

Does Profitability Affect Tax Avoidance Rates?

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ABSTRACT

The study aims to test whether the profitability proxied by *return on assets* (ROA) has an effect on tax avoidance. Tax avoidance is an effort made by taxpayers in order to effectively fulfill their tax obligations legally. Tax avoidance is carried out in various ways, one of which is by utilizing the measurement of company profitability and *return on assets* is one of the methods to measure it. The research method used is descriptive verification with the population of Property and Real Estate Sector Companies listed on the Indonesia Stock Exchange in 2018 - 2021. There were 44 sample data using the *purposive sampling* technique. Using regression analysis of panel data, it was found that there was a significant influence of profitability on tax evasion.

INTRODUCTION

Taxes in Indonesia are the main source of state revenue with a percentage of more than eighty percent (80%). Therefore, the government is very aggressive with its programs and also the policy of increasing tariffs to continue to increase revenue from taxes. On the other hand, taxpayers try to take advantage of loopholes in tax regulations to carry out tax avoidance. Reported by Kompas, in (Rizal, 2016) there are names of the leaked "Panama Papers" that are familiar to the ears of the Indonesian people to commit tax evasion. In addition to the names of entrepreneurs, a number of large companies are also included in it, including Agung Podomoro, Lippo, Agung Sedayu, Bakrie & Brothers, Astra Internasional and Texmaco Group. Tax revenue in Indonesia during the period 2018-2020 has decreased. In 2018-2020 tax revenue in Indonesia decreased. In 2020, there was a decrease in tax revenue of IDR 260.2 trillion or equivalent to 20.25% while in 2019 there was a decrease in tax revenue of IDR 72.8 trillion or equivalent to 4.71% from 2018 (Kasmiati & Krisma, 2023). For the record, the decline in 2020 was caused by COVID-19. This shows that the increasing number of tax arrears as a result of constraints during collection, which then results in suboptimal tax revenues (Martínez, Arzoz, & Arregui, 2022). The discrepancy in the calculation between taxpayers and tax officials on the nominal tax charged is a trigger for taxpayers to be reluctant to pay off their tax debts. Meanwhile, some taxpayers are no longer able to pay their tax debts because they have collapsed. This is the driving force for resistance to taxes, one of which is in the form of tax avoidance (Mourre & Gayer, 2012).

Many things are done by taxpayers in resisting taxes, one of which is related to profitability. There are several types of profitability measurements, namely: Profit Margin on Sale, Return on Equity, Return on Assets, Return on Investment and Earning Per Share (Cashmir, 2019). Return on Assets (ROA) is one of the measures of profitability that utilizes the use of assets to generate profits. Asset elements are one of the main components of the company's operating activities that are used to generate profits. This asset component is also used by companies in order to manage the amount of profit that can be made (Qin, Hassan, & Adhikariparajuli, 2022). Therefore, ROA is one of the factors in the profit planning process that may be related to the tax avoidance process.

Director General of Taxes of the Ministry of Finance (Kemenkeu) Suryo Utomo spoke out about the findings of tax avoidance which is estimated to cost the state up to Rp 68.7 trillion per year. The Tax Justice Network report entitled The State of Tax Justice 2020: Tax Justice in the time of Covid-19 stated that from this figure, as much as US\$ 4.78 billion equivalent to Rp 67.6 trillion of which was an act of corporate tax evasion in Indonesia. While the remaining US\$ 78.83 million or around Rp 1.1 trillion comes from individual taxpayers (Santoso & Hidayat, 2020). One of the ways to resist taxes is carried out by tax avoidance where companies will reduce their tax burden in a legal way and this does not contradict the applicable tax laws (Stawati, 2020). Therefore, the author is interested in conducting this research.

LITERATURE REVIEW

Tax avoidance measures have been carried out by many companies in Indonesia. These actions are influenced by several factors. This factor has been proven by several previous studies that state that tax avoidance can be influenced by several factors, including profitability, leverage, firm size and capital structure (Maulani, Norisanti, & Sunarya, 2021). Profitability is the ability of a company to generate profits over a certain period of time with certain sales, assets, and share capital. The higher the profitability of the company will have a positive influence on the company's performance (Margaretha & Supartika, 2016). Corporate profits are an important part of the imposition of corporate tax. If the profit generated by the company increases, the amount of income tax will increase in accordance with the increase in the company's profit (Anggriantari & Purwantini, 2020). The increasing tax burden will have an impact on the company's net profit. Therefore, the company strives to minimize the tax burden so that the net profit in the company does not decrease. This shows that the greater the company's ability to generate profits at a high profit level, encouraging management to carry out tax avoidance practices (Handayani, 2018).

Profitability is the ability of a company to generate profits. One of the indicators to calculate profitability is to use *Return on Assets (ROA)* (Conquest, 2021). *ROA* is used to measure the contribution of an asset in generating net profit. The higher the *ROA*, the more profit the company will get. As profits increase, so does the amount of income, so there are many possibilities that are more likely to commit tax evasion to minimize the amount of income tax they have to pay (Adjirackor, Asare, Asare, & Gagakuma, 2017).

According to (Kasmir, 2017), there are several types of profitability ratios, namely:

1) Profit Margin (Profit Margin on Sale)

Profit margin is one of the ratios used to calculate the extent to which a company is able to generate net profit at a certain level of sales.

Formula:

$$\text{Profit Margin} = \frac{\text{Net Sales} - \text{Cost Of Good Sold}}{\text{Sales}}$$

2) Return On Equity (ROE)

This ratio measures net profit after tax with own capital. This ratio shows the efficiency of using own capital. This ratio is a measure of profitability from a shareholder's point of view. Because the higher this ratio, the stronger the position of the company owner.

Formula:

$$\text{Return On Equity (ROE)} = \frac{\text{Profit After Tax}}{\text{Equity}}$$

3) Return on Asset (ROA)

This ratio is a ratio that shows the return on the amount of assets used in the company. *ROA* is also a measure of the effectiveness of management in managing its investments.

Formula:

$$\text{Return On Asset} = \frac{\text{Profit After Tax}}{\text{Total Asset}}$$

4) *Return On Investment (ROI)*

This ratio measures the company's ability to generate profits that will be used to recoup the investment spent.

Formula:

$$\text{Return On Investment} = \frac{\text{Profit After Tax}}{\text{Investment}}$$

5) *Earning Per Share (EPS)*

This ratio is a ratio to measure the success of management in achieving profits for shareholders. If this ratio is low, the management has not succeeded in satisfying shareholders, and vice versa.

Formula:

$$\text{Earning Per Share} = \frac{\text{Profit After Tax}}{\text{Number of Shares}}$$

The benefits of profitability ratios according to (Kasmir, 2017) are as follows:

- 1) Knowing the amount of profit that the company earns in one period.
- 2) Knowing the company's profit position of the previous year with the previous year.
- 3) Knowing the development of profits over time.
- 4) Knowing the amount of net profit after tax with your own capital.

(Hermawan, 2021) (Darsani P A, 2021) was included in our research to control operational performance and company performance variability. We estimate a relationship between ROA and tax avoidance. This is supported by research that has been carried out; and (Hermawan, 2021)(Darsani P A, 2021)(Lanis & Richardson, 2013) showed that the profitability proxied by ROA had a positive effect on tax avoidance. Based on the description above, the researcher formulated the hypothesis that profitability proxied by Return on Asset (ROA) has a significant effect on Tax Avoidance.



Figure 1. Conceptual Framework

METHODOLOGY

This study is a verifiable descriptive research with a quantitative approach, by examining the influence of independent variables on the dependent variables. The type of data used is secondary data with the issuer's financial statement analysis tool. The population in this study is 30 property and real estate issuers in 2018 - 2021. The sample was taken using the purposive sampling technique and

produced a sample of 11 companies with a span of four years. Hypothesis testing uses panel data regression analysis (Ghozali, 2018).

RESEARCH RESULT

The results of the panel data model test went through a series of tests ranging from the Chow Test, Husman Test to Lagrange Multiplier. Based on the test results, it can be concluded that *the Fixed Effect Model* is the most appropriate choice for data estimation. Furthermore, the results of the Classical Assumption Test showed that the data was normally distributed, there was no autocorrelation, and no heteroscedastial symptoms occurred.

The coefficient of the regression test of the independent variable panel data (X) against the dependent variable (Y) yields a regression equation:

$$Y = 38.0881 + 0.7497 + e$$

If α = Constant of 38.0881 indicates the average of profitability and leverage with zero. This means that when the profitability (ROA) is zero, then the in Cash Effective Tax Rate of property and real estate sub-sector companies listed on the Indonesia Stock Exchange is 38.0881. If the value of the regression coefficient of the profitability variable has a value of 0.7497, it means that if the profitability variable increases by one unit, then the dependent variable, namely tax avoidance, will increase by 0.7497.

The results of the t-test or t-statistics in this study show how far the influence of one independent variable individually in explaining the variation of dependent variables (Ghozali, 2018). The results of the t-test can be determined from the profitability value. Based on table 1, the profitability value of 0.00 is obtained less than 0.05 ($0.00 < 0.05$). So H0 is rejected and H1 is accepted, meaning that the profitability proxied by ROA has a significant effect on tax avoidance.

Table 1. Hypothesis Testing (t-Test)

Dependent Variable: CETR
 Method: Panel Least Squares
 Date: 07/29/23 Time: 04:57
 Sample: 2018 2021
 Periods included: 4
 Cross-sections included: 11
 Total panel (balanced) observations: 44

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	38.08818	3.028754	12.57553	0.0000
ROA	0.749736	0.112159	6.684600	0.0000

Source : Ouput Eviews 12 Results

DISCUSSION

Tax avoidance can be broadly understood as an ongoing problem, not only related to finance, but also related to compliance with rules, organizational and community integrity. Profitability is the ability of a company to generate profits (Mayer, 2019). Although tax avoidance is not prohibited in tax practice because it does not violate the rules, this practice is more concerned with the interests of a small number of parties than the public interest. Often the consideration of consequences for organizations and society is ignored by companies in this practice and there are still many companies that only care about profit. In fact, for the present time, the sustainability of the Company does not only depend on profits, but also on the aspects of society and the organization itself (Mayer, 2019). But again, the main motive of the Company to avoid taxes is to optimize profits.

One of the indicators to calculate profitability is to use Return on Assets (ROA). ROA is used to measure the contribution of an asset in generating net profit. The higher the ROA, the more profit the company will get. With the increase in profits, the amount of income also increases, so there are many possibilities that are more likely to commit tax avoidance to minimize the amount of income tax they have to pay. The results of this study are supported by previous research conducted by (Hermawan, 2021); (Darsani P A, 2021) whose research results show that profitability has a significant positive effect on tax avoidance. This means that the higher the company's profitability, the higher the effort to avoid taxes. Property and *real estate* companies are companies that require a very large amount of capital to carry out their operational activities. One of the efforts that is often made by companies to increase the amount of capital is by issuing debt securities that automatically increase the number of assets owned by the company. The assets owned by the company are managed in order to generate income which ends in profit or profit for the company. The profits earned by the company, of course, are always accompanied by taxes that must be paid. The company is of course in paying its taxes effectively and efficiently. The step taken by the company is to carry out tax planning with a legal mechanism, or often known as tax avoidance.

Return on Assets (ROA) can affect a company's tax avoidance rate. A high ROA shows the efficiency of a company in generating profits from its assets. In some cases, companies with high ROA may feel less necessary to commit tax avoidance because they are already in a favorable position and want to maintain a good reputation (Handayani, 2018). Conversely, companies with low ROAs may be more motivated to look for ways to reduce their tax burden to increase net profitability. They may see tax avoidance as one of the strategies to improve their financial efficiency. However, the effect of ROA on tax avoidance does not stand alone. There are many other factors that can influence a company's decision in terms of tax avoidance, such as tax policies, pressure from stakeholders, corporate ethics and culture, and applicable regulations (Damayanti & Chandra, 2021).

One of the tax avoidance mechanisms can be done through the management of company assets that are used to reap profits. The higher the value

of the company's return on assets, the higher the tax borne by the company (Prabowo, 2020). For example, related to depreciation expenses, we know that costs or expenses are a component of reducing profits, and automatically reduce tax payments. Another example of asset management to carry out tax resistance is to increase long-term debt to increase the company's assets. Companies whose assets are funded by large amounts of debt are likely to practice tax avoidance. Adding debt to increase assets causes an increase in interest expense and the effect will be to reduce profits and taxes that must be paid, although the mechanism depends on the regulations of each country (Taylor & Richardson, 2012).

Companies defend themselves by emphasizing that they are fully compliant with tax laws and it is the role of lawmakers to close loopholes when tax evasion activities by multinational corporations occur (Seely, 2021) (Chaffee, 2019). Many tax avoidance activities are carried out by transferring income from countries with high tax rates to countries with low tax rates, utilizing pricing on transactions between affiliated companies and transferring debts from companies with low tax rates to companies in countries with high tax rates to increase the interest burden which can reduce *income* and lead to tax reductions (Riedel, 2018).

CONCLUSIONS AND RECOMMENDATIONS

This study aims to test the Effect of Return on Assets on Tax Avoidance. Based on the results of the research and discussion, it can be concluded that *Return on Assets* affects Tax Avoidance.

Existing tax regulations are very good to minimize tax avoidance practices. Regulatory updates are also continuously carried out, but there are still fiscal personnel who make the implementation of regulations ineffective so that tax revenue leakage still occurs. The suggestion so that this practice does not mushroom further is to apply strict regulations, strict action by fiscal personnel who collaborate with taxpayers.

ADVANCED RESEARCH

For further research, other independent variables can be added such as capital structure, firm size, leverage, etc. More recent research data or add 2022 and 2023.

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