PROFITABILITY, LEVERAGE, SIZE OF COMPANY TOWARDS TAX AVOIDANCE

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Abstract

The purpose of this research is to know the influence of Return On Assets (ROA), Debt To Equity Ratio (DER), and Asset to Tax Avoidance (TA) partially and simultaneously in the sector of various Industri listed in Indonesia Stock Exchange (IDX). The research period used is five years from 2012 to 2016. The study population included all industry miscellaneous sectors listed in Indonesia Stock Exchange (IDX) period 2012 to 2016. Sampling technique used is purposive sampling technique. Based on the predetermined criteria, the sample size was 8 companies. The type of data used was secondary data obtained from the Indonesia Stock Exchange website. Data analysis method used was panel data regression analysis. The result of F-test and t-test showed return on assets had an effect on tax avoidance, while debt to equity ratio had a positive influence on tax avoidance.

INTRODUCTION

Tax is one of the sources of state revenues that is essential for the implementation and enhancement of national development that aims to improve the prosperity and welfare of the community. Since the tax reform was carried out with the introduction of the new tax law in 1983 (Pohan, 2015). Companies did the tax evasion as an attempt to avoid taxes by taking advantage of weaknesses in the law without violating the established rules to minimize the amount of tax payable (Pohan, 2015).

Based on the above, tax avoidance is one of the strategies taken to streamline the tax expense legally. Tax evasion is tax avoidance strategy and technique done legally and securely for the taxpayers because it does not conflict with the provisions of taxation.

The main issue of this research is to avoid a large tax payment or streamline the tax expense properly and securely in accordance with the laws of taxation by taking the benefit from the weaknesses contained in the laws and regulations of taxation itself.

The phenomenon of this research is the tax evasion that happened lately in Indonesia, especially in various industry sectors in manufacturing companies such as PT Toyota Motor Manufacturing Indonesia in 2013 over the 2008 tax reports, TMMIN stated that the sales value reached Rp23.9 trillion, but the Directorate General of Taxation corrected the value into Rp34.5 trillion, or there is a correction of Rp1.5 trillion. TMMIN must add tax payment of Rp500 billion. The profit reduction is due to royalty payments and the purchase of raw materials which are not reasonable and car sales to affiliated parties

below the cost of production so that it can reduce the circulation of business (Kontan, 2013). With the above example, the researcher analyzed that the practice of tax evasion by TMMIN is to suppress the tax charge to be paid. The way that this company does the tax evasion is by transfer pricing. Transfer pricing is a transaction of goods and services between several divisions in a business group at an unfair price, resulting in a reduced tax expense.

Profitability is the level of the company's ability to generate earnings/profit (Kasmir, 2016). Profitability is an indicator of performance done by the management in managing the company's wealth which is shown by the profit generated. The higher the level of profitability in a company, the greater the profits earned by the company. Therefore the amount of taxes paid by the company will also increase.

One of the profitabilities used in this research is ROA. The higher the value of ROA means the better performance of the company by using the assets so that a large profit is gained. Increased earnings result in an increase of ROA. Increased profits have an impact on the increase in tax payable.

Leverage is a ratio that shows the amount of external capital that the company uses to conduct its operating activities. Leverage ratio calculation results indicate how much assets owned by the company comes from the company's loan capital. If the company has a high-interest loan fund, then the company will pay a high-interest expense to creditors. Interest expense will reduce the profit, so with reduced profits will reduce the tax expense in one period.

The size of the company is a measurement that is grouped based on the size of the company and can describe the company's activities and revenues. The larger the size of the company, the greater the company's effort to draw the public's attention. Assets owned by the company related to the size of the company. The greater the assets owned, the bigger the company. In general, the size of the company usually proxy with total assets because the value of total assets is usually very large compared to the other financial variables.

The purpose of this research is to obtain empirical evidence of the impact of profitability, leverage, and the size of the company against tax avoidance.

LITERATURE REVIEW
Agency Theory

The agency theory is a concept that explains the contractual relationship between principals and agents. The principal is the one that gives the mandate to the agent to perform all activities on behalf of the principals in their capacity as decision makers.

The purpose of the agency theory is first, to improve the individual's ability (both principals and agents) in evaluating the environment in which the decision should be taken (the belief revision role). Second, to evaluate the results of the decisions taken to facilitate the allocation of results between principals and agents in accordance with the employment contract (the performance evaluation role).

Stakeholder Theory

Stakeholders are all internal and external parts that have good relations and can influence one another, directly or indirectly by the company. The company considers that the role of the stakeholder is very influential for the company so that it can affect and be considered in disclosing an information in their financial statements.

Tax Avoidance

Tax avoidance is an effort to avoid tax legally that it does not violate the tax regulations done by the taxpayers by trying to reduce the amount of taxes by looking for weaknesses in regulations (loopholes). In the explanation of the law on general provisions and taxation procedures (UU KUP) has stated that the tax is one of the tools and rights of

every taxpayer to participate in state administration and development. But for businesses, the tax is considered as an investment expense. Therefore, it is natural for companies/entrepreneurs to try to avoid tax expenses by conducting an effective tax planning.

Return On Asset (ROA)

ROA describes the ability of the management to gain profit. The higher the ROA, the higher the company's profit, therefore the better the management of the company's assets. ROA is seen from the company's net income and the imposition of income tax for corporate taxpayers. The higher the ROA, the higher the company's profit so the better the management of the company's assets. So it will lead to a good corporate tax planning resulting in the optimal tax, so the tendency of tax avoidance will decrease.

Leverage

According to Kasmir (2015), leverage or solvency ratio is a ratio used to measure the extent to which the company's assets are financed with debt. This means how much debt burden is borne by the company compared to its assets. In a broad sense, it is said that the leverage ratio is used to measure a company's ability to pay all its obligations, both short and long term if the company is dissolved (liquidated).

Size of the Company

The size of the company is a scale which can be classified by the size of the company according to various means among others: total assets, sales of log size, stock market value, market capitalization, and others are all highly correlated. The greater the total assets, sales, log size, stock market value, and market capitalization, the greater the size of the company. Basically, the size of the company is only divided into three categories namely large companies, medium companies, and small companies.

Empirical Studies

ROA describes the management's ability to gain profits, the higher the value of ROA, the higher the value of net income and the higher the profitability of the company, and the company has the opportunity to decrease the tax expense. A research by Yohana (2013) about the impact of ROA against tax avoidance shows that ROA negatively affects tax avoidance.

The higher the value of leverage ratio indicates the higher the amount of funding and debt and the higher the interest arising from the debt. A research by Kurniasih and Sari (2013) shows that leverage has no effect towards the tax avoidance activities.

The larger the company, then the lower the company's ETR. This is because the large company has a better ability to use their resources to make a better tax planning. But the company can not always do the tax planning because of the limits in the form of highlights and targets from the regulator. A research by Dewi and Jati (2014) shows that the size of the company has no effect towards the tax avoidance activities. The result of this research is similar to a research by Budiman (2012) , the size of the company has the negative effect towards tax avoidance activities.

What distinguishes this research from previous research is the method of data analysis, population, and period of study. Data analysis method used is panel data and population regression analysis on various industry sectors listed on BEI, while its period is from 2012 to 2016.

Hypothesis

Based on theories and empirical studies that have been discussed before, the hypothesis proposed as follows:

H_1: ROA affects tax avoidance activities in manufacturing companies (various

industries sectors) listed on the Indonesia Stock Exchange.

H₂: Leverage affects tax avoidance activities in manufacturing companies (various industries sectors) listed on the Indonesia Stock Exchange.

H₃: The size of the company affects tax avoidance activities in manufacturing companies (various industries sectors) listed on the Indonesia Stock Exchange.

RESEARCH METHODS

The type of this research is associative quantitative research that explains the causal relationship between variables profitability, leverage, and size of the company against tax avoidance simultaneously and partially. The method of collecting data is through the Indonesia Stock Exchange's website. The data source is secondary data. Research data in the form of financial statements listed on the Indonesia Stock Exchange in 2012-2016. Data analysis using panel regression analysis.

Population and sample of this research are manufacturing companies of various industries sectors that listed in Indonesia Stock Exchange from 2012-2016. The sample used in this research are 8 companies. Sampling method is using purposive sampling technique.

Operational Definition of Variables

The operational definition of each variable can be explained as follows:

Dependent Variable (Tax Avoidance)

Tax avoidance is an effort to streamline the tax expense by avoiding taxation by directing it to non-taxable transactions (Pohan, 2015). And the measuring instrument used is Effective Tax Rate (ETR), with the following formula:

$$ETR = \frac{Tax\ Payment\ x\ 100\%}{Profit\ Before\ Tax}$$

Independent Variable X₁ (Return on Asset)

Return on Assets is the ratio between net income and total assets at the end of the period, which is used as an indicator of the company's ability to generate profits (Kurniasih and Sari, 2013. ROA is measured by the following formula:

$$ROA = \frac{Net\ Income\ x\ 100\%}{Total\ Assets}$$

Independent Variable X₂ (Leverage)

Leverage proxy is measured from a ratio that measures the ability of debt, both long-term debt and short-term debt used to finance corporate activities. The leverage ratio used in this research is Debt to Equity Ratio (DER).

$$DER = \frac{Total\ Debt\ x\ 100\%}{Equity}$$

Independent Variable X₃ (Size of the Company)

According to Lanis and Richardson (2012) size of the company can be measured by the natural logarithm of total assets with the following formula:

$$\boxed{SIZE = \text{Ln Total Assets}}$$

Data Analysis Technique

The analysis used in this research is panel data regression analysis (panel regression), by seeing the influence of Return on Assets, Leverage, and Size of Company to tax avoidance on manufacturing company of various industries sector at Indonesia Stock Exchange. The regression model in this study are as follows:

Yit = α + β1X1it + β2X2it + β3X3it + βnXnit + εit

Annotation :
Y = Tax Avoidance
α = Constants
β = Regression Coefficient of Independent Variables

X_1 = Return On Assets
X_2 = Leverage
X_3 = Size of the Company
I = Company
t = Time
ε = Eror Term

RESULTS AND DISCUSSION
Descriptive Statistics Analysis

Tabel 1. Descriptive Statistics Analysis

	ETR	ROA	LEV	UP
Mean	0.317650	10.11650	120.5455	12.45750
Median	0.246000	8.120000	79.89500	12.19500
Maximum	0.930000	30.93000	739.6400	14.42000
Minimum	0.101000	0.360000	10.29000	11.58000
Std. Dev.	0.208134	8.418138	141.1397	0.836567
Skewness	1.799048	0.957938	2.937554	1.370330
Kurtosis	5.048207	3.083238	11.90076	3.723981
Jarque-Bera	28.56907	6.129179	189.5672	13.39228
Probability	0.000001	0.046673	0.000000	0.001236
Sum	12.70600	404.6600	4821.820	498.3000
Sum Sq. Dev.	1.689469	2763.737	776896.6	27.29395
Observations	40	40	40	40

From the output of descriptive statistic with Eviews, it can be known the number of samples or N in this study are 40 samples derived from 8 companies in the observation period of 5 years ie the year 2012-2016. Here's an explanation of each variable:

Tax Avoidance / ETR

Tax Avoidance, has a minimum value of 0.101000, while for the maximum value, it has a value of 0.930000. This variable has an average value (mean) of 0.317650, and standard deviation of 0.208134. Based on the data, it can be concluded that the tendency of companies in tax avoidance is still below 50% that is with the average value (mean) 32%.

Return On Asset

Return On Asset, has a minimum value of 0.360000, and a maximum value of 30.93000. It also has an average value of 10.11650, and a standard deviation of 8.418138. This indicates that the return on asset being the sample in the study has various total assets. From the average value, can be concluded that the company's profit is still small that is with an average value of 10%.

Leverage

Leverage, has a minimum value of 10.29000, while the maximum value show the value of 739.64000. This variable has an average value of 120.5455, and a standard deviation of 141.1397. This indicates that the company's dependence on third-party funds is relatively smaller compared to the company's total assets and capital.

Size of the Company

Size of the company has a minimum value of 11.58000 and the maximum value of 14.42000. It has an average value of 12.45750, and has a standard deviation of 0.836567. This indicates that the size of the companies sampled in the study has various total assets. Judging from the average value of total assets, on average the companies can be classified into large companies, and there is a difference in total assets owned by one company with total assets owned by another company.

F Test

Based on the F Test results in the table above shows that the value of F statistics 7.332369, while F $_{table}$ with the level of α = 5%, df1 (k-1) = 3 and df2 (n-k) = 36 obtained F $_{table}$ value of 2.866266, thus F-statistic (7.332369) > F_{table} (2.866266) and Prob.value(F-statistic) 0.0000586 < α = 0.05 then H$_a$ is accepted. And it can be concluded that the ROA, LEV, and UP variables together affect the

Tabel 2. Hasil Uji F Perusahaan Manufaktur Sektor Aneka Industri Periode 2012-2016

Dependent Variable: ETR
Method: Panel EGLS (Cross-section random effects)
Cross-sections included: 8
Total panel (balanced) observations: 40
Swamy and Arora estimator of component variances

F-statistic	7.332369	Durbin-Watson stat	1.820352
Prob (F-statistic)	0.0000586		
Unweighted Statistics			
R-squared	0.476256	Mean dependet var	0.317650
Sum squared resid	0.885850	Durbin Watson stat	0.477568

Sumber: Pengujian Menggunakan Eviews 9

Adjusted R-squared Test

Tabel 3. Hasil Uji Koefisien Determinasi (R^2) Perusahaan Manufaktur Sektor Aneka Industri Tahun 2012-2016

Periods included: 5			
Cross-sections included: 8			
Total panel (balanced) observations: 40			
Swamy and Arora estimator of component variances			
R-squared	0.388255	Mean dependent var	0.067366
Adjusted R-squared	**0.327553**	S.D. dependent var	0.098641
R-squared	**0.388255**	Mean dependent var	0.317650
Sum squared resid	0.884850	Durbin-Watson stat	0.477568

Sumber: Pengujian Menggunakan Eviews 9

Based on the calculation of the coefficient of determination Adjusted R-Squared shows the value of 0.327553. This means that the variation of the rise and fall of the company value can be explained by the profitability (ROA), leverage (DER), and the size of the company with the value of 33% will jointly influence the dependent variable, while the remaining 67% (100% - 33%) is explained by other variables outside this study.

Partial Hypothesis Test (T-Test)

Tabel 4. Hasil Uji t Perusahaan Manufaktur Sektor Aneka Industri Tahun 2012-2016

Variable	Coefficient	Std. Error	T-Statistic	Prob
C	1.861112	0.893378	2.083231	0.0444
ROA	-1.399397	0.419832	-3.333232	0.0020
UP	-0.109462	0.071522	-1.530473	0.1346
LEVERAGE	-0.061714	0.018753	-3.290869	0.0022

Sumber: Hasil Pengolahan Data Eviews 9

Influence of Return on Asset to Tax Avoidance

The first hypothesis represents a negative effect of Return On Assets (ROA) against tax avoidance. From the result of this research can be seen that return on assets hast t-statistics (3.333232) > t $_{table}$ (2.028094) with a significance value of (0.0020) < significance level (0.05). These results show that the return on assets (ROA) affect tax avoidance, it can be concluded that the first hypothesis (H1) is accepted.

Influence of Leverage to Tax Avoidance

The second hypothesis represents that leverage has negative effects towards tax avoidance. From the result of this research can be seen that leverage variable has t-statistics (3.290869) > t$_{table}$ (2.028094) with a significance value of (0.0022) < significance level (0.05). These results indicate that Leverage affects tax avoidance, it can be concluded that the second hypothesis (H$_2$) is accepted.

Influence of Size of the Company to Tax Avoidance

The third hypothesis represents that size of the company has no effect on tax avoidance. From the results of this study can be seen that the size of the company variable has t-statistics (1.530473) > t $_{table}$ (2.028094) with a significance value of (0.1346) < significance level (0.05). These results indicate that size of the company has no effect towards tax

avoidance, it can be concluded that the third hypothesis (H_3) is rejected.

CONCLUSION

Based on the result of panel data analysis, it can be concluded as follows:

1. The result of t-test analysis shows that the return on assets (ROA) variable (X_1) has a negative effect on tax avoidance (Y). This is indicated by the t-statistics value (3.333232) > t $_{table}$ (2.028094) with significance value of (0.0020) < significance level (0.05). It can be said that there is a positive influence between return on assets on tax avoidance. This is due to the higher the value of ROA, means the higher the value of the net income of the company and the higher the profitability. Companies with high profitability have the opportunity to position themselves in tax planning which reduces the tax expense.

2. The result of t-test analysis shows that the Leverage variable (x_2) has a negative effect on tax avoidance (Y), indicated by t-statistics (3.290869) > t $_{table}$ (2.028094) with a significance value of (0.0022) < significance level (0.05). This result is because if the number of audit committees in the company is in accordance with the rules of Indonesia Stock Exchange, it will minimize the management actions in tax evasion (tax avoidance).

3. The result of t-test analysis shows that the Size of the Company variable (x_3) has no effect on tax avoidance (Y), indicated by t-statistics value (1.530473) < t $_{table}$ (2.028094) with a significance value of (0.1346) > significance level (0.05). This is possible because the debt that resulted in the expense of interest can be a deduction of tax profit, while interest on bank loans is not allowed as a deductible expense of taxable income.

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