Volume 4 Nomor 2 2022 : page 103-114
p-ISSN: 2686-262X e-ISSN : 2685-9300
DOI : 10.24256

al-kharaj
Journal Of Islamic Economic And Business

Profitability and Company Size Have a Strong Influence on Tax Avoidance

Eltie Christi Sandag, Clara Neltje Meini Rotinsulu, Vira Tandiawan, Muhammad Rinaldi

Manado Archipelago University, [23]Tompotika University Luwuk Banggai, Mulawarman University

elite.sandag@gmail.com, clararotinsulu@gmail.com, vitatandiawan@gmail.com, muhammadrinaldi@feb.unmul.ac.id

Abstract

This study aims to determine the most dominant influence factor on tax evasion in manufacturing companies. The variables as indicators of this research are Return on Assets and company size. The research was conducted on 28 manufacturing companies from 2019 -2021 which are registered on the IDX, so a total of 84 companies The research method used statistical data processing, namely the determinant test and multiple linear regression. The results showed that the dominant influence on tax evasion was company size.

Keywords: Dominant Influence, Return on Assets, Company Size, Tax Avoidance

INTRODUCTION

Tax is one of the mandatory levies in the form of money that must be paid by the public/residents to the state... The existence of this tax will be used to finance state expenditures such as the development of the country. According to (Mardiasmo 2011) "Taxes are people's contributions to the state treasury which are based on law (which can be forced) and by not getting direct lead services (contra Achievements) to show and which are used to pay public expenses." According to (Anon 2007) law number 28 of 2007 "Taxes are mandatory contributions to the state owed by individuals or entities that have a coercive nature based on the law the funds obtained are used for the needs of the state and the prosperity of the people"Tax collection, service, and supervision are carried out by the Directorate General of Taxes.For this reason, obedience is needed in paying taxes carried out by taxpayers. If there is disobedience in paying taxes by individual taxpayers or a business entity or company, this is called tax evasion. Tax avoidance or the term is tax avoidance, if it is still in tax planning within the law. However, if tax evasion exceeds the limit or violates applicable laws and regulations, the activity can be classified as tax evasion. If this is done, a business entity or company wants to get a large profit or profit. This is a tax avoidance / tax

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avoidance. According to (Ienaco et al. 2016) tax avoidance is an effort made to reduce, or even eliminate debt taxes that must be paid by companies without violating existing laws. Meanwhile, according to (Suardana 2014) that tax avoidance (tax avoidance) is a technique or way to legally avoid taxes that do not violate tax regulations. Companies or business entities that do This tax avoidance is a company that wants the company's profits not to decrease. Tax avoidance carried out by a business entity or company is a unique and complicated thing, because it is wanted by the company but on the other hand it is not desired by the state.

The phenomenon of tax evasion cases in Indonesia in 2013 was that around 750 foreign investment companies (PMA) were affected by tax evasion and reported losses for 5 consecutive years and did not pay taxes (BAPENAS 2013). According to (kompas.com 2020) that the Tax Justice Network reports that as a result of tax evasion, Indonesia is estimated to experience losses of up to 4.78 billion USD or the equivalent of Rp. 67.6 trillion (exchange rate of Rp. 14,149), this is the fruit of tax avoidance from Indonesian corporations. This is because corporations pay more taxes less than they should be paid. This possibility is that multinational companies divert their profits to the state so that companies have a goal not to report the amount of profits earned in the country where they do business or do business. The remaining around US$78.83 million or equivalent to Rp. 1.1 trillion comes from individual tax. In the report the case of tax evasion in In Indonesia is ranked 4th in Asia, the highest rank was achieved by China, followed by India and Japan. According to (Barker, Asare, and Brickman 2017) that for tax avoidance in the US on multinational companies and will transfer income to jurisdictions with low or no taxes, and there will also be a new minimum tax on foreign goods. According to (National.kontan.co.id 2022) that next year the corporate income tax (PPh) rate will drop to 20%, from the previous year this year of 22%. This is done because the reduction in the corporate tax rate is one of the government's considerations in setting a tax revenue target for next year. According to (news.ddtc.co.id 2022) that in 2021 there will be two giant companies that are doing tax evasion, namely Pandora paper and Corporate Tax Statistics. This occurs because the strategy of shifting profits or profits to jurisdictions with lower tax rates is the main mode of the company.

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Given this phenomenon, the study was conducted to find out which of the two profitability variables by proxy Return On Assets and company size variables have a more dominant influence on tax evasion.

This research has novelty/originality in the more dominant influence between profitability and company size. This is done because profitability is a ratio that indicates the ability to gain profit or profit. If a company is able to earn profits, it is expected that the company will not do tax evasion. Companies that have a high level of profitability will pay more taxes than companies that get small profitability. This is supported by research conducted by (Tommy Kurniasih 2013) that profitability affects tax avoidance. The same results were also carried out by (Darmawan, i Gede Hendy 2014) that ROA has a positive effect onTax Avoidance. In contrast to the results of the study (Fauziah 2021) that profitability has a negative effect on tax evasion. This shows that profitable companies will practice tax evasion. According to (Yuniastuti 2019) ROA/Return On Assets describes the assets it owns. As for company size, that is a scale size that can classify companies into large and small companies according to various ways such as the company's total assets (Jasmine 2017). It means the higher or greater the total assets, the greater the size of the company, as well as an increase in the size of the company, it may increase tax evasion. It may also have the opportunity to minimize its taxes through a tax plan which has the potential for tax evasion (Rahayu et al. 2022).

The research conducted by (Putri and Putra n.d.) said that company size has a positive effect on tax evasion. If the size of the company is getting bigger, the cash effective tax rate of the company is also getting bigger, this means that it can indicate that the level of tax avoidance can be lower. Whereas research according to (Dewi and Noviari 2017) shows that company size has a negative effect on tax evasion. In contrast to the results of research from (Kristiana dewi 2014) that company size has no effect on tax evasion, this means that the government will pay attention to large companies related to the profits that obtained, therefore the company wants to attract the attention of the tax authorities to be taxed and according to the tax rules.

The government has a role in tax avoidance by increasing super tight supervision on large companies in carrying out their obligations to pay taxes, so as to

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reduce the practice of tax avoidance.

RESEARCH METHODS

Population and Sample

The population in this study are manufacturing companies listed on the IDX/Indonesia Stocks Exchange, during the 2019-2021 period which is the condition of the Covid-19 pandemic. The data is taken from the official website (InInw.idx.co.id n.d.). The sample in this study was to use a purposive sampling method.

Table 1. Sample Criteria

NO	Information	Amount
1.	Manufacturing companies listed on the IDX in 2019-2021 based on IDX provisions	193
2.	Companies that provide complete data relating to research from 2019-2021	84
	Number of samples	84

Data Collection Techniques

These are the methods used to obtain data that will be processed into a research result. This study uses documentation techniques. Techniques for collecting, studying, and analyzing company annual report data through www.idx.co.id., Indonesia Stock Exchange official website.

Analysis Tools

Test the Coefficient of Determination R^2

The coefficient of determination in linear regression is often interpreted as how much the ability of all independent variables explains the variance and the dependent variable. In simple terms the coefficient of determination by looking at R-Square (R2).

Multiple Regression Equations

$$Y = a + bX1 + bX2 + e$$

Information:

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Y : Tax Avoidance (ETR)

A : constant

X1 : Return On Assets (ROA)

X2 : Company Size (UP)

The data analysis method used in this study is a statistical analysis method. To determine the dominant influence between return on assets and company size on tax evasion, this study uses the R coefficient of determination test^2.

Profitability illustrates that the company's ability to earn profits through existing capabilities and sources such as sales, cash, capital, and other asset management (Harahap 2011). Profitability can be defined as a description of the company's financial performance in generating company profits from asset management (Prihadi, 2020) . Measuring profitability in this study uses a profitability ratio called Return on Assets (ROA).

Return on Assets=(Net Sales)/ (Total Asset@)

According to Riyanto (2013), company size is the size of the company seen from the amount of equity value, sales value, or asset value. Company size is size, scale, or variable that describes company size based on several provisions, such as total assets, log size, value markets, stocks, total sales, total income, total capital, and others. The formula for Company Size is as follows:

Company Size = Ln Total Assets

Tax avoidance is a condition in which a company adopts a policy regarding certain taxes, especially those that are considered legal according to tax law or such action will be risky. If it is at risk, then of course it violates the law. In general, company owners have a tendency to choose to act aggressively in tax avoidance. (Jacobs 2014). If the tax burden will be burdensome to the company and the owner of the company, there will be efforts to avoid taxes (chen.s 2010). The tax avoidance formula (ETR) is as follows:

ETR=(Tax Expense (Rp))/(Profit Before Tax (Rp))

Hypothesis

Return On Assets (ROA) is a measurement of the profit or net income obtained from financing assets or assets. ROA is also used to assess how much the rate of return on assets owned by the company. According to (Yuniastuti 2016) that ROA shows the

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wealth of the company which can also be assessed from financial performance. According to (rina milyati yuniastuti 2018)A positive ROA indicates that the total assets used for the company's operations are able to provide profit for the company. On the other hand, a negative ROA indicates that the total assets used do not provide profit or profit.Positive ROA means that the assets used by the company are able to provide benefits or profit.According to (Jacob 2014) that companies will be able to minimize payments by carefully exploiting loopholes in tax provisions.If a negative ROA is obtained, it means that the company is losing money and this shows that the company will not do tax evasion because it is able to manage income and also pay taxes. The results of research conducted by (Tommy Kurniasih 2013) state that ROA affects tax evasion, this statement is the same as the results of research from (Jasmine 2017).

H 1 : ROA influences and dominates tax avoidance in companies. Firm size (UP) is a company's ability and also shows stability in the economy. A company that has a larger company size is to be able to do tax evasion. Research conducted by (Handayani 2018) and (Fauziah 2021) that company size has a positive effect on tax evasion. Companies do tax evasion if the relatively large tax payments are known if the size of the company is getting bigger. Both large companies and small companies must have an obligation to pay taxes. This is because by paying taxes the state will use it to finance state expenditures so that economic activities run smoothly .

H2: Company size has an influence and is dominant on tax avoidance in companies.

RESULTS AND DISCUSSION

Results

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std.Deviation
ROA	84	.014	6.640	1.13327	1.008597
UP	84	7.685	22.912	1.9383E1	3.209448
ETR	84	.016	4.804	.65994	.848950
Valid N listwise)	84				

Table 2 above shows eighty four data for each variable (N). The ETR variable (Y) with eighty-four data as a sample reaches a minimum value 0.016 and the maximum value is 4.804. Over the period 2019-2021, the average value is 0.65994, and the standard

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deviation is 0.848950. The mean value that is smaller than the standard value indicates that there is a divergence, so that the spread of the data shows abnormal results and creates bias.

ROA variable (X 1) with a sample of eighty four data reaches a minimum value 0.014 and the maximum value is 6.640. During the 2019-2021 period the mean value is 1.13327, and standard deviation of 1.008597. The mean value that is higher than the standard value indicates that the data deviation is low and the data distribution is even.

The UP variable (X 2) with a sample of eighty-four data reaches a minimum value of 7,685 and a maximum value of 22,912. Over the period 2019-2021, the average value is 1.9383E1 , and the standard deviation is 3.209448. The mean value that is lower than the standard value indicates that the data deviation is high and the data distribution is uneven.

Determinant Coefficient Test Results R^2

Table 3. Determinant Coefficient Test

Model	Var.Independent	R	R Square	Adjusted RSquare	Std.Error of the Estimate
1	ROA	.040	.002	-.011	.853443
2	UP	.111	.012	.000	.848873

The results of the calculation of the coefficient of determination test R2 Table 3 shows that the first model yields an R-Square of 0.040 which will be converted into a percentage of 4%, which means that the Return on Assets (ROA) has an effect on ETR while the rest is influenced by other factors not examined. Determinant coefficient test R2 the second model obtained an R-Square of 0.111 which will be converted into a percentage of 11.1%, which means that company size (UP) has an influence on ETR while the rest is influenced by other factors not examined. Of the two ROA and company size variables, the biggest dominant influence is company size on tax avoidance. The dominant influence value on ROA is 4% lower than the Firm Size value of 11.1%. ROA has an influence on tax evasion. This research is supported by (Darmawan, Gede Hendy 2014), (Pitaloka and Aryani Merkusiawati 2019), (Handayani 2018), and (Maulani, Norisanti, and Sunarya 2021).

According to (Annisa, A., Taufik, T., & Hanif 2017), ROA is low because tax

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payments are made by companies. Firm size has the most dominant influence on tax evasion. That the larger the company size, the greater the tax avoidance activity. because companies that have large wealth or assets have a tendency to minimize the need for taxes (Annisa, A., Taufik, T., & Hanif 2017) And also large companies certainly have large resources and can influence the political process in wanting or have the advantage of being able to do tax evasion in order to save on taxes (darmawan, gede hendy 2014). This policy should have the role of the company board and also the auditor in tax planning (Iazzi et al. 2022).

The influence of company size on tax avoidance is supported by research from (Handayani 2018), (Rahayu et al. 2022), (Irawan and Turwanto 2020) and (Alfina, Nurlaela, and Wijayanti 2018).

Multiple Linear Regression

Tabel 4. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.191	.582		2.048	.044
	ROA (X1)	.035	.093	.041	.073	.010
	UK (X2)	-.029	.029	-.111	-0.007	.017

ModelAnalysis of table 4 above produces a multiple linear regression equation from the study as follows:

$$\mathbf{Y = 1.191 + 0.035X_1 - 0{,}029\ X_2 + and}$$

The regression equation above can be explained as follows:

1) The constant has a positive value of 1,191, meaning that if the two variables are constant or zero then the value of Tax Avoidance is 1,191.
2) The regression coefficient of Return on Assets is 0.035, which means that if the Return on Assets variable increases by one unit, Tax Avoidance will be nailed by 0.035 units, assuming the other independent variables remain the same.

CONCLUSION

From the results and discussion, it can be concluded that of the two research

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variables in manufacturing companies, namely Return on Assets (ROA) and company size, the firm size has the most dominant influence.

Suggestion

For companies trying not to do tax evasion, an election is made in a plan on the advantages of paying taxes. Companies should maximize the results of the resources owned by the company in order to have a profit so that they are expected to be able to manage the tax burden properly.

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