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Sales Growth, Leverage, and Profitability as Determinants of Tax Avoidance

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Abstract: The purpose of this study was to determine the effect of sales growth, leverage, and profitability on tax avoidance as measured using CETR. The research method used is a quantitative method. In this study the population used manufacturing data recorded on the IDX 2019 to 2021 using a sampling technique using purposive sampling. The results show that leverage and profitability have no significant effect on tax avoidance, only sales growth is significant because more sales generate higher income or profit and higher profits result in a higher tax burden for the company and make tax payments. The higher the sales rate, the more businesses engage in tax avoidance related activities.

Keywords: Sales Growth, Leverage, Profitability, Tax Avoidance

INTRODUCTION

The Government of the Republic of Indonesia is still working on perfecting various strategies to increase the understanding of the Indonesian people about the importance of taxes, in addition to revenue from oil and gas and non-oil and gas sources, revenue from the tax sector is one of the sources of state revenue that can support national development. This is also the main component to support economic activity in order to move the wheels of government which later it is hoped that tax revenues can be used to increase the prosperity and welfare of the community. (Manik & Darmansyah, 2022). Taxes play an important role in Indonesia's economic activities which cannot be ignored. In 2019, taxes accounted for 84.4% of all state revenues. This suggests that for the government to fulfill its mandate and offer essential services to citizens, financial support provided by taxation is needed and this must be handled with care.

In the Republic of Indonesia, there are still many incidents where people try to avoid paying taxes, namely by doing tax avoidance or tax avoidance. Tax avoidance is a method used to avoid taxes legally without violating tax regulations. According Khomsiyah, dkk. (2021), the problem of tax avoidance becomes difficult and unique for the government because this action can be seen from two different perspectives, namely as an action that is approved on the one hand, but not allowed or desired on the other.

Tax avoidance can be done by various companies from various industrial sectors. Several large and well-known companies have been known to be involved in previous tax avoidance cases such as in the manufacturing sector. In 2019 tax avoidance was carried out by PT. Adaro Energy Tbk, which practices tax avoidance. The second incident at PT. Adaro Energy Tbk is considered an example of tax avoidance, or transfer pricing, because large amounts of revenue are diverted from Indonesia to businesses in countries with tax exemptions or low tax rates. The third example involves PT. Adaro Energy Tbk committed tax avoidance, by paying Rp 1.75 trillion or US$ 125 million in taxes, less than what was required. From several existing cases, it can be concluded that the majority of tax avoidance is done by means of transfer pricing (kompasiana.com).

In 2019, PT. Bentoel Internasional Investama Tbk, an affiliate of BAT (British American Tobacco), is involved in another tax avoidance suit. According to the Tax Court Network, tax avoidance methods cause the state to lose about US$14 million annually in tax revenues. The process involves paying IT expenses, fees, and royalties along with interest on the company's internal debt. Transactions with British American Tobacco subsidiaries in countries with special tax arrangements with Indonesia are diverted for evasion. (Kontan.co.id).

Based on the several cases above, tax avoidance is still common. In fact, tax compliance is still not implemented properly. In this case, it can be explained that the occurrence of tax avoidance is carried out. This is the importance of socializing to taxpayers, especially the business world. Much research on tax avoidance has been carried out, the influencing factors have been tested and proven to influence. In the results carried out by researchers, it shows that there are a lot of various independent variables. As research conducted on Sudibyo (2022) who examined the effect of profitability, leverage, and sales growth on tax avoidance stated the results that the profitability variable was proven to influence tax avoidance, while the leverage variable and sales growth were stated to have no effect. In research Astari, et al (2019), the results obtained that the leverage variable has an effect on tax avoidance. Meanwhile, in research conducted by Sari & Sudaryono (2021) where the research results obtained stated that sales growth had an effect on tax avoidance. In this case there is an inconsistency that was carried out by the earlier research, then this is the aim of this research.

Based on previous research, the results of which varied regarding tax avoidance and the existence of several factors that could influence the researchers were interested in examining including sales growth, leverage and profitability as independent variables. The purpose of this study was to determine the effect of sales growth, leverage, and profitability on tax avoidance.

Tax avoidance is affected by sales growth because with increased sales, so too will the size and level of profit earned by the business. This can be seen from the acquisition of profits. In this situation, the company conducting business has the option of using tax avoidance. From sales growth reports or the company's annual financial reports that are shown through the website, it may be possible to minimize tax avoidance practices with transparency. Astari, et al (2019) states that sales growth is sales growth as a change in the general income of the employer. Winda (2021) defines that Sales growth reveals how much room a business has to increase its sales relative to its overall previous revenue. One of the variables that allows tax avoidance to occur is leverage, which can be seen from the size of the company's operational activities financed by debt. The higher the company's debt, the higher the interest expense paid. Because it is possible to make a profit if interest expenses are higher and the company's tax burden is lower, pre-tax profit will fall. Leverage according Yustrianthe & Fatniasih (2021) is a proportion used to show how much debt and what type of assets a company has or equity has in an organization. Dian ,et al (2021) noted that excessive leverage, will lead to the same corporate image affects the value of the company. Leverage shows the financing of an organization that comes from debt and is in addition to the amount of debt that ends up being responsible for paying principal and interest. Profitability makes one of the factors for tax avoidance, this is because of ROA profitability. Where the higher the acquisition of ROA obtained, the higher the profit. In this case it triggers the company to suppress the tax burden. This effort to reduce the tax burden is known as tax avoidance. Lisa ,et al (2018) explains that the ability of a company to pursue profits is measured by a ratio called profitability. Meanwhile according to Tanjaya & Nazir (2021)) Profitability is a ratio used as a general measure of management effectiveness. Husaini, et al (2021) states that a company seeks profitability to generate profits, the better the profitability, the greater the organization's capacity to generate profits. Excessive Profitability

Ratios indicate the existence of an entity's ability to obtain higher profits in obtaining profit or income for the entity. The profitability ratio, also known as a company's profit potential, assesses a company's capacity to generate profits from the use of company assets.

This study uses agency theory Jensen and Meckling (1976) in Alam & Fidiana (2019) agency theory is an idea of providing a contractual relationship between management (agent) and the owner of a business entity (principal). Tanjaya & Nazir (2021) revealed that agency conflicts occur because principals and agents try to increase their own free time. Principals as shareholders or owners of entities make maximum returns and returns and increase the investment that has been invested in the entity. Meanwhile, marketers need awards which include incentives, replacement, increased income, position and others for their overall performance in running the entity. Revenue for the entity increases or decreases year over year. An entity that sees an increase in sales indicates that the value generated by leveraging the entity is also growing. As the entity's revenue grows, so does the entity's taxes grow. The higher sales growth that is obtained by the company shows that the bigger and better the company is doing its business which is seen by the greater profit growth, this makes it possible to use tax avoidance techniques by the company. Research by Khomsiyah, et al (2021), Sari & Sudaryono (2021) which results that sales growth has a sizable beneficial effect on tax avoidance and research by Sari & Sudaryono (2021) explains that sales growth has a significant positive effect on tax avoidance. The following hypotheses were excluded for this study:

H1: Sales Growth Affects Tax Avoidance

The size of the company's operational activities are financed by debt. The greater the amount of interest paid by the company, the higher the level of debt paid. Because the basic thing that allows profit if the interest expenditure is greater and causes the company to pay a reduced tax burden, pre-tax will decrease. This of course can have an impact on reduced entity profits and reduced tax burdens. This is because interest expense is a deductible rate which can result in a decrease, the result will be taxable profit deduction of the overall tax burden. Research conducted by Suyanto & Kurniawati (2022) shows that leverage has a positive effect on tax avoidance. Meanwhile, Astari et al (2019) state that the results obtained by leverage have a negative effect on tax avoidance. Researchers have put forward the following hypothesis:

H2: Leverage Affects Tax Avoidance

Managers as marketers who want to increase profitability, can also act to continue to increase revenue by reducing the incidence of tax burden. This method is usually done by using an entity, namely tax planning which can be carried out by means of an agency and is permitted to engage in tax avoidance. The entity's tax burden will decrease through tax avoidance, and profits will increase. Profitability can be determined by the return on assets (ROA) formula, where the higher the ROA the company gets, the higher the profit. In this case it triggers the company leaders to suppress the tax burden. This effort to suppress the tax burden is called tax avoidance. Primasari (2019) in his research explains that profitability results have an effect on tax avoidance and while Tanjaya & Nazir's research (2021) obtains profitability results has a very beneficial impact on tax avoidance. Scientists have proposed the following theory:

H3: Profitability affects Tax Avoidance

METHOD

This study uses quantitative analysis obtained from all manufacturing companies listed on the IDX between 2019 and 2021. The dependent variable of this study is tax avoidance in manufacturing companies listed on the IDX between 2019 and 2021. This study uses secondary data in the form of company annual reports manufacturing by using purposive sampling method in sampling. So the total sample used is 91 companies over a three-year period, with a total of 273 data. In this study the variable Y is tax avoidance and sales growth (X1), leverage (X2), and profitability (X3). Multiple linear regression analysis and hypothesis testing are the data analysis methods used in this study. The research regression equation model is as follows:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Keterangan :

Y	= tax avoidance
α	= Constant
$\beta_{1.2.3}$	= Regression coefficient
X_1	= Sales growth
X_2	= Leverage
X_3	= Profitability
ε	= Error

RESULTS AND DISCUSSION

Descriptive analysis

Table 1 displays descriptive statistics regarding Sales Growth, Leverage, and Profitability and tax avoidance for the 2019–2021 period. The average tax avoidance score is 0.43963695 out of 5.725657 with a standard deviation (SD) of 0.711412455. The maximum sustainability performance score is 5.725657, while the minimum is 0.1666. This suggests that the scores vary widely, with some companies having a low score indicating poor tax avoidance practices, while other companies may have a high score indicating a better level of compliance with tax regulations. In addition, the independent variable, namely sales growth, shows an average of 0.06609858 from a value of 1.273016 with a standard deviation (SD) of 0.251190098. The maximum score of sales growth is 1.273016 and the minimum value is -0.962542. this shows that sales growth has an average of 0.06609858 from an initial value of 1.273016, with relatively low variation, indicated by a standard deviation (SD) of 0.251190098. The average sales growth is distributed between a minimum value of -0.962542 and a maximum value of 1.273016. The range of this sales growth value (from -0.962542 to 1.273016) shows quite a wide variation, where some periods or companies may experience negative sales growth (value below zero) indicating a decrease in sales, while other periods or companies may record positive sales growth (value above zero).

Leverage shows an average value of 0.91542721 out of 10.280529 with a standard deviation (SD) of 1.022068212 with a maximum score of 10.280529 and a minimum score of 0.003465. This shows that the variation is quite significant, indicated by the standard deviation (SD) of 1.022068212. The average leverage value is distributed between the minimum value of 0.003465 and the maximum value of 10.280529. This wide range of leverage values (from 0.003465 to 10.280529) indicates a high variation in the level of debt of the observed companies or entities. Some companies may have very low debt levels or even no debt (value close to 0), while some other companies may have very high debt levels (value close to 10.280529).

Profitability shows an average value of 0.10827778 from 1.300508 with a standard deviation (SD) of 0.139711548 a maximum score of 5.725657 and a minimum of 0.001666. This shows that profitability has an average of 0.10827778 from an initial value of 1.300508, with a fairly low variation, indicated by a standard deviation (SD) of 0.139711548. The average profitability value is distributed between the minimum value of 0.001666 and the maximum value of 5.725657. The range of these profitability values (from 0.001666 to 5.725657) shows a considerable variation in the profitability performance of the observed companies or entities. Some companies may have very low profitability (value close to 0) or even experience losses (negative value), while some other companies may record very high levels of profitability (value close to 5.725657).

Tabel 1
Uji Statistik Deskriptif

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Sales growth	273	-,962542	1,273016	,06609858	,251190098
Leverage	273	,003465	10,280529	,91542721	1,022068212
Profitability	273	,001399	1,300508	,10827778	,139711548
tax avoidance	273	,001666	5,725657	,43963695	,711412455
Valid N (listwise)	273				

Discussions

Table 2 shows the results of the regression test so that the discussion can be explained as follows:

Tabel 2 Uji Regresi (Uji T)

Variabel	*Sig*	Kesimpulan
Sales growth	0,009	Supported
Leverage	0,121	Not Supported
Profitability	0,288	Not Supported

Sumber: SPSS, data diolah peneliti 2023

Effect of Sales Growth on Tax Avoidance

According to research, tax avoidance is influenced by sales growth. More companies participate in tax-related operations when sales levels rise. Because more revenue or profit from more sales means a bigger tax burden for the business, which in turn requires paying higher taxes. Sales growth for the manufacturing business in 2019–2020 grew from 2019 to 2020 of 8.438399. Every business aspires to make a sizable profit from day-to-day operations. Using capital requires significant returns, because no business wants to lose profits every year. Research by Khomsiyah, et al (2021), Sari & Sudaryono (2021), and Nabilla & ZulFikri (2018) states that sales growth has an effect on positive for tax avoidance. In contrast to research conducted by Widiayani et al (2019) and (Wulandari & Maqsudi, 2019) that sales growth has no effect on tax avoidance

Effect Leverage on Tax Avoidance

The results in this study indicate that leverage has no effect on tax avoidance. According to the general picture, the leverage of a manufacturing company has decreased every year from 2019 to 2021. When a company's leverage value is high, it means that the interest cost for debt financing will increase in proportion to the amount of third-party debt financing it uses. As a result of increased interest spending, corporations have a lower tax burden. According to Sari & Sudaryono (2021), the leverage value has no effect on tax avoidance because it is allegedly not a justification for that, the amount of profit that can be obtained will not be affected by the large leverage value but instead aims to provide greater profits to investors. The results of this study are in line with Yustrianthe & Fatniasih (2021) and Stawati, (2020) which are not significant for tax avoidance. In contrast to what was done by Suyanto & Kurniawati (2022) & Robin, et al (2021) that leverage has an effect on tax avoidance. In contrast to what was done by Suyanto & Kurniawati (2022) & Robin, et al (2021) that leverage has an effect on tax avoidance.

Effect Profitability on Tax Avoidance

According to the research results, tax avoidance is not affected by Profitability. Profitability in 2019 decreased to 2020 while growing to 2021 in the broad overview study target. A sign of a company's financial health is when its profitability increases. Because Profitability refers to the company's ability to generate profits or the total value of its operations over a certain period of time. The amount of net profit earned by the company will increase in direct proportion to its profitability level. When income is high, income tax will be levied at a higher rate than before in line with an increase in business profits. When a company generates large profits, it is considered not doing tax avoidance because it can manage its income and tax payments. This research is the same as that conducted by Astari, Mendra, & Adiyadnya (2019) and Risnawati & Halimatusadiah (2022) that Profitability has no effect on tax avoidance. In contrast to research conducted by Subagiastra et al (2016) and Dewi & Noviari (2016) stated that Profitability has an effect on tax avoidance.

CONCLUSION

Based on the results of the discussion, it can be concluded that sales growth affects tax evasion because more sales generate higher income or profits and higher profits result in a higher tax burden for the company and make tax payments. The higher the sales rate, the more businesses engage in tax evasion related activities. Leverage has no effect on tax evasion because the amount of leverage or company debt has nothing to do with tax evasion. This is because when a company has a high leverage value, it indicates that the interest expense associated with debt financing will increase in proportion to the amount of third party debt financing used by the company. The result is a reduced tax burden for the company due to a higher interest expense. And Profitability has no effect on tax evasion, this is because the amount of net profit earned by the company will increase in direct proportion to its profitability level. When income is high, income tax will be levied at a higher rate than before in line with an increase in business profits. When a company generates large profits, the company has considered not engaging in tax evasion because the company can control income and tax payments.

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