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The Effect of Leverage and Profitability on Tax Avoidance with Company Transparency as a Moderating Variable

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Abstract

The causes of the high incidence of tax evasion in Indonesia must be identified. This study intends to examine and assess the influence of ownership structure and company transparency on tax evasion, with profitability serving as a moderating variable, among industrial businesses listed on the Indonesia Stock Exchange between 2018 and 2020. This study was created with quantitative methodologies in mind. This study obtained information from www.idx.co.id and the financial accounts of the firm. To get up to sixty-five firms, a purposeful sample was employed. 195 samples were collected over three years of monitoring. The hypotheses were then assessed using multiple linear regression analysis and statistical test analysis on the acquired sample data. Results indicated that DER and ROA had a significant positive impact on tax evasion. Corporate Transparency Reduces the Effects of DER and Return on Assets on Tax Avoidance.

Keywords
tax avoidance; ROA; DER; corporate transparency

I. Introduction

The majority of state revenues come from various forms of taxation. The economic development of a country can benefits from the imposition of various taxes. The economic condition of the population is a condition that describes human life that has economic score (Shah et al, 2020). Economic growth is still an important goal in a country's economy, especially for developing countries like Indonesia (Magdalena and Suhatman, 2020).

Large amounts of tax money are needed for the country's development and growth process; As a result, the government seeks to optimize tax revenues, which cannot be separated from various obstacles. In addition, the tax system in Indonesia, which was previously based on an official evaluation system, has evolved into a system where taxpayers are responsible for their own assessment. Individual and business taxpayers are given the power and confidence needed to calculate, deposit, and report taxes because they use self-assessment tax collection techniques.

Taxes are by far the largest contributor to Indonesia's state revenue when compared to other forms of revenue. The economic development of a country can benefits from the imposition of various taxes.

The practice of tax avoidance can be seen in Indonesia, as evidenced by the Rp 4.6 billion stolen by tax evaders. In 2017, the Directorate General of Taxes found an alleged manipulation of taxes of Rp. 4.6 billion by Safriadi. The manipulation is said to have occurred because Safriadi made or used tax invoices, proof of tax collection, proof of tax deductions, or proof of tax payments that did not reflect real activities. Losses Rp. 32 billion was issued as a direct result of the tax evasion investigation conducted on January 26, 2018 by Albertus Irwan Tjahjadi Oedi.

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Lidia Wahyuni, Robby Fahada, and Billy Fong find that Atmaja (2017) claims that a factor known as Leverage facilitates tax evasion. This is because an organization's dependence on external financial sources is directly reflected in its leverage ratio. The interest paid on the loan is deductible from the company's taxable income. Thus, this is consistent with many other studies showing how leverage facilitates tax avoidance. Profit and its Impact on Tax Avoidance What is the impact of corporate disclosure, both positive and negative, on tax avoidance through leverage? Disclosure can have a beneficial or detrimental effect on the profitability of a tax avoidance strategy.

II. Review of Literature

2.1 Agency Theory

Within the framework of agency theory, the agency relationship is described by Jensen and Meckling (1976) as a set of contracts (nexus of contract) between the principal (owner of economic resources) and manager (agent) who are responsible for their use and management. of economic resources. source. As an added bonus, they state that the company operates as a principal-agent partnership. Meisser et al. (2006:7) states that there are two problems that arise from this agency relationship: (a) the occurrence of information asymmetry, which describes a situation where management usually has more knowledge than the owner about the financial position and actual operating position of the company. entity, and (b) the occurrence of a conflict of interest due to unequal objectives. Both of these problems stem from poor management.

2.2 Stakeholder Theory

A company cannot function only for its own benefit, according to the stakeholder theory of Ghozali and Chariri (2007); it must also provide benefits to those who have an interest in the organization (stakeholders).

Consequently, the quantity of a stakeholder's effect on a resource is a major determinant of their scope of influence. This power can manifest as the ability to manage limited economic resources (money and labor), access to leading media, the ability to control the company, or the capacity to influence consumption of the company's products. These are all examples of how power can be realized (Hastuti, 2014).

2.3 Leverage

According to Dewi & Noviari (2017), financial leverage is the proportion of long-term and short-term debt to total assets. A company's probability of avoiding taxes is proportional to its level of debt. According to Gibson, CH (1990) Leverage is "the use of debt, called leverage, can greatly affect the level and degree of change is the common earning". To calculate the extent to which the Company's assets are financed with debt, a ratio called leverage can be used, as described by Kasmir (2015) in consultation with the source. It compares the total amount of debt carried by the company with its total assets. Given the above definition, it is possible to explain why leverage is used to determine how much of a company's assets are funded by debt, which results in interest expense incurred by the business. Interest expense is a type of fixed expense which ultimately becomes the responsibility of the corporation. The use of the leverage ratio is evaluated based on the comparison of total assets and total debt.

2.4 Profitability

Anderson and Reeb (2003) find that firms with larger profit margins and smaller tax loss compensation values appear to have higher effective tax rates. The company's profitability is measured by its capacity to generate profit (ETR). Profitability, according to Brigham Houston (2015:146), is a statistical combination that describes the combined effect of liquidity, asset management, and debt on operating results. In other words, profitability depends on the three elements above. According to prior knowledge, the profitability ratio is the ratio used to estimate the amount of profit that can be obtained by the company by maximizing the use of all its factors.

2.5 Tax evasion

According to Jacob (2014), tax avoidance is the practice of reducing or avoiding tax liability by using tax law loopholes. Jacob presents an example of applying taxes to non-taxable transactions. According to Hanlon and Heitzman (2010), tax evasion is the practice of minimizing the total amount of explicit taxes paid, while tax planning refers to efforts made to reduce one's tax burden. According to the above definition, tax evasion is an effort to avoid tax that has an impact on tax obligations and is carried out in a way that has an impact on tax liability but is carried out in accordance with tax rules. This is in accordance with existing tax regulations.

2.6 Corporate Transparency

According to Wang, X. (2010) Corporate transparency is "explained that transparency plays a central role in efficient allocation of corporate resources". According to Balakrishnan, Blouin, and Guay, (2011) Corporate transparency is "Companies with low information transparency actually have a great opportunity to conduct aggressive tax avoidance".

According to Anggoro & Septiani (2015) Corporate Transparency is “transparency can be interpreted as the availability of information for outside parties. A high level of transparency in the company can lead to high ratings from the investors”.
According to the definition of corporate transparency given above, corporate transparency is the free flow of information.

2.7 Conceptual Framework

a. Leverage Has Significant Effect on Tax Avoidance

The ideal debt level is achieved when tax savings are maximized. Positive accounting theory has consequences for business, in particular that the interest expense on debt will reduce the company's tax burden. To benefit from spending interest on debt and reducing the company's tax burden, management decided to support the business with debt. Leveraged companies use their liability interest expense to lower their taxable income to a greater extent. An increase in DER will be attractive to high-profit companies that want to minimize their tax liability.

In other words, the greater the influence a company has, the greater the effort it will make to avoid paying taxes, as shown by Wijayanti's research (2018). According to

Dewianawati (2013) and GAAP ETR, leverage facilitates tax avoidance. Due to the fact that a firm's capital structure (debt or equity) might justify tax avoidance, DER is used to measure leverage.

b. Profitability has a significant effect on tax avoidance

Profitability is a measure of how well management does its job of managing the company's wealth, which is reflected in the amount of profit generated. Part of the company's profits are set aside for shareholders in the form of dividend payments and retained earnings if profitable. If the profitability ratio is high, it indicates that the management is doing well and their efforts should be recognized. As a direct result of the increase in profits, the profitability of the company increases. The increase in profit is associated with an increase in the amount of tax payable. Alternatively, it is likely that efforts will be made to avoid taxes. According to the results of Nuh (2017) and Sari (2018), the size of the company's profitability has a significant effect on its capacity to avoid paying taxes.

c. Profitability and Leverage have a significant effect on tax avoidance

High company profitability shows the company's potential to generate substantial profits; thus, the tax burden will also be large. To reduce the tax burden, the company will practice tax avoidance. Nonetheless, it is conceivable for businesses with small incomes to avoid taxes so that reported profits are not negative. The market will respond negatively to companies with negative profitability. Companies that use debt as a form of financing are charged interest. The greater the leverage ratio, the greater the company's dependence on debt financing from outside sources and the greater the interest expense on loans. According to research by Lestari (2019) and Sari (2018), profitability and leverage have a significant effect on tax avoidance.

d. Corporate Transparency Strengthens or Weakens the Effect of Profitability and Leverage on Tax Avoidance

Disclosure of information helps reduce agency disputes between shareholders and management in the face of potential serious agency problems (Armstrong, et al., 2010). Profitability is a statistic that affects the distribution of profits to shareholders. When company profitability declines, they are more likely to do tax avoidance, which is one strategy to increase profitability (Watson, 2015).

The following is a description of the conceptual framework of this study based on the objectives of the relevant literature and previous research.

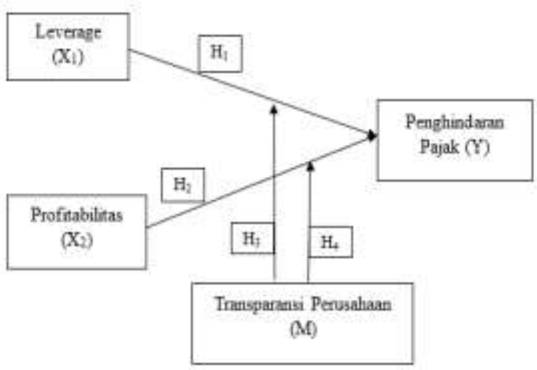

***Figure 1**. Framework of Thought*

2.8 Hypothesis

H1: Leverage has a significant effect ontax evasion.

H2: Profitability has a significant effect onTax evasion.

H3: Profitability and leverage have a significant effect onTax evasion.

H4: Corporate transparency strengthens or weakens the influence of Profitability and Leverage on Tax Avoidance.

III. Research Method

This study uses a causal descriptive research approach to test the hypothesis about the effect of several factors including Leverage (X1) and Profitability (X2) on tax avoidance (Y), with Corporate Transparency as a moderator (M1). In dealing with potentially serious agency problems, disclosure of information helps prevent agency conflicts between shareholders and management. (Armstrong et al., 2010). Profitability is a metric that affects the distribution of profits to shareholders. When a company's profitability decreases, it is more likely to do tax avoidance, which is one approach to increase profitability (Watson, 2015).

To calculate the CETR, we compare the current tax rate with the profit before tax rate. Companies tend to avoid paying taxes if the CETR is high. To calculate CETR, the following formula, developed by Hanlon and Heitzman (2010), is used:

$$\text{CETR} = \frac{\text{Cash Tax Paid}}{\text{Income Before Tax}}$$

*DER*compares a company's total liabilities with its total equity to determine its capacity to pay its obligations. DER can be used to evaluate the total amount of a company's liabilities performed or settled using equity. DER can be determined using the following formula:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

*Return on assets*is the ratio used to estimate the profitability of a business. ROA shows how well a business converts its assets into revenue. ROA is calculated using the Warfield formula (2014: 214), namely:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

According to the Financial Services Authority (OJK) regulation number 29/POJK.04/2016 which regulates Article 4 of the Annual Report of Issuers or Public Companies as disclosure obligations (Bushman et al., 2004), company transparency can be measured by looking at its reporting. Indicators are calculated using ratios. Here's how to calculate a company's transparency ratio

$$TP = (\sum Xi)/(\sum X)$$

IV. Result and Discussion

4.1 Descriptive Analysis Test Results

Table 1

	DER	ROA	TA	TP
mean	0.090210	0.170846	0.230403	0.393014
median	0.089600	0.078000	0.220000	0.426501
Maximum	0.199790	0.887510	0.445000	0.905000
Minimum	0.001333	0.002000	0.084500	0.009295
Std. Dev.	0.047875	0.234060	0.083776	0.209306

The results show that the minimum Leverage value for the ADES 2020 stock code is 0.13 percent and the highest value for the 2020 TRST stock code is 19 percent. The standard deviation is 4.78 percentage points below the typical value of 9 percentage points. The minimum profitability is 0.2% for the 2020 AMFG stock code and the largest profitability is 88.75% for the 2018 TSPC stock code. The average value is 17% greater than the standard deviation value of 23.4%. The Company's ULTJ 2020 stock code has the lowest transparency value of 0.92 percent, while the 2018 SKBM stock code has the highest transparency value of 90 percent. The standard deviation value is 20% less than the mean. Minimum 8.4% for TALF 2020 stock code and maximum 44% for LMSH 2018 stock code. The standard deviation is 8.3% lower than the average which exceeds 23%.

4.2 Classic assumption test

a. Multicollinearity Test

Table 2. Multicollinearity Test

	DER	ROA
DER	1.0000000	0.430197
ROA	0.430197	1.0000000

The presence of multicollinearity was ruled out because the correlation coefficient of the independent variables was below 0.80.

b. Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.283458	0.640642	-5.125265	0.0000
DER	-3.032661	7.560157	-0.401137	0.6893
ROA	1.412400	1.580225	0.893797	0.3738

If the probability of ROE is greater than 0.05 indicated by a value of 0.6893, then H0 is accepted, which indicates that there is no heteroscedasticity. If the DER value is greater than 0.05 with a probability of 0.3738, then H0 is accepted, which indicates that there is no heteroscedasticity.

4.3 Hypothesis Test Results

From the results of data processing, it is obtained that the Selection of Panel Data Regression Models for the First Regression of the Dependent Variable of Tax Avoidance The appropriate model is the Common Effect Model, while for the Second Regression of the Dependent Variable of Tax Avoidance and Transparency as Moderating Variables, the appropriate model is the Common Effect Model.

Table 4. Common Effect Model with Tax Avoidance Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.154425	0.010287	15.01237	0.0000
DER	0.585661	0.111541	5.250647	0.0000
ROA	0.135473	0.022815	5.937913	0.0000
R-squared	0.364267	Mean dependent var		0.230403
Adjusted R-squared	0.357645	S.D. dependent var		0.083776
S.E. of regression	0.067144	Akaike info criterion		-2.548695
Sum squared resid	0.865591	Schwarz criterion		-2.498342
Log likelihood	251.4978	Hannan-Quinn criter.		-2.528308
F-statistic	55.00681	Durbin-Watson stat		2.253674
Prob(F-statistic)	0.000000			

Source: processed from Output E-Views 11

Table 5. Common Effect Model with Tax Avoidance and Transparency Variables as Moderating Variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.235774	0.020497	11.50312	0.0000
DER	0.455748	0.216809	2.102076	0.0369
ROA	0.059877	0.056026	1.068722	0.2866
TP	-0.195631	0.045004	-4.347001	0.0000
DER_TP	0.014256	0.545212	0.026148	0.9792
ROA_TP	0.235032	0.103758	2.265205	0.0246
R-squared	0.510999	Mean dependent var		0.230403
Adjusted R-squared	0.498062	S.D. dependent var		0.083776
S.E. of regression	0.059353	Akaike info criterion		-2.780340
Sum squared resid	0.665807	Schwarz criterion		-2.679632
Log likelihood	277.0832	Hannan-Quinn criter.		-2.739565
F-statistic	39.50045	Durbin-Watson stat		2.100119
Prob(F-statistic)	0.000000			

Source: processed from Output E-Views 11

4.5 Determinant Coefficient

The value of the Weighted R-Square for the Common Effect Model panel data regression with tax avoidance as the dependent variable is 0.357645. This shows that the debt equity ratio (DER) and return on assets (ROA) can each independently contribute 35.76 percentage points to tax avoidance. In other words, the model's independent variables accounted for 35.76 percent of the variance in the dependent variable while other factors accounted for 64.22 percent.

The results of panel data regression using the Common Effects Model with Tax evasion and Transparency as Modifying Variables resulted in an Adjusted R-Square value of 0.498062. Based on these results, we can conclude that debt equity ratio (DER), return on assets (ROA), and corporate transparency (TP) each account for 49.80% of tax avoidance, while other factors account for the remaining 50%.

4.6 F test

The significance value of Prob (F-statistics) 0.00000 0.05 indicates that the Common Effect regression model used has an effect on the variables DER, ROA, DER TP, ROA TP, and TP on CETR. This is based on the results of panel data regression using tax avoidance and transparency as moderating variables.

4.7 T test

Panel data regression using the Common Effects Model with tax avoidance as the dependent variable shows that the Prob DER value for tax avoidance is 0.000 0.05 which indicates that DER has a significant and positive effect on tax avoidance. ROA of 0.0000 0.05 which is within the range of calculated values, indicates that ROA has a positive and statistically significant effect on tax avoidance.

The Prob value of transparency which moderates the effect of DER is 0.9792 > 0.05 which indicates that transparency has no effect on taxes based on the results of the Common Effects Model panel data regression with tax avoidance as the dependent variable and corporate transparency as the dependent variable. moderating variable. With a p-value of 0.0246 > 0.05, we can conclude that disclosure reduces the effect of ROA on tax avoidance.

The following regression equation is obtained from the Common Effect Model panel data regression model, with tax avoidance as the dependent variable:

$$\mathbf{CETR = 0.154425 + 0.585661DER + 0.135473ROA}$$

The following regression equation was obtained from the Common Effect Model panel data regression model, with tax avoidance as the dependent variable and transparency as the moderating variable:

$$\mathbf{CETR = 0.235774 + 0.455748DER + 0.059877ROA - 0.195632TP + 0.014256DER\_TP + 0.235032ROA\_TP}$$

4.8 Discussion

a. The Effect of Debt-to-Equity Ratio on Tax Avoidance

Tax avoidance is strongly influenced by DER, with a positive coefficient direction. The greater the DER value, the higher the CETR value, and vice versa. However, this is not intentional tax evasion. A low tax burden will reduce the possibility of tax evasion. Therefore, the greater the company's debt, the lower its tax avoidance.

The relationship between agency theory and DER is based on the assumption that human nature explains why each individual has a tendency to prioritize his own interests, resulting in agency problems due to the cooperation of parties with different interests. to divide the work. different. If he is not actively involved in the organization's operations and restricts access to information, agency problems can weaken the premise. Agencies with delegated responsibility for managing corporate assets can claim that the use of corporate debt can result in tax savings by providing incentives in the form of interest expenses, which are a deduction from taxable income.

This is in accordance with the findings of Marfirah (2016) and Novarianto (2019), but not with the findings of Vidya (2017) which concludes that DER has no impact on tax avoidance.

b. Effect of Return on Assets on Tax Avoidance

The direction of the effect coefficient of Return on Assets on tax avoidance is positive. This is due to the fact that when a company's ROA grows, so does its income, therefore a larger tax burden will reduce the company's income. This will create a conflict of interest between the company and the government, as the government seeks to increase the tax burden of the company while the company uses tax avoidance tactics to reduce the tax burden and maximize revenue.

Investors (here, shareholders) are looking for high "net income," or after-tax profits. The agent (director or manager) will then work to optimize net profit after tax. A high after-tax return on investment (ROA) or after-tax profit (PAT after tax) makes it less likely that companies will try to avoid paying fair taxes. Businesses often engage in tax evasion when their after-tax profits are inadequate. Directors' salaries will be affected if this is not done in accordance with shareholder preferences.

According to Fahmi (2019), Dewi (2017), and Sari (2018), asset returns have an impact on tax avoidance. However, according to Bambang (2017), Christin (2020), and Taqta (2018), asset returns have no impact on tax avoidance.

c. Corporate Transparency Moderates the Effect of Debt-to-Equity Ratio on Tax Avoidance

The direction of the positive coefficient of transparency has no effect on the negative effect of DER on tax avoidance. This shows that tax avoidance can be carried out in both transparent and non-transparent businesses. The interaction between tax avoidance and financial transparency suggests that tax evasion and insider extraction of rent are free. Management will reduce the company's tax liability in various ways, including by reducing shareholder wealth.

This conclusion, presumably due to tax avoidance by the company, can be viewed negatively, positively, or neutrally by investors. This is due to the fact that tax evasion can be considered a violation of tax planning or tax evasion, which can be detrimental to the company.

This result is supported by the research of Suciarti (2020), Jihan (2019), and Dewianawti (2020), but is not supported by the research of Taqta (2018) which shows that transparency can limit the impact of DER on tax avoidance.

d. Corporate Transparency Moderates the Effect of Return on Assets on Tax Avoidance

To minimize the impact of tax evasion on the return of company assets, transparency is essential. Companies with greater transparency will see less impairment in value as a result of tax evasion. This finding shows that the loss of firm value is influenced by the fact that tax avoidance by open book business actors can be considered as useful information, especially for tax planning. According to preliminary estimates, the number of tax evasions fell as the quality of corporate audits improved. The more transparent a company is, the less likely its management is to adopt a tax avoidance strategy.

The conclusion of this study agrees with Christin (2020) and Michael (2020) that transparency is a way to add value to the

V. Conclusion

Based on the results of the study entitled "The Effect of Leverage, Profitability, and Company Transparency as Moderating Variables on Tax Avoidance" the following conclusions can be drawn:

Leverage is a tool that can greatly simplify the process of avoiding paying taxes. This suggests that the corporation will engage in less tax avoidance activity in proportion to the degree to which it uses leverage.

Profitability has a significant and beneficial effect on the company's ability to avoid paying taxes. This suggests that companies are using tax avoidance tactics that increase revenue. This is done to meet shareholder preferences, which will have an impact on the compensation of the board of directors.

The effect of DER on tax avoidance is not influenced by the disclosure of the company. This indicates that Management will take various steps, including the reduction of shareholder value, to reduce the tax burden incurred by the company.

Corporate transparency moderates the significant positive effect of Return on Assets on tax avoidance. This should show that more transparent corporate management is less likely to participate in tax avoidance.

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