

FACTORS INFLUENCING TAX AVOIDANCE: AN EMPIRICAL ANALYSIS OF INTERNAL CORPORATE ELEMENTS

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ABSTRACT:

Research Objective: This study examines the effects of leverage, firm size, inventory intensity, and sales growth on tax avoidance.

Method: Multiple linear regression was used for data analysis with SPSS 25 as the testing tool.

Findings: The results of this study indicate that leverage and inventory intensity have a positive effect on tax avoidance, firm size has a negative effect on tax avoidance, and sales growth has no effect on tax avoidance.

Theoretical and Policy Implications - Agency theory is strengthened (because leverage and inventory intensity have a positive effect on tax avoidance) and signalling theory is supported (firm size has a negative effect on tax avoidance).

Research Novelty: This study uses inventory intensity, a variable that has not been widely used as a primary variable in previous studies.

ABSTRAK:

Tujuan Penelitian - Penelitian ini bertujuan untuk menguji dan menganalisis pengaruh leverage, ukuran perusahaan, intensitas persediaan, dan pertumbuhan penjualan terhadap penghindaran pajak.

Metode Penelitian - Teknik analisis data yang digunakan dalam penelitian ini adalah regresi linier berganda, dengan SPSS 25 sebagai alat uji.

Temuan Penelitian - Hasil penelitian ini menunjukkan bahwa variabel leverage dan intensitas persediaan berpengaruh positif terhadap penghindaran pajak, variabel ukuran perusahaan berpengaruh negatif terhadap penghindaran pajak, sedangkan variabel pertumbuhan penjualan tidak berpengaruh terhadap penghindaran pajak.

Implikasi Teori dan Kebijakan - Terjadi penguatan atas teori Agensi (karena leverage dan intensitas persediaan berpengaruh positif terhadap penghindaran pajak), serta dukungan atas teori Signaling (firm size berpengaruh negatif terhadap penghindaran pajak).

Kebaruan Penelitian - Penelitian ini menggunakan variabel intensitas persediaan yang belum banyak dijadikan variabel utama dalam penelitian sejenis.

Keywords: Leverage; Firm Size; Inventory Intensity; Sales Growth; Tax Avoidance.

A. INTRODUCTION.

Taxes play an important role in the life of a state because they are the main source of state revenue used to fulfil state duties in various fields of life to achieve prosperity. Based on Law Number 28 of 2007 concerning the fourth amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures in Article 1, Paragraph (1), tax is a mandatory and coercive payment by individuals or entities to the state in accordance with the law, without direct reward, which is used for state needs and people's welfare (Nazir & Tanjung, 2021).

Every citizen has the right to pay tax. Currently, a tax is described as an obligation that forces individuals to give up some wealth for the benefit of the state. This encourages taxpayers to minimize their taxes as much as possible. It is based on the knowledge that taxes are very important in a country where taxes play an important role in state revenue, which is used for the welfare of its people (Irawati et al., 2020).

As a taxpayer, the company must pay taxes that are calculated based on the profits obtained. The more taxes the company pays, the more money it receives. However, companies interpret taxes as a burden that reduces profit. The government's goal of increasing tax revenue conflicts with the company's tax payment goal. Companies try to minimize their tax burden to obtain higher profits, increase owner welfare, and ensure the survival of the company. From a company's perspective, tax is a cost, and it is necessary to make efforts or strategies to reduce it.

According to Pohan (2018), tax planning is a strategy implemented by companies to make taxes paid more efficiently. There are three ways to reduce the tax burden: tax avoidance, evasion, and savings. Tax avoidance is a legal action to reduce tax obligations without violating tax provisions. Anwar Pohan (2018: 14) also states that there are three ways that taxpayers can reduce their tax burden, namely tax avoidance, tax evasion, and tax savings.

Factors that influence tax avoidance include leverage, firm size, inventory intensity, and sales growth. An example of a tax avoidance case in Indonesia is a property transaction by the developer of Bukit Semarang Baru Housing, managed by PT Karyadeka Alam Sari. They sold a house for IDR 7.1 billion, but the notarial deed only stated IDR 940 million, resulting in a price difference of IDR 6.1 billion that could potentially reduce state tax revenue by IDR 910 million. If this practice occurs on a large scale, state losses can reach tens of billions of rupiahs from just one project (Awaloedin & Nabilah, 2020).

In addition, the phenomenon of tax avoidance was also found in the "Panama Papers" leak involving several large property companies in Indonesia, such as PT Ciputra Development, Tbk; PT Lippo Karawaci, Tbk; and PT Agung Podomoro Land, Tbk. PT Ciputra Development, Tbk reportedly hid assets worth USD 1.6 billion or around IDR 21.6 trillion to avoid taxes (Madia et al., 2023). In 2021, the "Pandora Papers" also revealed that several Indonesian

individuals, including Harun Haraji from the Ciputra family, were allegedly involved in tax evasion through offshore company schemes (Tempo.co, 2021).

There is a phenomenon of tax avoidance, where the Director General of Taxes of the Ministry of Finance (Kemenkeu) revealed findings that this practice is estimated to cost the state up to IDR 68.7 trillion per year. This finding was revealed by the Tax Justice Network, which reported that Indonesia loses approximately US\$ 4.86 billion per year, equivalent to IDR 68.7 trillion. In the report entitled "The State of Tax Justice 2020: Tax Justice in the Time of Covid-19", it was stated that of this amount, around US\$ 4.78 billion or IDR 67.6 trillion came from tax avoidance practices carried out by companies in Indonesia. Meanwhile, the remaining US\$ 78.83 million or around IDR 1.1 trillion came from individual taxpayers. The Director General of Taxes explained that this tax avoidance occurred because of transactions between parties with special relationships, both inside and outside the country (Nasional Kontan Co., 2020).

B. LITERATURE REVIEW

Agency Theory

Agency theory explains corporate tax avoidance behavior. This theory examines the problems that arise between parties who delegate work (principal) to other parties who perform their duties (agents). Agency problems occur when there are differences in interests between the principal and the agent (Jensen and Meckling, 1976; Ross, 1973).

Agency theory states that agents (e.g., company managers) can be encouraged to increase company profits. This increase in profit can result in an increase in income tax in accordance with higher profits, so business actors tend to avoid taxes to reduce the amount of tax to be paid (Dewi & Noviani, 2017). Here, there is a conflict of interest between the tax apparatus, which prioritizes revenue from tax funds, and taxpayers who try to minimize the amount of tax to be paid to maximize profits. Taxpayers argue that taxes are a burden that can reduce the ability of the economy (Irawati et al., 2020)

Tax

The definition of tax according to Siti Official (2019:1) "Tax is an obligation to submit part of the wealth to the state treasury, arising from a condition, event, or action that provides a certain position, but not as a sanction. This tax is regulated by regulations set by the government, is enforceable, and is not accompanied by direct reciprocal services from the state, although it aims to maintain public welfare."

Tax Avoidance

The government, through the Directorate General of Taxes (DGT) always strives to update tax regulations to increase the effectiveness of tax collection. On the other hand, companies always try to make savings by paying taxes, which can be done legally, namely tax avoidance, or illegally, through tax evasion. Tax avoidance is a legal reduction effort carried out by optimally utilizing the

provisions in the field of taxation, such as exceptions and permitted deductions, as well as the benefits of things that have not been regulated and the weaknesses that exist in applicable tax regulations. According to Pohan (2018:13), tax avoidance is an effort that is carried out legally and safely by taxpayers because it does not violate tax provisions. The techniques and methods used usually take advantage of loopholes or weaknesses in tax law to reduce the amount of tax to be paid.

Leverage

Leverage is used to assess a company's ability to meet its long-term obligations and the extent to which the company's assets are financed by debt (Rodani, 2015, p.167). Leverage describes the extent to which a company's debt ratio is compared to its total assets. The higher the ratio of debt to total assets, the greater is the company's leverage. A high debt composition in a company's financial structure can increase the interest expenses that the company must pay. This interest expense affects pre-tax income, which in turn can reduce the company's profit subject to tax. Therefore, companies can reduce the tax burden that must be paid by utilizing excessive debt.

Firm Size

Company size is a parameter used to determine how large or small a company is based on various factors, such as total assets and stock market value. Company size is divided into three categories: small, medium, and large (Hery, 2017:12). The greater the total assets owned by a company, the larger the company. The larger the size of the company, the more complex are the transactions carried out. Companies can manage all of their total assets to reduce taxable income through tax planning. The natural logarithm of the company's total assets was used to measure firm size in this study.

Inventory Intensity

Inventory intensity, also known as inventory intensity, is a component of a company's asset composition and is measured by comparing the total value of inventory to the total value of assets owned by the company. Inventory intensity can also be defined as a measure of how much a company invests in inventory. Companies that have a large inventory face a higher burden or incur significant costs to manage and organize the inventory. Thus, companies that allocate a large amount of resources to inventory may have a high capital intensity. The depreciation of these capital assets can reduce taxable income (Hery, 2017:183).

Sales Growth

Sales is a measure of a company's performance. This can be seen in the company's profit. The company will obtain a higher profit if sales increase. An increase in sales contributes to an increase in profits, which increases the tax burden. Companies tend to manage their profits through various tax expense reduction strategies to minimize taxes. According to Cashmere (2018,107), sales growth is a measure used to evaluate sales growth by calculating the difference

between sales in a certain period and sales in the previous period, and the result is divided by sales in the previous period.

Leverage Effect on Tax Avoidance

Leverage is an important measure of the level of financing provided by a company's loan capital. Property and real estate companies often use high leverage given the high initial investment costs of buying or developing property and real estate. The use of high debt increases interest expenses, which can reduce taxable income and lower a company's tax burden. A debt-based funding structure allows companies to finance new projects more efficiently, without using equity capital, resulting in a lower overall tax burden.

H1 : Leverage affects tax avoidance.

The Effect of Firm Size on Tax Avoidance

Company size affects asset management and taxation strategies. Property and real estate sector companies tend to have a large amount of asset inventory, providing flexibility to determine the timing of sales and revenue recognition, thus allowing them to manage taxes by delaying the sale of assets until a more tax-favorable period. If the percentage of current assets (inventories) is greater than that of fixed assets, it can take advantage of tax avoidance strategies by adjusting cost allocation and revenue recognition by arranging expenditures for property development or improvements so that costs can be deducted to reduce taxable profits. Conversely, companies with more fixed assets can use depreciation expenses to reduce their taxable income.

H2 : Firm Size affects Tax Avoidance.

Effect of Inventory Intensity on Tax Avoidance

Inventory intensity reflects the proportion of inventory to total company assets and affects tax strategies. In the property and real estate industries, high inventory levels provide more flexibility in manipulating the timing of sales or revenue recognition to defer tax payments by utilizing timing differences in revenue or cost recognition. According to IAS 2, Revised 2012, the cost obtained from the company's investment in inventory should be excluded from the cost of inventory and should be recognized as an expense in the period in which it is incurred, so that the company's profit will decrease, thereby reducing the company's tax burden.

H3 : Inventory Intensity affects Tax Avoidance.

The Effect of Sales Growth on Tax Avoidance

Sales growth can influence a company's decision to avoid taxes because companies try to achieve the expected level of profit without being burdened by high taxes. The increase in company profits is influenced by operational performance, which is often measured by sales growth. When a company experiences revenue growth, profit tends to increase. Fluctuations in corporate profits also have an impact on changes in tax burden because the amount of profit subject to tax is proportional to the amount of tax that must be paid.

Therefore, sales growth is often a motivation for companies to take tax-avoidance actions.

H3 : Sale growth affects Tax Avoidance.

C. RESEARCH METHODS

Population, Sample, and Sampling Technique

The population in this study are property and real estate companies listed on the Indonesia Stock Exchange IDX) www.idx.co.id period 2019-2023. The sample selection technique in this study was to use nonprobability sampling with a purposive sampling method, which was chosen with the aim of facilitating sample selection based on certain criteria. The sampling criteria were as follows:

1. Property and real estate sector companies listed on the Indonesia Stock Exchange during the 2019-2023 period;
2. Property and real estate companies that publish annual reports during the 2019-2023 period;
3. Companies that publish annual reports contain complete information on all the variables studied.

From these three criteria, the total sample comprises 222 data points with 68 outlier data, so that 154 data points can be processed.

D. ANALYSIS

Classical Assumption Test

The normality test fulfilled 154 data points with a significance value of 0.200. Because the value of Sig. (2-tailed) value of 0.200, which means that it has a value ≥ 0.05 , it is concluded that the data are normally distributed.

The multicollinearity test was conducted based on the multicollinearity test results for each independent variable; the VIF value for each variable was < 10 and the tolerance value was ≥ 0.1 . This indicates that none of the independent variables or independent variables used in this study showed symptoms of multicollinearity.

The heteroscedasticity test is fulfilled; based on the results of this study's heteroscedasticity test, the significance value of $\alpha = 0.05$ or 5%. This shows that the four independent variables studied in this study do not experience heteroscedasticity in the regression model.

Autocorrelation test fulfilled, b based on the results of this study's autocorrelation test, the Durbin-Watson value is 2.147, which indicates that the regression model does not experience autocorrelation symptoms. The upper bound (dU) value for 154 data points was 1.7091, while the upper bound was reduced from the four results in 2.2009. Thus, the decision obtained was $1.7091 < 2.147 < 2.2009$, which means that there was no positive or negative autocorrelation in the regression model.

Hypothesis Test

Simultaneous Statistical Test (F Statistical Test)

Based on the results of SPSS processing in this study, it is known that the F value is 9.708, and the significance value is $0.000 < 0.05$. This means that the model is a good (fit).

Test Coefficient of Determination (R^2)

Based on the results of SPSS processing, the Adjusted R-Square (R^2) value is 0.185, indicating that 18.5% of the variation in the dependent variable can be explained by the independent variables used in the model. Meanwhile, the remaining 81.5% ($100\% - 18.5\%$) were influenced by other variables not examined in this study.

Statistical Test t

Based on the results of the individual parameter significance test (t-test), the following conclusions can be drawn:

hypothesis was conducted to test the effect of the leverage variable on tax avoidance. The t-value was 3.819, with a significance level of 0.000. Because the significance level of $0.000 < 0.05$, this indicates that the leverage variable has a significant effect on tax avoidance, H1 is accepted, and H0 is rejected.

hypothesis was conducted to test the effect of firm size on tax avoidance. The t-value was -2.340, with a significance level of 0.021. Because the significance level of $0.021 < 0.05$, this indicates that the firm size variable has a significant effect on tax avoidance, H2 is accepted, and H0 is rejected.

hypothesis was conducted to test the effect of inventory intensity variables on tax avoidance. The t-value was 2.614, with a significance level of 0.010. Because the significance level of $0.010 < 0.05$, this indicates that the inventory intensity variable has a significant effect on tax avoidance, H3 is accepted, and H0 is rejected.

The fourth hypothesis tests the effect of the sales growth variables on tax avoidance. The t-value was 0.881, with a significance level of 0.380. Because the significance level of $0.380 \geq 0.05$, this indicates that the sales growth variable has no significant effect on tax avoidance, H0 is accepted, and H4 is rejected.

Statistical tests show that companies with high tax avoidance (> 0.0701) have leverage values that tend to be higher, with an average of 0.96694. Higher leverage can be associated with more aggressive tax burden management efforts, whereas lower leverage reflects a more moderate tax avoidance potential. This finding suggests that companies with higher leverage levels tend to utilize interest expenses as a deduction from taxable income, thus encouraging them to engage in more significant tax avoidance. These results prove that leverage has a positive effect on tax avoidance actions taken by property and real estate sector companies listed on the Indonesia Stock Exchange from 2019-2023. The results of this study were consistent with those of a previous study conducted by Siregar, R., Widyawati, D. (2016)., which states that leverage has a positive effect on tax avoidance.

Based on statistical tests, it shows that companies that have high tax avoidance (> 0.0701) have a firm size value that tends to be lower with an

average of 13,868,021,605,605. This indicates that the lower the firm size value, the higher is the level of tax avoidance carried out by the company. According to Dewi and Noviari (2017), tax authorities can supervise large-scale companies to ensure that tax payments are made in accordance with the applicable tax regulations. This is in line with the results of this study, which explain that the larger the size of the company, the negative the effect on tax avoidance carried out by property and real estate sector companies listed on the Indonesia Stock Exchange in 2019-2023. The results of this study are in line with previous research conducted by Nazir and Tanjaya (2021) and Dewi and Noviari (2017), who state that firm size has a negative effect on tax avoidance.

Statistical tests show that companies with high tax avoidance (> 0.0701) have inventory intensity values that tend to be higher, with an average of 0.35567. This indicates a linear relationship between inventory intensity and tax avoidance, indicating that an increase or decrease in inventory intensity can encourage companies to adjust their tax avoidance strategies. These results prove that inventory intensity has a positive effect on tax avoidance by property and real estate sector companies listed on the Indonesia Stock Exchange from 2019-2023. The results of this study are in line with previous research conducted by Anggriantari and Purwantini (2020), who revealed that inventory intensity has a positive effect on tax avoidance.

Statistical tests show that companies with high tax avoidance (> 0.0701) have sales growth values that tend to be lower, with an average of 2.07800. This indicates that the lower the sales growth value, the higher is the level of tax avoidance by the company. This shows that there is no linearity, thus proving that the increases and decreases in sales growth have no effect on tax avoidance carried out by property and real estate sector companies listed on the Indonesia Stock Exchange in 2019-2023. The results of this study are in line with previous research conducted by Nazir and Tanjaya (2021), who state that sales growth has no effect on tax avoidance.

E. DISCUSSION AND CONCLUSION

Based on the results of the data analysis that has been described, the following conclusions can be drawn:

1. Leverage has a positive effect on tax avoidance. The higher the level of leverage, the higher is the level of tax avoidance carried out by the company. This shows that companies with higher leverage levels tend to utilize interest expenses as a deductive measure for taxable income, thus encouraging them to avoid taxes more significantly.
2. Firm size has a negative effect on tax avoidance. The higher the firm size, the lower the level of tax avoidance carried out by the company. Large companies have strict supervision from both the government and the public. This indicates that tax authorities can supervise large-scale companies to ensure that tax payments are made in accordance with the applicable tax regulations (Dewi & Noviari, 2017).

3. Inventory intensity has a positive effect on tax avoidance. The higher the inventory value, the higher is the level of tax avoidance carried out by the company. Inventory intensity in property and real estate companies with high inventory levels provides flexibility for time sales or revenue recognition, allowing delayed tax payments through the time difference between revenue and cost recognition.
4. Sales growth has no effect on tax avoidance. Sales growth reflects changes in an entity's sales or revenue, both increasing and decreasing. However, high sales growth is not always directly proportional to profit. This is because of the possibility of expenses or costs that also increase due to high sales, so that significant sales growth can produce low profits. Therefore, sales growth does not always have a significant influence on tax avoidance.

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