

FACTORS AFFECTING *TAX AVOIDANCE* AT FOOD AND BEVERAGE COMPANIES

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Abstract

The purpose of this research to examine the factors that influencing Tax Avoidance. Those factors are Profitability, Leverage and Sales Growth to Tax Avoidance. The population of this research consists of food and beverage subsector manufacturing companies listed in Indonesia Stock Exchange from 2020 to 2022. Samples are obtained through purposive sampling method, in which only 33 food and beverage companies meet all sampling criteria resulting 92 data available are taken as the samples. This research used multiple regression method to test the effect of each variable in influencing tax avoidance. The research data was analyzed using SmartPLS Version 3 software. The result of this research indicates that profitability have influence to tax avoidance, while leverage and sales growth have no influence to tax avoidance.

Keywords: Tax Avoidance, Profitability, Leverage, Sales Growth.

Introduction

The three types of state revenue in forming the Indonesian state budget are grants, non-tax state revenues, and tax revenues (Rusdi, 2021). The tax sector in Indonesia has a very strong influence on state revenue. This is evidenced in the achievement of the State Budget every year, namely from 2020 to 2022 which had decreased and then stabilized again. State revenues will be used for infrastructure development, funding government projects, and other things that have an impact on Indonesian society itself. The Covid-19 pandemic that lasted from the beginning of 2020 has caused contraction in both the global and domestic economies, resulting in declining tax revenues, especially revenues related to the business world and international trade activities. In 2021, the government's hard work efforts had an impact on economic performance which gradually recovered, this was reflected in the increasing trend of taxation. The trend of increasing taxes continues in 2022 with tax revenues of IDR 1,716.8 trillion. Economic performance in 2022 was supported by the successful handling of Covid-19, the recovery of public consumption, investment, and international trade. Companies contribute significantly to tax sector revenue practices. However, as a taxpayer, the purpose of the company is contrary to the government's goal which is to increase tax revenue. Various kinds of strategies carried out by companies to save their tax liabilities, one of which is tax management or tax avoidance. The company's ability

to conduct tax avoidance depends on a number of factors namely profitability, leverage, and sales growth which will be used as independent variables in this study.

Agency theory is closely related to tax avoidance practices, because it describes the relationship between stakeholders and company management, in which both parties work together to achieve company goals or profits. Stakeholders or shareholders are also referred to as principals, while company management in agency theory is referred to as agents. The principal has the power to authorize the agent to carry out duties as management who manages and realizes the company's activities and runs as desired by the principal. The relationship between principal and agent is written in an agreement or cooperation contract and is referred to as an agency relationship, where the agent performs certain tasks for the principal which in principle is to provide the maximum benefit to the principal, so that the agent try their best to fulfill their duties. Differences that often arise between principals and agents can affect various aspects of a company's performance, including company policies in terms of taxes. Because there are conflicting interests and the Indonesian tax system that places responsibility for taxpayers in calculating and reporting their taxes, this has led to tax reduction efforts, namely by tax planning with tax avoidance strategies (Tebiono & Sukadana, 2019).

Relationship Between Variables

Profitability to Tax Avoidance. Profitability has a relationship with the increase in profits of a company and the value of profits is also related to the tax burden of a company, so the level of profitability can increase the company's tax burden (Muslim & Junaidi, 2020). Companies with significant profitability can set up tax planning to lower their tax burden (Putra & Kurnia, 2019). (Satria & Lunardi, 2023) stated that if a company generates high profits or profits, shareholders will tend to prefer to invest in the company. Companies that generate profits stably and are supported by shareholders state that the company's prospects are good and less likely to carry out tax avoidance (Ramdhanian & Kinasih, 2021).

Leverage against Tax Avoidance. The amount of funding that the company uses from third-party debt increases with the leverage ratio (Irwansyah et al., 2020). This leads to long-term debt or leverage on the company that can lead to fixed costs, such as interest to be paid. (Tanjaya & Nazir, 2021) stated that the higher the leverage ratio, the higher the debt owned by a company. The company's debt burden is large, resulting in an increase in interest costs. This is because interest expense is a deductible expense and has the potential to cause the company's taxable profit to decrease (Kurniawan et al., 2021). The less tax a company has to pay, the lower its taxable profit. Agency theory states that sometimes companies take action to improve their performance (Wahyuningsih, 2020). As a result, companies can try to do tax avoidance by using debt as funding.

Sales Growth on Tax Avoidance. In agency theory, an agent will manage the tax burden of a company, because sales growth can increase company profits so that it incurs higher tax liabilities as well (Fionasari, 2020). Companies make more money if sales increase and generate high profits so that they are in line with the level of tax burden that will be borne. A large sales volume from a company will provide an opportunity to generate profits so that

the company has the ability to pay taxes and does not need to do tax avoidance (Hidayat, 2018).

Hypothesis Development

Profitability will be one of the benchmarks for companies in conducting tax avoidance. Companies that are able to earn profits are assumed to be able to manage their income and tax liabilities to prevent tax avoidance.

Leverage will be one of the benchmarks for companies in conducting tax avoidance. Companies can use the interest earned through debt so that the tax paid is reduced because the interest derived from debt can reduce taxes so that it can be assumed that the higher the use of debt, the lower the tax burden borne by the company.

Sales Growth represents the success of a company in investing and becomes a benchmark for companies in conducting tax avoidance. Tax avoidance is negatively affected by sales growth, where companies that increase their sales and operate efficiently will generate significant profits and do not need to do tax avoidance. The higher the company's sales growth, the lower the company conducts tax avoidance.

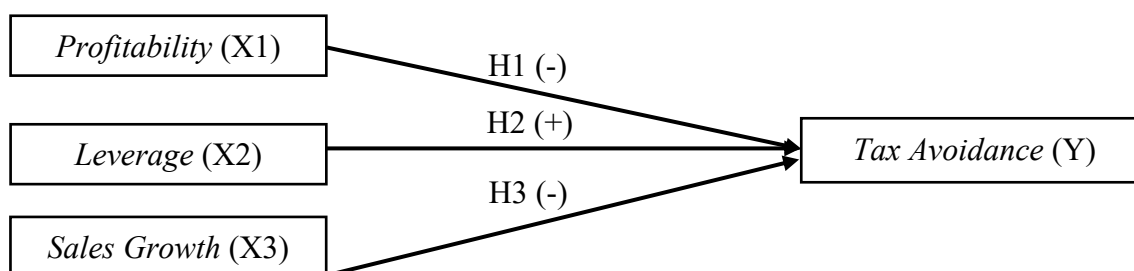


Figure 1. Hypothesis Framework

The hypothesis of the research model is formulated as follows:

H1 : Profitability has a significant negative effect on Tax Avoidance.

H2 : Leverage has a significant positive effect on Tax Avoidance.

H3 : Sales Growth has a significant negative effect on Tax Avoidance.

Research Methods

The research design used is causality with quantitative data. Purposive sampling This is the method used in the sampling process and the following criteria must be met: (a) Food and beverage companies listed on the IDX in the period 2020-2022, (b) Food and beverage companies that publish annual financial statements consistently to the IDX and end on December 31, (c) Food and beverage companies that use rupiah currency in issuing company financial statements, (d) Food and beverage companies that earn net profit on financial statements during the 2020-2022 period, (e) Food and beverage companies with ETR values of >0 and <1. The dependent variables used are: Tax avoidance and the independent variable is profitability, leverage, and Sales Growth. The amount of data that meets the criteria is as high as 92 Company samples or data ranging from 2020 to 2022.

Table 1. Summary of Variable Operationalization

No.	Variable	Size	Scale
Independent			
1.	Profitability	$ROA = \frac{Net\ Income}{Total\ Assets}$	Ratio
2.	Leverage	$DER = \frac{Total\ Debt}{Total\ Equity}$	Ratio
3.	Sales Growth	$Sales\ Growth = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$	Ratio
Dependent			
4.	Tax Avoidance	$ETR = \frac{Tax\ Expense}{Pretax\ Income}$	Ratio

Source: Data Processing Results, 2023

Results and Discussion

Descriptive Statistical Test

Table 2. Descriptive Statistical Results

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	92	0,022	0,707	0,242	0,093
ROA	92	0,002	0,228	0,084	0,054
DER	92	0,109	2,904	0,807	0,580
GROWTH	92	-0,557	1,188	0,116	0,230

Source: SmartPLS Data Processing Results, 2023

Based on the results of descriptive statistical tests, conclusions can be drawn, namely, Tax Avoidance received a minimum value of 0.022 obtained by PT Mayora Indah Tbk. for the period of 2020 and a maximum value of 0.707 obtained by PT Pratama Abadi Nusa Industri Tbk. for the period of 2020. Average rating Tax avoidance between 2020-2022 is 0.242 with a standard deviation of 0.093. Profitability received a minimum value of 0.002 obtained by PT Pratama Abadi Nusa Industri Tbk. for the period of 2020 and a maximum value of 0.228 obtained by PT Multi Bintang Indonesia Tbk. for the period of 2021. Average rating profitability between year 2020-2022 is 0.084 with a standard deviation of 0.054. Leverage received a minimum score of 0.109 obtained by PT Wilmar Cahaya Indonesia Tbk. for the period of 2022 and a maximum value of 2.904 obtained by PT Pratama Abadi Nusa Industri Tbk. for the period of 2021. Average rating Leverage between 2020-2022 is 0.807 with a standard deviation of 0.580. Sales Growth got a minimum value of -0.557 obtained by PT Morenzo Abadi Perkasa Tbk. for the period of 2022 and a maximum value of 1.188 obtained by PT. Morenzo Abadi Perkasa Tbk. for the period of 2022. Average rating Sales Growth between 2020-2022 is 0.116 with a standard deviation of 0.230.

Test Outer Model

Convergent Validity

Outer loading is used to assess the quality of measurement indicators. The following is the result of Convergent Validity through Outer Loading.

Table 3. Convergent Validity Results

	Leverage	Profitability	Sales Growth	Tax Avoidance	Information
DER	1,000				Valid
ETR				1,000	Valid
GROWTH			1,000		Valid
ROA		1,000			Valid

Source: SmartPLS Data Processing Results, 2023

Based on Table 3, it can be seen that the payload value (Loading) and test results convergent validity for variables profitability, leverage, sales growth and Tax avoidance has met the requirement of more than 0.7 and can be concluded that all indicators have been valid.

Discriminant Validity

If the loading value of other latent factors is higher, then the measurement variable has high cross-loading and can reduce the validity and reliability of the model.

Table 4. Cross Loading Results

Indicators	Leverage	Profitability	Sales Growth	Tax Avoidance	INFORMATION
DER	1,000	-0,414	0,207	0,212	Valid
ROA	-0,414	1,000	0,096	-0,435	Valid
GROWTH	0,207	0,096	1,000	-0,144	Valid
ETR	0,212	-0,435	-0,144	1,000	Valid

Source: SmartPLS Data Processing Results, 2023

From the results of Table 4, it can be concluded that the indicator has a higher correlation compared to other indicators, in other words all discriminant validity tests state that the indicator is valid. Furthermore, the test can be carried out Fornell-Larcker Criterion which is used to evaluate discriminant validity by estimating how far a construct can be distinguished from other constructs in the model.

Table 5 Fornell-Larcker Criterion Results

	Leverage	Profitability	Sales Growth	Tax Avoidance
Leverage	1,000			
Profitability	-0,414	1,000		
Sales Growth	0,207	0,096	1,000	
Tax Avoidance	0,212	-0,435	-0,144	1,000

Source: SmartPLS Data Processing Results, 2023

Based on Table 5, it can be seen that the test results discriminant validity Fornell-Larcker Criterion for variables profitability, leverage, sales growth and tax avoidance, It is known that all variables have the highest value in each column, so it can be stated valid. Next, the Test is carried out Hetertrait-Monotrait Ratio (HTMT)

Table 6. Hetertrait-Monotrait Ratio Results

	Leverage	Profitability	Sales Growth	Tax Avoidance
Leverage				
Profitability	0,414			
Sales Growth	0,207	0,096		
Tax Avoidance	0,212	0,435	0,144	

Source: SmartPLS Data Processing Results, 2023

Based on Table 4.6, it can be seen that the results of the Heterotrait-Monotrait Ratio test for the variables profitability, leverage, sales growth and tax avoidance have a Heterotrait-Monotrait Ratio value below 0.90 which shows the validity of a good discrimination and can be declared valid. Another way to see the validity of discriminants is through the value of the average Variance Extracted.

Table 7. Results of Average Variance Extracted

	Average Variance Extracted	INFORMATION
Leverage	1,000	Valid
Profitability	1,000	Valid
Sales Growth	1,000	Valid
Tax Avoidance	1,000	Valid

Source: SmartPLS Data Processing Results, 2023

From Table 7, it is known the test results discriminant validity AVE for variables profitability, leverage, sales growth and tax avoidance, It can be concluded that all variables have a value above 0.50, then it can be stated valid.

Reliability Test – Composite Reliability & Cronbach's Alpha

Table 8. Composite Reliability & Cronbach Alpha Results

Variable	Composite Reliability	Cronbach Alpha
Leverage	1,000	1,000
Profitability	1,000	1,000
Sales Growth	1,000	1,000
Tax Avoidance	1,000	1,000

Source: SmartPLS Data Processing Results, 2023

From the table above indicates that the composite reliability value is above 0.7 and the cronbach alpha value is above 0.6. So it can be concluded that the data used is consistent and has good reliability.

Inner Model Test

After the model has met the discriminant validity criteria, then testing is carried out on the structural model (inner model) by taking into account the coefficient of determination (R²) and path coefficient.

Coefficient of Determination

Table 9. Test Results of Coefficient of Determination

	R Square	R Square Adjusted
Tax Avoidance	0,204	0,177

Source: SmartPLS Data Processing Results, 2023

Based on the table above, it indicates that the analysis of the correlation coefficient (R) of 0.204 is lower than 0.5, so the conclusion of the relationship between independent variables can be drawn profitability, leverage and Sales Growth with dependent variables Tax avoidance has a weak relationship. While R Square Adjusted Dependent variable Tax avoidance (ETR) is described by an independent variable profitability, leverage and Sales Growth 17.7% and the remaining 82.3% were explained by other variables not included in the study.

F-Square

Table 10. F-Square Results

	Leverage	Profitability	Sales Growth	Tax Avoidance
Leverage				0,003
Profitability				0,149
Sales Growth				0,082
Tax Avoidance				

Source: SmartPLS Data Processing Results, 2023

Based on Table 10 can be seen Leverage has value F-Square less than 0.02, so the influence Leverage towards Tax Avoidance including small, while the capability construct Profitability and Sales Growth has value F-Square more than 0.02 and less than 0.15 so that both constructs have a moderate influence on Tax Avoidance.

Path Coefficients

Path coefficients are used to determine the significance and strength of relationships between variables and test related hypotheses.

Table 11. Path Coefficients Results

Variable	Tax Avoidance
Leverage	0,074
Profitability	-0,392
Sales Growth	-0,122

Source: SmartPLS Data Processing Results, 2023

From the table above, it can be concluded that profitability, leverage and Sales Growth does not have much influence on tax avoidance. Based on the attached data, it can also be concluded that Leverage positive effect on tax avoidance, while profitability and Sales Growth negatively affect Tax avoidance.

Multicollinearity Test

Before testing the hypothesis, it is necessary to test to determine the existence of multicollinear between variables or not through the statistical measure of inner VIF. Below is a table of the results of Inner VIF Values.

Table 12. Results of Inner VIF Values

	Leverage	Profitability	Sales Growth	Tax Avoidance
Leverage				1,303
Profitability				1,259
Sales Growth				1,090
Tax Avoidance				

Source: SmartPLS Data Processing Results, 2023

Based on the VIF values in Table 12, it can be seen that all VIF values < 5 can be concluded if the data is not high multicollinear.

Discussion

Based on the test results, a conclusion can be drawn that profitability has a significant negative influence on tax avoidance. Because profitable companies can manage their income and tax liabilities efficiently so that they do not engage in tax avoidance. Leverage does not have a significant effect on tax avoidance. Increasing the leverage ratio, will increase the amount of money the company uses from third-party debt and interest costs related to the debt which will have the effect of decreasing a company's tax burden and not make the company finance with large debts. Sales growth does not have a significant effect on tax avoidance (Maryanti & Biduri, 2022). A company with a high rate of increase in sales does not necessarily obtain high profits. This may occur due to increased expenses or costs due to increased sales so that high sales growth can result in low profits. So that high and low sales growth does not have a significant effect on tax avoidance.

Conclusion

There are several limitations that need development and must be considered, namely: (a) This study only uses three independent variables while there are still other variables that may affect tax avoidance and are not used, (b) This study has a small adjusted R Square value (18%), which there are other variables that may explain more about the dependent variable in this study, (c) This research was conducted in a limited period, namely for the period 2020-2022, (d) This research only uses companies engaged in food and beverages. Based on the limitations they have, there are recommendations that can be suggested, namely (a) Researchers are then expected to be able to transform data such as increasing research years, (b) Researchers are then expected to increase the number of other independent variables to examine the effect of variables on tax avoidance, (c) Researchers are then

expected to add independent variables that have an influence on tax avoidance, (d) Researchers are then expected to use a longer research period so that the results of the study can represent the generalized population.

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