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Profitability, Firm Size And Tax Avoidance

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Abstract
Tax is a source of income for the state. To prove empirically the relationship between profitability, the moderating role of firm size on tax avoidance is the goal of this study. We use 196 observational data from financial sector companies in Indonesia. Observational data was obtained from 2019 to 2021. The selection of samples was in accordance with established criteria in order to obtain selective results. WarpPLS version 7.0 is used as a data analysis tool. The research findings show that profitability has an effect on tax avoidance, besides that firm size has a role in strengthening the relationship between profitability and tax avoidance. The implication of this research is the importance of tax planning for companies.

Keyword : profitability, firm size, tax avoidance.

INTRODUCTION

One source of Indonesian state revenue is obtained from taxes. Therefore, the state obliges and forces every resident in Indonesia to fulfill their obligations by paying taxes in accordance with applicable regulations. The performance of tax revenues in the country can be measured one of them by using the tax ratio. This tax ratio will have a positive impact on the economy in Indonesia. In the last five years, the development of the tax ratio in Indonesia has fluctuated, it can be seen that the tax ratio in 2017 was 9.89%. In 2018 the tax ratio increased to 10.24%. However, in 2019 and 2020 it decreased to 9.77% and 8.33%. Meanwhile in 2021 it will increase to 9.11% (Dihni, 2022).

Even though the expectation of the Indonesian government is that the tax ratio always increases every year. So that the Indonesian government is increasingly forcing its population to contribute to paying taxes. However, this has become a boomerang for Indonesian residents because of the many types of taxes that exist in Indonesia and must be paid. For this reason, taxpayers try to avoid paying taxes. There are several strategies undertaken by taxpayers, one of which is known as tax avoidance.

Tax avoidance as tax planning is carried out by utilizing loopholes in tax laws and regulations, in order to cut or divert the tax payable while still complying with tax laws and regulations in Indonesia (Lathifa, 2019). Tax avoidance basically means legal and does not violate tax provisions, but the amount of state tax revenue that will affect it. Tax avoidance is a number of tax payments that are charged to taxpayers less than they should be by interpreting existing law, payment of contributions is made by taxpayers by seeking payment of tax owed which is imposed from profits that have been designed, but not from profits earned and delaying payments the debt is made by taxpayers intentionally so that tax avoidance is in the gray area or unclear tax regulations that are between tax compliance and tax evasion (Lathifa, 2019).

There are many factors that influence tax avoidance. One such factor is profitability. The profitability ratio is the ratio that explains the condition of the company how effective it is in managing and receiving profits (Muniroh,

2022). When the company's profitability is high, the company tends to do tax avoidance. This is consistent with the findings from (Marsahala et al., 2020) and (Lanis & Richardson, 2012) which explain that profitability affects tax avoidance. However, these findings are different from the findings (Sunarto et al., 2021), (Faradisty et al., 2019), and (Alfina et al., 2018) which state that tax avoidance is not affected by profitability.

Another factor is firm size. Firm size is a measure that classifies the company into which group it can be seen from the total assets owned by the company. Large companies have a tendency to be able to generate stable profits, the ability to earn more stable profits tends to be owned by large companies compared to small companies. Large companies also tend to have good resources in managing their taxes. Large and stable profits coupled with the resources they have will tend to companies to avoid taxes. If the firm size is getting bigger, it will further strengthen the relationship between profitability and tax avoidance. This statement is in accordance with the findings (Putra & Jati, 2018) which states that firm size weakens the effect of profitability on tax avoidance.

The variety of previous research findings and phenomena that occur are the reasons why this research is interesting to be tested again. So the research question is whether profitability affects tax avoidance? and does firm size strengthen the relationship between profitability and tax avoidance?

LITERATURE REVIEW

Agency Theory

Agency theory is a theory that discusses the problems that occur between the relationship of one party (principal) who delegates work to another party (agent). Agency problems will usually occur when differences in interests arise between the principal and agent (Jensen & Meckling, 1976). The perspective of agency theory sees the cause of the emergence of potential conflicts that can affect the quality of financial statement information due to the separation between principals and agents. Information between the agent and the principal must be aligned, otherwise there will be information asymmetry. Information asymmetry will lead to conflicts of interest. In the conflict of interest agency theory it is assumed that all individuals involved act in accordance with their respective interests.

Differences that often occur between principals and agents can affect various matters relating to company performance, one of which is company policy in tax matters. The relationship between agency theory and tax avoidance is because most taxpayers, and especially corporate taxpayers, perceive paying taxes as a burden because financial resources that must be used for quality improvement or investment must be transferred from the business sector to the public sector, thereby reducing purchasing power. . The result is the emergence of a conflict of interest. Therefore, managers who are responsible for paying corporate taxes, ultimately commit to lower costs, including paying taxes, to optimize benefits. This is in line with human nature according to agency theory, which proposes that most people are born with selfish tendencies. In accordance with agency theory according to (Jensen & Meckling, 1976), managers are responsible for managing shareholder assets in all conditions, including uncertain conditions in the business environment. Therefore, managers are needed and expected to maximize the assets and utilities owned by the company in order to survive in these conditions. Based on agency theory, any highly uncertain environment will encourage managers to consider tax planning to manage taxes, namely through tax avoidance (Arieftiara et al., 2019). This is an example of profitability which can be seen how much profit the company has and as a tax object. The amount of profit owned by the company will affect future decisions. If the profit owned increases, the company will try to minimize profits in order to avoid taxes.

Tax Avoidance

Tax evasion is a term used to describe legal regulations related to fair and appropriate taxation so as to reduce the tax base or liability that is borne. This tax evasion is usually carried out with the aim of taking advantage of opportunities, ambiguities, or anomalies contained in tax law. Tax avoidance is a method used by taxpayers to reduce tax payments. Tax Avoidance is carried out in a way that does not contradict and does not violate applicable rules and regulations. Differences in interests have an impact on companies doing tax evasion. The higher the level of awareness that the taxpayer has in running his business, the higher the level of awareness of compliance. For multinational companies, tax avoidance efforts can be made by transferring a portion of subsidiary profits to companies operating in countries that prefer lower rates. The ratio for measuring tax evasion is to measure the difference between accounting profit and taxable profit, namely accounting profit - taxable profit divided by total assets. Efforts are made, namely by accelerating depreciation so that the depreciation value obtained will be greater, this is a concrete effort made on tax avoidance. Tax avoidance is included as a strategy in tax planning. Tax planning needs to be carried out by corporate and corporate taxpayers in order to be able to manage their tax management thereby increasing performance efficiency, with proper management causing the tax burden to be reduced.

Profitability

The purpose of profitability is to see the company's ability to generate profits in a certain period and how the effectiveness of management is when operating activities. In this study profitability is proxied by return on assets (ROA). ROA is a ratio that shows the return on the total assets used in the company. When the profitability ratios are high and tend to be stable supported by good financial management, then one of the financial management efforts in maintaining high profits requires tax planning. Companies that have a high profitability value have the opportunity to position themselves in tax planning that aims to minimize the burden of tax payable (Chen et al., 2010). When the profitability of a company is high, the tax burden that must be paid will also increase, so the company tends to do tax avoidance. If the profit owned increases, the company will try to minimize profits in order to avoid taxes. This is in accordance with agency theory which explains the difference in interests between the principal and the agent (Jensen & Meckling, 1976). This explanation is consistent with research findings (Marsahala et al., 2020) and (Lanis & Richardson, 2012) which state that profitability has an effect on tax avoidance. Through the description above, the hypothesis can be stated as follows:

H1: profitability affects tax avoidance

Firm Size

Firm size is a scale that can classify companies into large and small companies according to various ways such as total assets and sales levels. Companies that are included in the large company group will be more able to generate profits and be stable compared to small companies. The high profit earned will cause the tax liability borne by the company to be greater so that there is a tendency for companies to practice tax avoidance. In addition, companies that are included in the large group also tend to have good resources to manage their tax burden. Small-scale companies tend to have inadequate human resources to take advantage of tax weaknesses in order to avoid high income tax obligations that will be borne by the company (Nicodème, 2007). companies are increasingly increasing to do. This is in accordance with agency theory which explains the difference in interests between the principal and the agent (Jensen & Meckling, 1976). This explanation is in accordance with research findings (Putra & Jati, 2018) which states firm size moderates the effect of profitability on tax avoidance. Through the explanation above, the following hypotheses can be sparked:

H2: firm size moderates the effect of profitability on tax avoidance.

METHOD

The population in this study are companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021, while the sample is companies in the financial sector that meet the set criteria. The criteria set are financial sector companies listed on IDX for the 2019-2021 period, the company does not experience losses, the company always pays taxes, the company always has net fixed assets. The analysis tool used to find these findings is WarpPLS version 7.0.

Measurement of tax avoidance (ETR) by using the ratio between tax payments compared to profit before tax. To measure profitability, it is proxied by using ROA, namely by using the ratio between net profit after tax compared to the total assets owned by the company. Measurement of firm size using the natural logarithm of the total assets owned by the company in a specified period.

RESULT AND DISCUSSION

Table 1 presents the amount of data used in this study. Based on the data, it can be seen that there are 310 data of financial companies registered on IDX in 2019-2021. However, after selecting the sample in order to obtain representative data, the total sample used was 196 observational data.

Table 1. Sample Selection

Num.	Annotation	Amount
1.	Financials companies listed on IDX for the 2019-2021 period	310
2.	Financials companies listed on IDX for the 2019-2021 period that experienced losses (ROA)	(68)
3.	Financials companies listed on IDX for the 2019-2021 period that experienced losses (CETR)	(1)
4.	Financials companies listed on IDX for the 2019-2021 period that do not pay taxes (CETR)	(39)
5.	Financials companies listed on IDX for the 2019-2021 period that do not have net fixed assets (CAP)	(6)
Number of Samples		196

Source: processed secondary data, 2022

Data processing using the WarpPLS version 7.0 analysis tool presents the following data:

Table 2 Fit Model and Quality Indices

Num.	Model fit and quality indices	Fit Criteria	Result	Annotation
1	Average path coefficient (APC)	$p < 0.05$	0.240 ($P<0.001$)	Accepted
2	Average R-squared (ARS)	$p < 0.05$	0.062 ($P=0.077$)	Rejected
3	Average adjusted R-squared (AARS)	$p < 0.05$	0.055 ($P=0.091$)	Rejected
4	Average block VIF (AVIF)	acceptable if <= 5, ideally <= 3.3	1.087	Ideally
5	Average full collinearity VIF (AFVIF)	acceptable if <= 5, ideally <= 3.3	3.728	Accepted

6	Tenenhaus GoF (GoF)	small >= 0.1, medium >= 0.25, large >= 0.36	0.249	Small

Source: processed secondary data, 2022

Based on table 2, the Average Path Coefficient (APC) with fit criteria <0.05 and the results obtained are 0.240, it is said that these results are accepted because they meet the established fit criteria. The Average R-squared (ARS) value is 0.062 with a P value = 0.077, it means that the result is rejected. Likewise with the Average Adjusted R-squared (AARS) with the criterion p <0.05 with a result of 0.055, this result is said to be rejected. The Average block VIF (AVIF) value with fit criteria will be accepted if <= 5 and if <= 3.3 then ideally, research findings show a value of 1,087 which means that the result is ideal. For Average full collinearity (AFVIF) with the fit criterion it will be accepted if <= 5 and if <= 3.3 then ideally the result obtained is 3,728 declared as accepted. The Tenenhaus GoF (GoF) value with fit criteria is stated to be small >= 0.1, medium >= 0.25, large >= 0.36 and the results obtained for this model are 0.249 which means that this model is included in small.

Research findings based on the results of data processing can be seen in Figure 1 below:

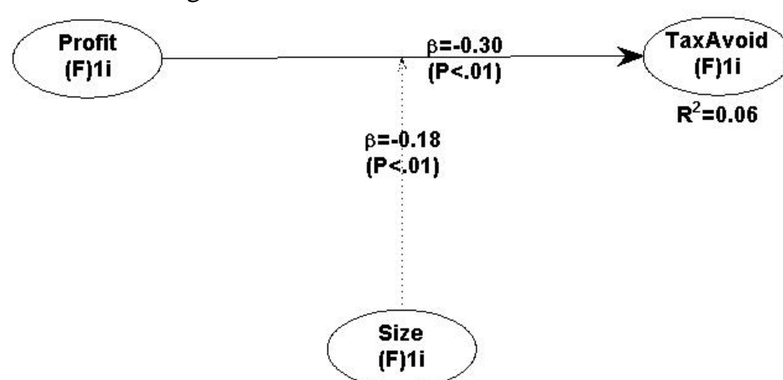

Figure 1. Research Result
Source: processed secondary data, 2022

The Effect of Profitability on Tax Avoidance

The p value of the profitability variable is <0.01 or less than 0.05, which means that the variable is significant. This means that the first hypothesis is accepted which states that profitability affects tax avoidance. When the ratio of profitability in the company is getting bigger, it shows that the asset management is effective to generate more optimal profits. When the profitability ratio is high, the mandatory contribution borne by the company will be even higher. The high contribution burden imposed will cause a company to take tax avoidance actions, namely by transferring the burden. This is in accordance with (Chen et al., 2010) which states that companies that have a high profitability value have the opportunity to position themselves in tax planning which aims to minimize the tax burden payable. In addition, this is also in line with agency theory which explains the difference in interests between the principal and the agent (Jensen & Meckling, 1976). The findings of this study are in line with (Marsahala et al., 2020) and (Lanis & Richardson, 2012) which state that tax avoidance is affected by profitability. However, this is not in line with (Sunarto et al., 2021), (Faradisty et al., 2019), and (Alfina et al., 2018) which state otherwise, tax avoidance is not affected by the profitability generated by the company.

Firm Size Moderates the Effect of Profitability on Tax Avoidance

The p value of the firm size variable is <0.01 or less than 0.05, which means that the variable is significant. The second hypothesis is stated to be accepted, firm size moderates the effect of profitability on tax avoidance. The larger the firm size, the greater the profits and the more stable the company's condition, so that the obligatory contributions that are borne will be greater, in the end the company tends to be more tax avoidance. In other words, companies will increasingly take advantage of existing loopholes. In addition, companies that are included in the large group also tend to have good resources to manage their tax burden. Small-scale companies tend to have inadequate human resources to take advantage of tax weaknesses in order to avoid the high income tax obligations that will be borne by the company (Nicodème, 2007). This is in accordance with agency theory which explains the difference in interests between the principal and the agent (Jensen & Meckling, 1976). This explanation is in accordance with research findings (Putra & Jati, 2018) which states firm size moderates the effect of profitability on tax avoidance.

CONCLUSION

The conclusion obtained from this study is that profitability has an effect on tax avoidance. In addition, firm size plays a role in moderating the effect of profitability on tax avoidance. The implication of this study is that the application of tax planning in financial companies must be carried out optimally and in accordance with tax law regulations in order to reduce the level of tax avoidance and avoid mistakes going forward. Tax avoidance actions are carried out by companies in order to be able to transfer the payment of the tax burden to the following month or other ways that the company thinks are better, provided that they do not violate tax rules and can take advantage of existing loopholes. The limitation of this research is the low value of R2 which is only 6%. In addition, the value of the Average R-squared (ARS) and Average Adjusted R-squared (AARS) does not meet the predetermined fit criteria. So the suggestion for future research is to add more varied variables related to tax avoidance, for example other financial ratios or other factors that have a major influence on tax avoidance. In addition, it can also modify the research model used by using intervening variables or by adding other independent variables.

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