TAX AVOIDANCE IN PROFITABILITY, LEVERAGE, AND SALES GROWTH

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Abstract
This study aims to find out whether profitability, leverage and sales growth affect tax avoidance. The factors tested in this study are profitability, leverage, and sales growth as an independent variable, and tax avoidance as the dependent variable. The research method used was explanatory research. The type of research data in the form of secondary data is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange during 2015-2017. The population in this study were 30 manufacturing companies listed on the Indonesia Stock Exchange during 2015-2017, with a sample determination technique using purposive sampling technique to obtain as many as 90 annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange during 2015-2017. The results of hypothesis testing partially indicate that protection affects tax avoidance, leverage affects tax avoidance, and sales growth affects tax avoidance. The results of simultaneous hypothesis testing show profitability, leverage, and sales growth together influencing tax avoidance. The contribution of profitability, leverage, and sales growth is influenced by tax avoidance of 12.15%, while the remaining 87.85% is explained by other variables outside the research model.

Keywords: *Profitability, Leverage, Sales Growth, and Tax Avoidance*

1. Introduction

Tax is a contribution that can be forced and must be paid by the public to the state because it is regulated by law with no direct counter to financing state expenditure. (Sari, 2017: 34).

Government and taxpayers have different interests in the implementation of tax collection. The government wants to continue to increase state revenue through taxes to finance government operations, while most taxpayers do not voluntarily pay taxes and try to pay taxes as little as possible because paying taxes will reduce company revenue or net income. Taxpayers in this case the company will try to reduce the amount of tax payments by legal or illegal so that the profit targets that have been set can be achieved. This is possible if there is an opportunity to do tax avoidance. The company will try to manage its tax payments to a minimum so that profits are maximized (Darmawan and Sukartha, 2014).

Based on agency theory, differences in interests between the tax authorities and the company will lead to non-compliance of taxpayers (company management) which in turn causes companies to do tax avoidance (Diantari and Ulupui, 2016). Tax Avoidance is a legal action for taxpayers because it does not violate tax laws because what is done is to take advantage of loopholes contained in tax laws (Pohan, 2013: 23).

Minimizing the practice of tax avoidance in the taxation law is known as the specific anti avoidance rule, but as the tax avoidance scheme being used increasingly complex it is not possible to cover all types of tax avoidance transactions. The company owner will encourage management to take aggressive tax actions to minimaze the tax expenses that arises (Chen et al, 2010).

In its development, tax avoidance is used as part of corporate tax planning to reduce the tax expenses. There are some factors can influence the company's decision to take tax avoidance. Some of them are profitability, leverage, and sales growth. Based on the phenomenon described above, the researcher conducted a study entitled Tax Avoidance in Profitability, Leverage, and Sales Growth.

2. Theoretical Framework

2.1 Agency Theory

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According to Jensen & Meckling (1976) states that agency theory explains the conflict that will arise between owners and company management. The separation between owners and company management can cause problems, including the possibility of managers taking actions that are not in accordance with the wishes or interests of principle. Agency conflict can affect the level of aggressive tax treatment. Agency problems where there are differences in interests for agents and principals lead to tax avoidance. The explanation of tax avoidance practice can be started from the agency theory approach.

2.2 Profitability

According to Hanafi (2012: 42) profitability is reflected in Return On Assets (ROA), which shows the efficiency and effectiveness of asset management. According to Pohan (2013: 3) one of the efforts made by companies is to minimize the tax burden, because tax is one of the factors of profit reduction. The amount of the tax burden as we know it depends on the amount of income. The greater the income the greater the tax owed. Therefore companies need tax planning so that companies pay taxes efficiently.

Dewinta & Setiawan's research (2016) said that a company that has a high level of profitability, the higher the level of tax avoidance of a company caused by companies with large profits will be more free to take advantage of loopholes in managing their tax burden (Thaker et al., 2020).

2.3 Leverage

According to Sartono (2015: 120) leverage shows the proportion of the use of debt to finance its investment. Companies that do not have leverage means using 100% of their own capital. Every use of debt by the company will affect the ratio and return. This ratio can be used to see how the company's financial risk.

Companies with high profitability will certainly try to reduce their taxes by increasing their debt ratios, so that additional debt will reduce taxes (Syahyunan, 2013: 228). The interest costs will have the effect of reducing tax expenses of company, the higher the debt, the taxable profit will be smaller because of the greater tax incentives on debt interest (Darmawan & Sukartha, 2014).

2.4 Sales Growth

According to Fahmi (2012: 99) sales are Sale (sales) is the receipt obtained from the delivery of merchandise or from the delivery of services in the exchange as a material consideration. Dewinta & Setiawan (2016) said that the greater the sale, the greater the profits to be obtained by the company, so that the profits charged by the company will be even greater and the greater the opportunity for the company to avoid tax. Increased sales growth allows companies to be moreable to increase the company's operating capacity, because with increased sales growth, the company will get a high profit, therefore the company will tend to practice tax avoidance, because with large profits will cause a tax expenses that great too.

The statement was also supported by Pohan (2016: 23) stating that increasing sales growth will indirectly increase profits. Companies with large profits tend to do tax planning as much as possible so that it can reduce tax payments to the government.

2.5 Tax Avoidance

Tax avoidance is usually interpreted as a scheme for the purpose of minimizing the tax burden by utilizing a loophole in a country's taxation provisions. Conceptually, the tax avoidance scheme is actually legal or legal because it does not violate taxation provisions.

Some experts explain their opinions regarding the meaning of tax avoidance. James Kessler gives the meaning of tax avoidance as efforts by taxpayers to minimize taxes in ways that are contrary to the intent and purpose of the legislator (the intention of parliament).

2.6 Prior Research

Some previous studies will be explained briefly because this study refers to several previous studies. Although the scope is almost the same, but because the objects and time periods used are different there are many things that are not the same so that it can be used as a reference to complement each other. Some inconsistent research results regarding profitability as stated in the research of Dewinta & Setiawan (2016) and Otieno (2014) explaining positive effect of profitability, research Oktamawati (2017), Hidayat (2018), and Putri & Putra (2017) explaining negative effect profitability, while the results contradict the research of Cahyono, Andini, & Raharjo (2016) which states that profitability has no effect.

Some inconsistent research results regarding leverage as stated in the research of Swingly & Sukartha (2015) and Putri & Putra (2017) explaining negative effect leverage, research of Oktamawati (2017) and Harrington & Smith (2012) explaining positive effect leverage while the results are contrary to the research of Kurniasih & Sari (2013), Cahyono, Andini, & Raharjo (2016), Dewinta & Setiawan (2016) explaining leverage has no effect.

Some inconsistent research results regarding sales growth as stated in Dewinta & Setiawan (2016) explaining positive effect sales growth, Hidayat (2018) and Oktamawati (2017) explaining negative effect sales growth, while the results are contrary to the research of Swingly & Sukartha (2015) explaining sales growth has no effect.

3. Research Methods

This research is explanatory research using quantitative research methods. In this research the object of research is Profitability (X1), Leverage (X2), Sales Growth (X3) and Tax Avoidance (Y). The population are manufacturing companies listed on IDX. The sample selection is nonprobability sampling techniques. The type of data to be analyzed is the type of time series data and cross section data.

4. Result

4.1 Effect of Profitability on Tax Avoidance

Hypothesis testing obtained t-statistics of 2.702854 with prob of 0.0083 smaller than the expected significance level (0.0083 <0.05), then H_ (1) received. The analysis shows the influence of profitability on tax avoidance

Agency theory will spur agents to increase company profits. When the profits are increased, the amount of income tax will increase. The company may do tax avoidance to avoid increasing the amount of tax expenses. Agents in agency theory will try to manage their tax burden so as not to reduce the agent's performance compensation as a result of the company's profits being reduced by the tax burden. The company is able to manage its assets well so that it benefits from tax incentives and other tax breaks so that the company is seen doing tax avoidance.

Logically, a company that has a small profit will not want to pay high taxes because the company will maximize its profits by tax avoidance. Likewise with companies that have high profitability. companies that have increased profits or profits tend to have conflicts of interest differences between the company's owners (principals) and management (agents) companies tend to be low because the company is considered to be running as expected by the company owner.

This research is supported by Dewinta & Setiawan Research (2016) which says that a company that has a high level of profitability, the higher the tax avoidance level of a company caused by companies with large profits will be more free to take advantage of loopholes in managing their tax burden. The higher the value of ROA, means the higher the value of the company's net profit and the higher its profitability (Saudi, 2018). The company uses ROA as an indicator of profitability to take tax avoidance actions.

Research by Nugrahita & Suprasto (2018) states that ROA has no effect to tax avoidance. Profitability has no influence on tax avoidance because the sample companies have ROA data profiles that are not much different from one another. ROA has no effect on tax avoidance because assets are used as a sample on average, that is, assets in the form of land or buildings do not shrink according to company policy intentionally, while buildings have a functional period of 20 years with a 5% depreciation fee. This results in a low depreciation expense and ultimately reduces the company's taxable profits not significantly.

4.2. Effect of Leverage on Tax Avoidance

Hypothesis testing obtained t-statistics of 2.187368 with a prob of 0.0314 smaller than the expected significance level (0.0314 <0.05), then H_ (1) is accepted. The analysis shows that there is a significant influence between leverage on tax avoidance. In this study shows that the size of the company's leverage will affect the increase or decrease in tax avoidance, seen from the positive coefficient, then if leverage increases, tax avoidance will increase and vice versa.

Companies that have a high tax burden can make tax savings by increasing company debt. Based on Income Tax Law Number 36 Year 2008 article, loan interest is a deductible expense on taxable income. Deductible expense interest will cause the company's taxable income to decrease. The reduced taxable profit will ultimately reduce the amount of tax that must be paid by the company. By increasing the debt to obtain a large tax incentive, it can be said that the company is aggressive towards taxes.

According to Brigham and Houston (2012: 188), companies that are paying high taxes can use more debt than companies that pay low taxes. It can be concluded that if a company intentionally uses debt to reduce the tax burden, it can be assumed that the company is taking tax avoidance actions. The research of Waluyo et al (2015) and the research of Lanis and Richardson (2012) provides evidence that leverage has a significant positive effect on tax avoidance actions, in other words the higher the company leverage, the higher the tax avoidance efforts undertaken by the company. The company uses DER as an indicator of leverage to take tax avoidance actions.

Different research conducted by Darmawan & Sukartha (2014) which said leverage does not affect tax avoidance because the sample companies have debt that mostly comes from capital loans to shareholders or related parties, so that the interest expense incurred cannot be used as a deduction company taxable profit. Interest expense that can be used as a deduction for taxable profit is the interest expense arising from loans to third parties / creditors who are not affiliated with the company, this is regulated in Law No. 36 of 2008 article 6 paragraph and article 18.

4.3 Effect of Sales Growth on Tax Avoidance

Hypothesis testing obtained t-statistic of 2.213750 with a prob of 0.0295 smaller than the expected significance level (0.0295 <0.05), then H_ (1) is accepted. The results of the analysis indicate a significant influence between sales growth on tax avoidance.

The higher the value of sales growth, the higher the level of tax avoidance by the company. The greater sales volume of a company shows that the company's sales growth is increasing. If sales growth increases, the profit generated by the company is assumed to have increased so that profitability will increase and the company's performance will also improve. With an increase in profits means the tax that must be paid by the company is getting bigger so the company will try to avoid paying large taxes by making optimal tax planning.

With the increase in corporate profits derived from the results of sales growth indicates the leadership of the company has tried to maximize the value of the company where it is the duty of an agent of the principal in agency theory. As sales growth increases, assets must also be added. In an effort to increase its assets, the company is willing to avoid taxes because on the other hand, increased profits due to sales growth causes the tax burden borne by the company also increases (Tristianto & Oktaviani, 2016).

The results of this study are in line with research from Budiman & Setiyono (2012), Purmawanti & Sugiyarti (2017), and Mahanani & Titisari (2016) which show that sales growth has a significant effect on tax avoidance. While research related to sales growth conducted by Swingly & Sukartha (2015) and Permata et al (2018) shows that sales growth has no effect on tax avoidance because good sales growth within a company will make the company size bigger. The greater the size of the company will increasingly make the total assets in the company even greater. This situation will make it difficult for companies to do tax saving through corporate tax planning.

5. Conclusion

The researcher draws the following conclusions that profitability, leverage and sales growth has a significant effect on tax avoidance.

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