










The Effect of Profitability, Leverage, and Company Size on Tax Avoidance Agricultural Products Companies

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ARTICLE INFO	ABSTRACT
<p>Article history: Received 18 May 2024 Accepted 08 June 2024 Published 10 July 2024</p>	<p>This study looks into the connections between tax evasion, company size, leverage, and profitability in manufacturing firms that produce goods for the agricultural products sector. Analysis was done on data from 49 food and beverage firms that were listed on the Indonesia Stock Exchange in 2022 using positivist quantitative research approaches. The sample was selected via purposive sampling, and secondary data from annual reports were obtained and analyzed using standard assumption tests and multiple linear regression analysis. The study revealed that tax avoidance behavior is significantly influenced by profitability, leverage, and company size. Higher leverage was found to be correlated with less tax avoidance, in line with prior studies. Nevertheless, the lack of a substantial correlation between profitability and tax avoidance contradicts earlier research, suggesting that environmental factors may play a role. The study's findings emphasize the significance of taking into account industry dynamics, regulatory settings, and firm-specific techniques when comprehending tax avoidance behavior. Additional investigation is required to examine these factors and their consequences for company decision-making and regulatory frameworks. This research adds to the body of knowledge by offering insightful information about the factors that influence tax evasion in manufacturing businesses that produce goods for the agricultural products sector.</p>
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1. Introduction

The landscape of taxation plays a crucial role in shaping the economic dynamics of nations, with tax revenues often serving as the backbone of governmental funding (Sigler et al. 2020). Over the past five years, the Indonesian State Budget (APBN) has witnessed a steady increase in revenue, predominantly fueled by contributions from the taxation sector (Indrawati, Satriawan, and Abdurohman 2024). This trend underscores the significance of taxes as a primary source of government income, earmarked for public welfare

and developmental initiatives. Rooted in the principle of mandatory contributions, taxes represent a fundamental obligation imposed on individuals and entities by the state, without the expectation of direct reciprocation (Gribnau 2015). In Indonesia, the taxation framework is anchored on a self-assessment system, empowering taxpayers to determine their tax liabilities (Hasdiana 2018). However, ensuring compliance among taxpayers remains a pivotal challenge, given the inherent misalignment of

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interests between government entities and taxpayers (Tan and Pan 2003).

The divergence in interests between the government and taxpayers manifests prominently in the corporate sector, where companies endeavor to optimize profits while minimizing tax liabilities (De Widt and Oats 2024). This incongruity often precipitates the adoption of various strategies, ranging from legitimate tax planning tactics to illicit tax evasion schemes. The nuanced interplay between tax compliance and corporate profit-seeking motives underscores the need for a comprehensive understanding of tax avoidance behaviors (Al-asfour and Mcgee 2024). Within this context, the food and beverage sector emerges as a pertinent locus for investigation, buoyed by sustained growth trends despite economic fluctuations (Bramall 2015). According to the Central Statistics Agency (BPS), the GDP of the food and beverage industry recorded a notable growth rate of 4.62% (yoy) in the second quarter of 2023 (Amir, Asafu-Adjaye, and Ducpham 2013). This resilience underscores the sector's significance within the Indonesian economy, necessitating a closer examination of tax-related dynamics within its purview (Aivaz, Florea, and Munteanu 2024).

Contemporary discourse surrounding tax avoidance in the corporate sector has spurred significant scholarly interest, with researchers delving into multifaceted dimensions of this phenomenon. Recent studies have shed light on the intricate relationship between corporate financial metrics and tax avoidance strategies, unraveling the nuanced interplay between profitability, leverage, and company size (Deb, Rahman, and Haseeb 2024). For instance, Richardson and Lanis (2007) documented a negative association between leverage and tax avoidance, corroborating the notion that heightened financial leverage reduces the propensity for tax avoidance. Building upon this premise, Goh et al. (2016) and Desai (2005), further elucidated how increased scrutiny from creditors deters firms from engaging in aggressive tax planning tactics, aligning with the findings of the present study.

Central to the theoretical underpinnings of this research is the agency theory, which posits that conflicts of interest between principals (shareholders) and agents (management) drive corporate decision-making processes (Safieddine 2009). Within the context of tax avoidance, agency theory elucidates how management's pursuit of self-interest may diverge from shareholders' objectives, potentially leading to suboptimal tax-related outcomes (Jensen 2019). Moreover, drawing from prior empirical research, the pecking order theory offers insights into the impact of leverage on tax avoidance behaviors. As elucidated by Myers and Jahfer (2009), firms prefer internal financing over external debt due to information asymmetry concerns, which may mitigate the incentive for tax avoidance.

Despite the burgeoning body of literature on tax avoidance, notable gaps persist in understanding its intricacies within the food and beverage manufacturing sector. Prior research has predominantly focused on broader industry aggregates or neglected sector-specific nuances, warranting a dedicated inquiry into tax-related dynamics within this domain. Furthermore, disparities in findings across existing studies underscore the need for nuanced investigations tailored to sectoral peculiarities and contextual factors. By bridging these gaps, the current study aims to offer fresh insights into the interplay between profitability, leverage, and company size on tax avoidance within food and beverage manufacturing companies listed on the Indonesia Stock Exchange in 2023.

In light of the foregoing, the primary objective of this study is twofold: first, to empirically examine the impact of profitability, leverage, and company size on tax avoidance within the food and beverage manufacturing sector; and second, to provide stakeholders with actionable insights to inform corporate tax planning strategies and regulatory policies. By elucidating the underlying determinants of tax avoidance behaviors, this research endeavors to contribute to scholarly discourse, inform corporate decision-making processes, and facilitate the formulation of evidence-based policy interventions aimed at fostering tax compliance and equity.

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2. Critical Riview

According to Mardiasmo (2009), tax avoidance is an effort to reduce the tax burden by not violating existing laws. (bibliography: Mardiasmo. 2009. Taxation 2009 Revised Edition. Yogyakarta: Andi Publisher). In practice, tax avoidance is done by looking for loopholes between tax policies or utilizing gray zones in applicable tax policies. Tax avoidance behavior can be calculated using the Cash Earning Tax Ratio (CETR) which is done by comparing the cash spent to pay taxes and profit before tax (Budiman and Setiyono, 2012 in Aziz and Widianingsih, 2021).

Factors that can affect tax avoidance include profitability, leverage, and company size. Profitability is the company's ability to generate profits in the future and is an indicator of the success of the company's operations. (Azis & Widianingsih, 2021).. In research conducted by Matanari & Sudjiman, 2022 stated that profitability has a significant positive effect on tax avoidance. According to Dayanara et al. profitability also has a significant effect on tax avoidance. In this study the authors decided to use the Return On Asset (ROA) ratio to calculate the level of profitability.

According to (Azis & Widianingsih, 2021) leverage is the level of use of debt as a financing fund. According to (Desyana & Yanti, 2020) leverage has no effect on tax avoidance. Meanwhile, research conducted by (Sari & Marsono, t.t.) states that leverage has a positive effect on tax avoidance. The author uses Debt Asset Ratio (DAR) to measure the leverage ratio.

Company size is a benchmark used to determine the capacity owned by the company, whether it is a large or small company (Somat, 2020 in Sinaga & Sudjiman, t.t.). Sinaga & Sudjiman, t.t.). according to (Desyana & Yanti, 2020; Sari & Marsono, t.t.; Siahaan & Malau, 2022) state that company size has an effect, while according to (Sinaga & Sudjiman, t.t.) company size has no effect.

3. Method Innovation

This research employed quantitative research methods to investigate the relationship between

profitability, leverage, company size, and tax avoidance in manufacturing companies within the Agricultural Products industry. Quantitative research methods, rooted in the positivist philosophy, involve the collection and analysis of numerical data to test hypotheses (Rahmadania and Herminingsih 2021; Sugiyono 2013).

The population under study comprised food and beverage sector companies (FnB) listed on the Indonesia Stock Exchange (IDX) that published annual reports during the year 2022. The sample was selected using purposive sampling, a deliberate and non-random technique aimed at selecting samples that meet specific criteria relevant to the research objectives (Sugiyono 2013). In this study, 49 companies were selected based on the following criteria: (1) being listed on the IDX in 2022, (2) publishing financial statements in the Indonesian rupiah currency, and (3) operating within the Agricultural Products Industry. Secondary data in the form of annual reports of manufacturing companies in the goods and consumption sector for the year 2022, obtained from the IDX website (www.idx.co.id), served as the primary data source. The collected data underwent a series of classic assumption tests, including normality test, autocorrelation test, heteroscedasticity test, multicollinearity test, and multiple linear regression analysis, to ensure the validity and reliability of the analysis.

The variables examined in this study were categorized into dependent and independent variables. Tax avoidance served as the dependent variable, while profitability, leverage, and company size functioned as the independent variables. Profitability was defined as a ratio reflecting the company's ability to generate profits, with higher profits resulting in a greater tax burden (Syahyunan et al. 2017). Leverage represented the level of debt used by the company in financing, impacting the corporate tax burden through interest expenses (Juhandi and Fahlevi 2019). Company size, measured through total assets, was transformed logarithmically to equalize its scale with other variables in the analysis (Juhandi and Fahlevi 2019).

The multiple regression model was employed to examine the simultaneous effect of profitability,

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leverage, and company size on tax avoidance (Mustika, Meutia, and Bagas 2022). This model allows for the assessment of the relationship between multiple independent variables and one dependent variable with an interval scale (McKelvey and Zavoina 1975). To assess the feasibility of the model, the F-test was conducted. The F-test determines the significance of the equation in explaining the variation in the dependent variable based on the independent variables (Zeileis 2005). The hypothesis test, conducted using the t-test, examined the significance of individual independent variables (profitability, leverage, and company size) on tax avoidance (Wulandari and Sudarma 2022). This test provides temporary answers to the research questions by assessing the relationship between variables (Malhotra and Grover 1998). Additionally, the determination coefficient test (R²) was utilized to measure the proportion of variance in tax avoidance explained by the independent variables (Bimo, Prasetyo, and Susilandari 2019). The R² value ranges from 0 to 1, with higher values indicating a stronger ability of the model to explain the dependent variable.

In summary, the data collected underwent rigorous analysis using the aforementioned methods to examine the relationships between key variables and tax avoidance behavior in the context of manufacturing companies within the Agricultural Products industry. This methodological approach ensures the reliability and validity of the research findings, contributing to the existing body of knowledge in the field.

4. Result and Discussion

The descriptive statistics for the study, encompassing 35 companies, reveal critical insights into the key financial variables under investigation. The Tax Avoidance variable, computed using the CETR formula, exhibits a minimum value of 0.13 and a maximum of 0.66, with an average of 0.4619, indicating substantial variability in tax strategies among firms. The Profitability variable, measured by ROA, ranges from a minimum of 4.70 to a maximum of 269.78, with a mean of 58.94323, reflecting significant disparities in operational efficiency and financial

performance. Leverage, calculated via the DAR formula, shows a minimum value of 0.03 and a maximum of 2.31, with an average of 0.39394, highlighting diverse capital structure strategies. Lastly, the Company Size, assessed through Total Assets, spans from 4.47 to 5.60, with an average of 5.3167, suggesting a moderate spread in asset bases across the sample. These findings provide a robust foundation for analyzing the financial behavior and strategic decisions of firms in relation to tax avoidance, profitability, leverage, and company size.

The classical assumption tests conducted in this study ensure the regression model's validity and fitness for analysis. The normality test, using the Kolmogorov-Smirnov method, confirmed that the data are normally distributed, with an Asymp.Sig. (2-tailed) value of 0.200, exceeding the 0.05 threshold. The heteroscedasticity test, assessed through a scatterplot, indicated no clear pattern in the residuals, as they were evenly dispersed above and below the zero line on the y-axis, suggesting homoscedasticity. Additionally, the multicollinearity test showed that the model's tolerance values were all above 0.10, and the VIF values were below 10, affirming the absence of multicollinearity. These results collectively validate that the regression model adheres to the classical assumptions, ensuring its robustness and reliability for subsequent analysis.

The multiple regression analysis results in the following regression equation;

$$Y = 0.811 - 0.000004004 \text{ Profitability} - 0.108 \text{ Leverage} - 0.058 \text{ Company Size} + e \quad (1)$$

The constant of 0.811 suggests that, if profitability, leverage, and company size are held constant at zero, tax avoidance will increase by 0.811 units. The regression coefficient for profitability is -4.004E-6, indicating that an increase of one unit in profitability will decrease tax avoidance by this amount. Similarly, the leverage coefficient of -0.108 signifies that a one-unit increase in leverage will result in a 0.108 unit reduction in tax avoidance. Lastly, the coefficient for company size is -0.058, showing that each unit increase in company size will lead to a 0.058 unit decrease in tax avoidance. These findings suggest

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that higher profitability, leverage, and company size are associated with lower levels of tax avoidance.

The coefficient of determination, represented by the Adjusted R Square value of 0.203, indicates that the variables ROA, DAR, and (Ln) total assets collectively explain 20.3% of the variance in tax avoidance. This implies that these variables account for a fifth of the influence on tax avoidance, while the remaining 79.7% is attributed to other factors not included in this study. This suggests that there are additional variables and complexities influencing tax avoidance that were not captured in this model.

The t test results reveal the relationships between variables and tax avoidance (CETR). For Profitability (ROA), the t coefficient is -0.017 and the p value is 0.986, indicating no significant relationship with tax avoidance. Hence, the null hypothesis (H_0) is rejected. For Leverage (DAR), the t coefficient is -3.151 and the p value is 0.004, showing a significant negative relationship; as leverage increases, tax avoidance decreases. This supports rejecting H_0 and accepting the alternative hypothesis (H_a). Lastly, for Company Size, the t coefficient is -1.150 and the p value is 0.259, indicating no significant relationship with tax avoidance, leading to the rejection of H_0 . In summary, while leverage significantly impacts tax avoidance, profitability and company size do not show statistically significant relationships with tax avoidance.

The F test results demonstrate the overall significance of the regression model in explaining the relationship between the independent variables (profitability, leverage, and company size) and the dependent variable (tax avoidance). The calculated F value of 3.883 exceeds the F table value of 2.656, and the significance value of 0.0185 is less than 0.05, indicating that the regression model is significant at the 5% significance level. Therefore, it can be concluded that there is a significant linear relationship between profitability, leverage, and company size on tax avoidance within manufacturing companies in the Agricultural Products industry.

The findings of this study, which suggest a significant negative relationship between leverage and tax avoidance in manufacturing companies within the Agricultural Products industry, are corroborated by various previous studies. Richardson and Lanis (2007), conducted a comprehensive analysis of the impact of leverage on tax avoidance and found results consistent with those of the current study. Their research demonstrated that higher leverage is associated with reduced tax avoidance due to heightened scrutiny from creditors (Alexander and Pisa 2023). This alignment underscores the robustness of the relationship between leverage and tax avoidance across different contexts and reinforces the validity of the current study's findings (Athira and Ramesh 2024).

Similarly, Desai Dhammika (2017), Goh et al. (2016) provided additional evidence supporting the negative impact of leverage on tax avoidance. Their studies highlighted the constraints imposed by high levels of debt on firms' ability to engage in aggressive tax planning strategies. Goh et al. (2016) specifically emphasized the role of financial distress and creditor monitoring in limiting tax avoidance opportunities for highly leveraged firms. The convergence of findings across these studies strengthens the argument that leverage is a significant determinant of tax avoidance behavior in corporate settings (Kim et al. 2019).

However, the non-significant relationship between profitability and tax avoidance observed in the current study contrasts with findings from studies by Chen et al. (2010) and Gupta and Newberry (1997). Chen et al. (2010) found that more profitable firms tend to engage more in tax avoidance to maximize after-tax income, suggesting a positive relationship between profitability and tax avoidance. Similarly, Gupta and Newberry (1997) highlighted the profit-maximizing behavior of firms through aggressive tax planning strategies. This discrepancy underscores the complexity of the relationship between profitability and tax avoidance, which may be influenced by various contextual factors.

One possible explanation for the disparate findings could be differences in industry

characteristics, regulatory environments, and firm-specific strategies across studies. For example, industries with high competition and narrow profit margins may incentivize firms to engage in aggressive tax planning to maintain profitability, whereas industries with greater stability and profitability may prioritize compliance and reputational concerns over tax avoidance. Moreover, variations in tax laws and enforcement practices could also impact firms' tax planning strategies and the observed relationship between profitability and tax avoidance.

The non-significant relationship between company size and tax avoidance observed in the current study aligns with Zimmerman's (1983) argument that larger firms face greater public scrutiny and regulatory oversight, potentially reducing their engagement in tax avoidance. Zimmerman (1983) suggested that larger firms may prioritize reputation management and compliance with tax laws due to their visibility and stakeholder expectations. However, Richardson and Lanis (2007) found that larger firms tend to have more resources and expertise to engage in complex tax planning strategies, suggesting that the relationship between company size and tax avoidance may vary depending on other factors such as industry dynamics and corporate governance practices.

It is important to recognize the complexity of the problem and the possible impact of contextual factors, even though the current study's findings offer insightful information on the elements that determine tax avoidance in manufacturing enterprises within the agricultural products industry. Further investigation is warranted to

delve deeper into these elements in order to improve our comprehension of tax evasion behavior and its consequences for business decision-making and regulatory policies. Researchers can enhance the progress of knowledge in this field and offer more detailed insights for practitioners and policymakers by examining a wider range of variables and utilizing rigorous research procedures.

5. Conclusion

This study contributes to the existing literature by examining the relationship between leverage and tax avoidance in manufacturing firms within the Agricultural Products industry. The findings support prior research indicating that higher levels of leverage are associated with decreased tax avoidance due to heightened creditor scrutiny. However, the non-significant relationship between profitability and tax avoidance diverges from some previous studies, underscoring the complexity of this relationship and the influence of contextual factors. Similarly, the lack of a significant association between company size and tax avoidance aligns with certain arguments but contradicts findings from other studies, suggesting the need for further investigation. These conclusions emphasize the importance of considering industry context, regulatory environment, and firm-specific strategies in understanding tax avoidance behavior. Future research should delve deeper into these factors to enhance our comprehension of tax avoidance phenomena and inform corporate decision-making and regulatory policies.

6. Table And Image

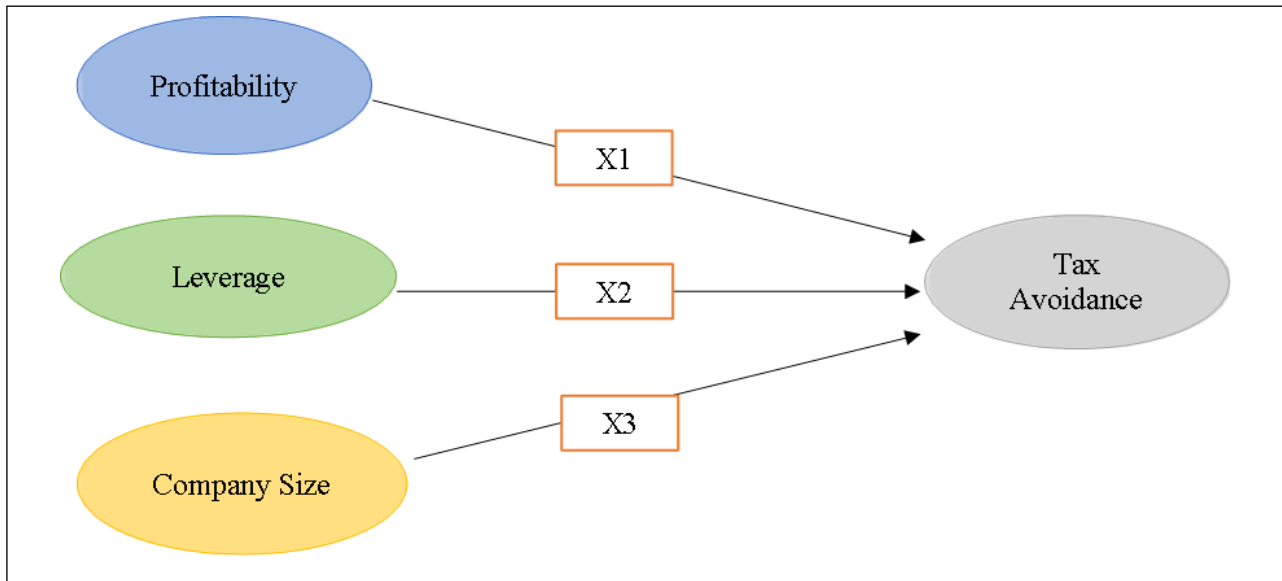


Figure 1. Research Thinking Framework

Table 1. Operationalization of Research Variables

Variables	Indicator	Scale
Tax Avoidance (Y)	$CETR = \frac{\text{Tax Payment}}{\text{Profit before Tax}} \times 100\%$	Ratio
Profitability (X1)	$ROA = \frac{\text{Net profit after tax}}{\text{Total Assets}}$	Ratio
Leverage (X2)	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$	Ratio
Company Size (Company)	$Size = Ln (\text{Total Assets})$	Ratio

Table 2. Descriptive Statistics table

Descriptive Statistics					
Var	N	Minimum	Maximum	Mean	Std. Deviation
Penghindaran Pajak (CETR)	35	,13	,66	,4619	,08756
Profitabilitas (ROA)	35	4,70	269,78	35,9880	58,94323
Leverage (DAR)	35	,03	2,31	,3951	,39394
Ukuran Perusahaan (Total Aset)	35	4,47	5,60	5,3167	,26847

Table 3. Normality Table

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One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		35
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,07465352
Most Extreme Differences	Absolute	,096
	Positive	,096
	Negative	-,080
Test Statistic		,096
Asymp. Sig. (2-tailed)		,200 ^{c,d}

Table 4. Multicollinearity Table

Coefficients ^a							
Model	B	Std. E	Beta	t	Sig.	Tolerance	VIF
(Constant)	,811	,267		3,033	,005		
Profitabilitas	-4,004E-6	,000	-,003	-,017	,986	,983	1,018
Leverage	-,108	,034	-,486	-3,151	,004	,987	1,013
Company Size	-,058	,050	-,177	-1,150	,259	,994	1,006

Table 5. Multiple Regression Analysis

Coefficients ^a							
Model	B	Std. E	Beta	t	Sig.	Tolerance	VIF
(Constant)	,811	,267		3,033	,005		
Profitabilitas	-4,004E-6	,000	-,003	-,017	,986	,983	1,018
Leverage	-,108	,034	-,486	-3,151	,004	,987	1,013
Company Size	-,058	,050	-,177	-1,150	,259	,994	1,006

Table 6. Coefficient of Determination Table

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error Estimate	Durbin-Watson
1	,523 ^a	,273	,203	,07818	1,893

Table 7. F Table (ANOVA)

ANOVA ^a	
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Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,071	3	,024	3,883	,018 ^b
	Residual	,189	31	,006		
	Total	,261	34			

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