers are fully entrusted to provide registration facilities, record income, calculate total taxpayers, make payments and provide data reports every year, has many tax sectors that cannot be reached from tax collection (Sagita et al., 2015). With regard to tax payment obligations in Indonesia, often a company makes efforts to exempt itself from the obligation to pay taxes. They will issue taxes to a minimum, they do this in order to get more profits or profits (Yuliem, 2018). In this regard, there are two types of methods to minimize spending on corporate taxes, including the first by tax evasion or Tax Evasion. Tax Evasion has a definition as an act of violation of the law without paying obligations on the part of the state. The second method is tax avoidance. Tax Avoidance is a behavior to minimize tax liabilities by legal means. In its

use, Tax Avoidance uses loopholes in tax law so that shareholder welfare will increase (Kim et al., 2011). The International Center for Taxation and Development (ICTD) inventories that Indonesia is ranked eleventh in the world, as the country with the highest tax avoidance with a tax avoidance score of $6.48 billion that is not paid to the Indonesian Director General of Taxes (Rokhmah, 2019). The following is the largest amount of tax avoidance in Indonesia, which comes from the British American Tobacco (BAT) tobacco company with a tax avoidance power of $ 14 million per year (Cahyani & Isbanah, 2019). British American Tobacco has successfully evaded taxes by establishing subsidiaries. BAT organizes a direct investment with PT Bentoel International Investama. It then managed to cut the cost of import taxes on a large scale.

In the midst of the current Covid-19 outbreak, the Indonesian workforce in cigarette factories has not decreased significantly. This shows the competitiveness of the Indonesian tobacco market (Ibrahim et al., 2021). Some cigarette companies, such as PT. Gudang Garam., Tbk, PT. HM Sampoerna., Tbk, and PT. Wismilak Inti Makmur., Tbk, is very stable as before the Covid-19 outbreak shook the world (Aini et al., 2021). This has to do with Indonesia's smoking laws. The impact of this freedom then makes Indonesia a paradise for smokers. The existence of the phenomenon of paradise for smokers then makes the cigarette industry in Indonesia the most resilient, most profitable, and most durable industry in Indonesia (Darwin, 2007). If cigarette companies take tax avoidance measures, it can significantly affect the tax revenue obtained by the Indonesian state. In addition to factors to seek greater additional profits, there are other factors, such as company profitability, leverage, and company size that can influence other companies to participate in tax avoidance.

It is possible that shareholders may engage in tax avoidance to increase the profitability of the company because the profitability ratio or profitability of the company is a reflection of shareholder welfare (Kim et al., 2011). Thus, it can be concluded that company management is more effective in generating profits or profits if the profitability ratio is higher (Darmawan, 2014). The profitability ratio of the enterprise is a statistic that shows how much revenue the company has in profits.

The second factor that can influence tax avoidance policy is the leverage ratio in a company (Sudana, 2011). This will result in a burden that will later be borne by the company in the next period. The leverage ratio is seen when companies make a profit by utilizing the assets or sources of funds they have. The leverage ratio can have an influence on the company's desire to do tax avoidance. Because the more debts appear in the company, the fewer taxpayers they have to pay (Dewinta & Setiawan, 2016). Suyanto & Supramono (2012), said that companies prefer to increase their debt burden rather than pay more taxes. Therefore, the company chose to apply tax avoidance. When a company must have debt in order to meet the company's operational financing, interest expenses and other obligations will arise, and high-interest expenses can affect the level of profit used to calculate taxes (AGUSTI, 2015). However, Mulyani et al. (2014) did not find some effect of leverage on tax avoidance from manufacturing companies. Mulyani et al. (2014) said that most manufacturing companies in Indonesia have small long-term debts, so the interest expense borne by the company is also small. Surbakti (2012), added that a manufacturing company in Indonesia prefers to comply with tax regulations imposed by the government because it has a greater risk when dealing with the law.

The size of the business is the final element that might affect the corporation's efforts to avoid paying taxes. This is because the company's tax burden increases along with its size (Rachmawati & Triatmoko, 2007). The large or small size of a company can be categorized based on the total assets they have. In addition, the market value of stocks that are skyrocketing and the mean of sales or the amount of revenue of a company as a whole (SUWITO &; HERAWATY, 2005). Companies that have a large size will have high and stable profits. Stability to achieve profits owned by the company then causes a company to be able to practice tax avoidance (Rachmawati &; Triatmoko, 2007). The majority of people's opinion of the company is a very important matter in a company. But on the contrary, opinions arise from stakeholders, namely creditors, stock owners, and the owners of the company itself who always want higher profits (Yoehana, 2013).

The agency hypothesis which states that managers in large enough organizations want to be able to maintain the profitability of their companies through a tax avoidance approach (Handayani, 2018), is then used in this study based on the background that the author has discussed before. To obtain adequate incentives, they act in this way. However, there are still previous studies that have found that tax avoidance cannot be influenced by the profitability ratio of a company (Kurniasih et al., 2013), the ratio in the application of leverage of a company. Because there is still a difference between the influence of a company's profitability ratio and the leverage ratio to tax avoidance, so this study aims to ascertain whether there is an influence of the company's ratio, leverage ratio, and the size of a company on tax avoidance in an industry, especially in Indonesia.

METHOD

In research using the type of causal research. This type of research causally aims to facilitate the process of in-depth analysis of whether one variable can influence other variables. The research conducted aims to ascertain whether there is an influence in terms of the company's profitability ratio, leverage ratio in the company, and company size in the tax avoidance of a cigarette company in Indonesia. This study uses data on cigarette industry companies whose company names have been registered on the IDX in the period 2016 to 2021. To obtain this data, you can go through the page and can make visits, and research to the IDX office directly.

RESULTS AND DISCUSSION

Descriptive Statistical Test

Table 1
Descriptive Statistical Test Results
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	18	,14	1,13	,5598	,25355
Leverage	18	,01	3,54	1,4562	1,16945
Company Size	18	27,63	32,20	30,2887	1,40149
Tax Avoidance	18	0,80	1,45	3,565	1.17458

Valid N (listwise)	18				

The findings of the descriptive analysis of Table 1 show that there were 18 observations made during the investigation. The profitability variables in this table range from 0.14 to 1.13 with an average of 0.5598 and a standard deviation of 0.25355. Gudang Garam Tbk with a profitability value of 0.14 in 2018, and Gudang Garam Tbk with a profitability value of 1.13 in 2019 are the two companies with the lowest and largest value respectively.

Leverage is the largest and lowest variable values of 3.54 and 0.01 respectively with an average of 1.4562 and a standard deviation of 1.16945. Bentoel Internasional Investama Tbk in 2017 has the lowest leverage value of 0.01 and Bentoel Internasional Investama Tbk in 2020 has the largest leverage value of 3.54.

The size of the company has a maximum value range of 32.20 and a minimum of 27.63, as well as an average of 3.565 and a standard deviation of 1.17458. Wismilak Inti Makmur Tbk has a firm size value of 27.63 in 2017 and 32.20 in 2019, respectively, making it the company with the lowest and largest value.

Tax evasion had a high value of 1.45 and a lowest value of 0.80, with an average value of 3.565 and a standard deviation of 1.17458. The two companies in 2021 are PT Gudang Garam Tbk which has the lowest tax avoidance value of 3,565, and Wismilak Inti Makmur Tbk which has the highest business size value of 1.45.

Classical Assumption Test

Normality Test

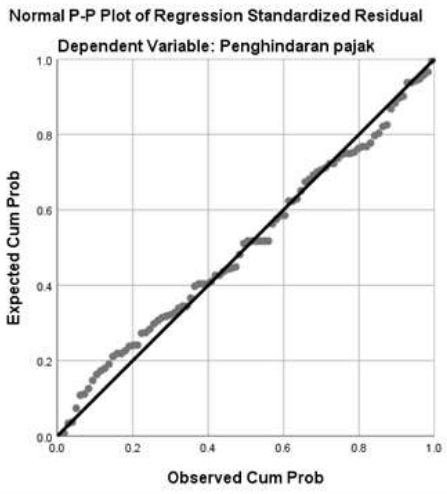

Figure 1 P-plot graph

Because the points are close to the diagonal line in Figure 1 above, the results of the Normal Graph P-Plot Normality Test meet the normality assumption.

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Multicholinerity Test

Table 2

Multicollinearity Test Results

Coefficients[a]

Type		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitability	.718	1.392
	Leverage	.594	1.684
	Company Size	.715	1.398

a. Dependent Variable: Tax Avoidance

By examining the VIF value, Table 2 above illustrates that the data do not show any evidence of multicollinearity between the knowledge, benefits, and motivations of each investment. Since the maximum allowed VIF value is only 10, it is possible to conclude from the available data that multicollinearity does not exist. The above data shows that there is no multicollinearity between profitability, leverage, and company size because the VIF value is less than 10 and the tolerance value is more than 0.10 in these conditions.

Autocorrelation Test

Table 3
Autocorrelation Test Results
Model Summary[b]

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.389[a]	,151	,110	,19306	2,095

b. Predictors include profitability, leverage, and company size (all constants).
c. Tax evasion is a dependent variable.

The equation under study has 18 observations and 3 independent variables, according to the findings of the autocorrelation test in Table 3. The resulting 4-du value is 2.3852 and the resulting du value is 1.6148. Durbin Watson test results were obtained at 2.095 or 1.6148, 2.095, or 2.3852 in regions without autocorrelation. As a result, the regression model used in this study can be declared autocorrelation-free.

Heteroscedasticity Test

Diagram Scatlerplot

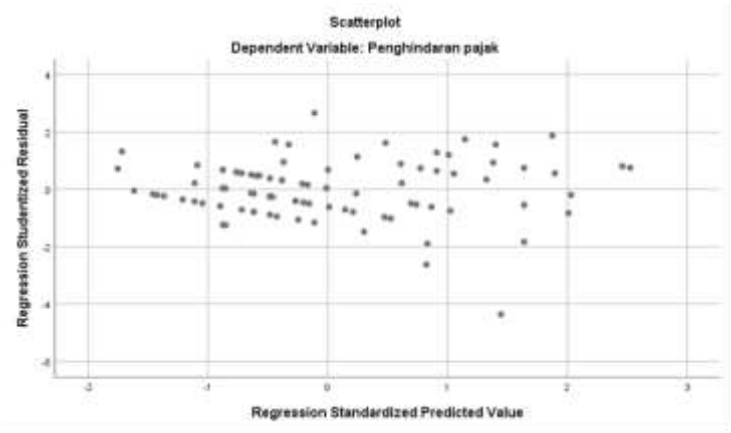

Figure 2 Scatterplot chart

The points arerandomly distributed above and below the number 0 on the Y-axis, as shown by the scatterplot graph in Figure 4. 2 above. It can be said that with regression models there is no heteroscedasticity.

Glejser Test

Table. 4

Glejser Test Results

Type		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.294	1.962		.660	.512
	Profitability	.049	.072	.102	.682	.498
	Leverage	.004	.056	.011	.068	.946
	Company Size	-.051	.073	-.106	-.706	.483

Variable: ABS_RES2

From the Gleijseir in Figure 4.7 above, it can be seen that the significance value is greater than 0.05. For a significant value between independent variables and absolute residuals it is greater than 0.05, namely for profitability 0.498, leverage 0.946 and company size 0.483. This result can be concluded that there is no heiteiroskeidastiitas symptom in the regression method.

Multiple Linear Regression Test

Table . 5
Multiple Linear Regression Test
Coefficients[a]

Type		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.746	2.223		3.484	.001
	Profitability	.273	.107	.277	2.543	.013
	Leverage	.025	.131	.024	.192	.848
	Company size	.429	.119	.397	3.611	.001

a. Dependent Variable: Tax avoidance

Based on the findings of the regression coefficient above in Table 4.17, the regression equation can be made as follows:

PP = 7.746+ 0.273 X1 + 0.025 X2 + 0.429 X3

A constant value of 7.746 is indicated by the regression equation above. Based on this, fraud detection will increase by 0.273 if profitability, leverage, and tax evasion are taken into account as constants or values of 0 (zero).

The profitability variable has a regression coefficient of 0.273 which indicates that if the variable grows by one unit then profitability will also increase by 0.273, all influencing factors are considered constant.

The variable leverage has a regression coefficient of 0.025 which indicates that if the variable increases by one unit, then leverage will also increase by 0.025% when all other influencing factors are considered constant.

The regression coefficient of the tax avoidance variable is 0.429 which indicates that if the variable grows by one unit then tax avoidance will increase by 0.429 by keeping other influencing factors constant.

Test Coefficient of Determination (R^2)

Table . 6
Coefficient of Determination Test Results
Model Summary[b]

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.597[a]	.356	.434	1.583

The updated R Square coefficient of determination is 0.434, or 43.4%, according to table 4.8 above. It shows how profitability, leverage, and business size all affect tax avoidance and

help explain or influence it. Other factors not considered in the study accounted for the remaining 56.6%.

Test the hypothesis

F Significance Test

Table. 7
F Significance Test Results

ANOVA[a]

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	122.097	3	40.699	16.233	.000[b]
	Residuals	220.631	88	2.507		
	Total	342.728	91			

The results of the significant test in table 4.8 above show significant results, the count of 16.233 is greater than the value of table 3.49 and the significant value of 0.000 is smaller than 0.05. Meanwhile, for the f table with sig a = 0.05 and df = n-k, namely 18-3 = 15, the f table is 3.49. This means that profitability, leverage and company size simultaneously or simultaneously affect tax avoidance.

Partial Test (T-Test)

Table . 8
Test T Results (Partial)

Coefficients[a]

Type		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.746	2.223		3.484	.001
	Profitability	.273	.107	.277	2.543	.013
	Leverage	.025	.131	.024	.192	.848
	Company size	.429	.119	.397	3.611	.001

1. How profitability affects tax evasion

Table 4.9 shows the t-test results between profitability and tax avoidance. The profitability of tax avoidance has a t-count value of 2.543 and a significance level of 0.013. We obtain t table 1.761 for t table with sig a = 0.05 and df = n-k-1, or 18-3-1 = 14. The analysis findings showed that the value was 2.543 rather than 1.761. This further shows the relationship between profitability and tax evasion.

2. Impact of Leiveiragei on Tax Avoidance

Table 4.9 shows the results of the t-test comparison of tax avoidance with leiveiragei. The t value for leiveiragei vs tax avoidance is 0.192 with a significance level of 0.013. We get a large table ti 1.761 for t tabeil with sig a = 0.05 and df = n-k-1, or 18-3-1 = 14. The findings

of the study showed that the value was 0.192 1.761. To show that leiveiragei have little impact on tax evasion.

3. How Company Size Affects Tax Avoidance

Table 4.9 contains t-test findings between firm size and tax avoidance. The t value of the comparison of company size to tax avoidance is 3.661 with a significance level of 0.001. We get t a table of 1.761 for t table with sig a = 0.05 and df = n-k-1, or 18-3-1 = 14. The results of the analysis showed that the value was 3.661 > 1.761. This further shows the impact of the size of the company's peontax evasion.

DISCUSSION

Effects of Tax Avoidance on Profitability, Leverage, and Company Size

Table F showing the results of hypothesis test 1 shows that F count is greater than F table 3.49 and the significance value 0.000 is less than 0.05. Therefore, it can be argued that the factors of profitability, leverage, and company size all affect tax evasion in a simultaneous and large way. Research by Vicka Stawati (2020), which shows that profitability, leverage, and company size have a major influence on tax revenue, lends credibility to research findings.

Impact of Profitability on Tax Avoidance

The t-test finding between profitability and tax avoidance in this analysis was significant at the threshold of 2.543>1.662, indicating that H2 is acceptable. The findings of this study are in line with Rizka and Nurhayati's (2021) research which found that profitability has an effect on tax avoidance.

This suggests that the use of tax evasion strategies by manufacturing businesses will decline as profitability, as measured by ROA, increases. Because large companies can manage profits without implementing tax efficiency, they are less likely to engage in tax evasion.

Effects of Leverage on Tax Avoidance

The findings of the t-test between leveirage and tax evasion in this analysis were seen at a significance level of 0.192 1.761 which indicates that H3 is not accepted. The findings of this study are in line with Ahmad and Suci's (2019) research, which found no link between levy damage and tax evasion.

The ratio called leverage reflects the amount of debt used to fund a company's operating expenses. High corporate debt will have an impact on tax evasion strategies. This is because management will be more careful in preparing financial statements if there is high company debt. To reduce the tax burden, management must be more cautious and refrain from taking the opportunity of tax avoidance. If the company can earn a large enough profit and is considered capable of carrying out its operations successfully, creditors will be interested. Thus, tax avoidance is not influenced by leiveiragei variables.

Company Size Impacts Tax Avoidance

The t-test findings between levirencing and tax avoidance in this analysis were significant at levels 3.661 > 1.761, suggesting that H3 is acceptable. The findings of this study, are

consistent with the research of Iskandar and Erwin (2020), which show that company size has an effect on tax avoidance.

Compare large and small businesses based on the size of their companies. The size of the business is what it is meant to be. The average amount of assets, revenue and sales of a company determines its size. Investors have access to more information to help them make judgments about their investments in the company's stock, the larger the company. The corporation will use its resources to increase revenue, but doing so will result in increased tax liability. This is what will persuade businesses to engage in tax avoidance. The scale of the business will immediately correlate with its transaction volume.

CONCLUSION

Profitabilitas secara parsial berpengaruh terhadap penghindaran pajak pada perusahaan industri rokok yang terdaftar di bei periode 2016-2021. Leverage secara parsial tidak berpengaruh terhadap penghindaran pajak pada perusahaan industri rokok yang terdaftar di bei periode 2016-2021. Ukuran perusahaan secara parsial berpengaruh terhadap penghindaran pajak pada perusahaan industri rokok yang terdaftar di bei periode 2016-2021. Profitabilitas, leverage dan penghindaran pajak secara simultan atau secara bersama-sama berpengaruh signifikan terhadap penghindaran pajak pada perusahaan industri rokok yang terdaftar di bei periode 2016-2021.

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