Effect of Profitability, Leverage, and Corporate Social Responsibility on Tax Avoidance

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ABSTRACT

Tax avoidance is one of the factors, tax avoidance is a legal tax planning activity, namely by looking for loopholes from tax rules. This study aims to test whether Profitability (ROA), *Leverage* (DAR), and *Corporate Social Responsibility* (CSR) have an effect on tax avoidance. In this study, tax avoidance is proxied by CETR. The data used in this study is secondary data. The population of this study is manufacturing companies in the various industrial goods sector listed on the Indonesia Stock Exchange for the 2017-2019 period. The method used for determining the sample is purposive sampling in accordance with predetermined criteria and obtained a sample of 12 companies for a period of three consecutive years so as to obtain a total sample of 36 companies. Data analysis using multiple linear analysis test. The results of this study indicate that *Corporate Social Responsibility* has a significant negative effect on tax avoidance, while Profitability and *Leverage* have no effect on tax avoidance.

Keywords: *Return On Assets*, *Debt to Asset Ratio*, Social Responsibility, *Tax Avoidance*, *Tax*

INTRODUCTION

Law Number 16 of 2009, "Taxes are mandatory payments to the State, are legally obligatory, without direct compensation, and are used for the needs of the state for the welfare of the people." With a large population and abundant natural wealth as well as its strategic geographical location, it has become a world trade crossing area. In this way, Indonesia can attract investors to invest and open their businesses in Indonesia, which will increase revenue from the tax sector (Karunia et al., 2021). Therefore, the government places great emphasis on paying taxes to taxpayers to optimize their income.

Table I
Realization of State Revenue 2017-2019
(In Billion Rupiah)

Years	of Taxation	Non-Tax	Grants
2017	1 654 746.10	311 216.30	11 629.80
2018	1,518.789.80	409.320.20	15.564.90
2019	1,546.141.90	408,994.30	5,498.30

Source: www.bps.go.id

Tax collection is not an easy thing to implement. According to the government, taxes are very important for the development of the nation because if tax revenues are not fulfilled it will become an obstacle to state operational activities, but it is different when viewed from the side of taxpayers, both corporate and individual. Taxpayers consider taxes as expenses that will reduce income and profits.

This also causes widespread tax avoidance practices in companies that do not want high tax payments, companies will as much as possible minimize the tax burden they owe, so they get a large net profit as well.

Tax avoidance is a legalized activity because the company will minimize its tax burden in a legal way and not violate the rules that have been made or by looking for weaknesses in tax provisions. Giant technology companies in the US such as Google, Facebook, and Microsoft also practice tax avoidance in several countries, one of which is Indonesia. In this case the loss on tax evasion could be as high as US$2.8 billion. (idxchannel.com)

Factors that can determine whether there is tax evasion in companies in Indonesia. The first indication that can be seen is from the company's profitability ratio, symbolized by Return On Assets (ROA), which describes the company's financial performance to get a profit from managing its assets. High profits have a high opportunity to carry out tax avoidance activities because the tax burden to be paid will also be high.

The second indication is leverage, which measures the extent to which the company's assets are financed by debt in both the short and long term. The higher interest expense and the company must pay, the company's profit will decrease and this will also reduce the tax burden. owed by the company (Janamarta et al., 2021).

The third indication, namely corporate social responsibility, is a continuation of the company's commitment to participate in contributing to economic development and hopes to improve the quality of life for local community workers, or the wider community. Some companies choose to carry out CSR activities to minimize their tax burden, because apart from reducing the tax burden, CSR is also able to increase the value of the company.

Based on the description of the background above, the authors find three variables that are at least related to tax avoidance practices. Therefore, the authors have an interest in conducting a research entitled "The Effect of Profitability, Leverage, and Corporate Social Responsibility on Tax Avoidance (Empirical Study on Manufacturing Sector Companies). Various Industrial Goods Listed on the Indonesia Stock Exchange for the Period 2017-2019)".

THEORETICAL

Tax Avoidance

is one of several efforts towards legal tax planning because in accordance with the rules of taxation regulations, looking for loopholes from the weaknesses that exist in the law is a method that is often used to reduce the tax burden owed. (Pohan, 2016 in Jamaludin 2020)

Profitability

profitability or *Return On Assets* is a ratio that calculates and assesses the company's capacity to generate profits by looking at its assets and becomes a benchmark for the company's success. The ROA value generated is large, the company's performance in generating profits will also be better, which can indicate that the company is less likely to do tax avoidance. (Kurniasih & Ratna Sari, 2013 in Budianti & Curry 2018)

Leverage

(Andy, 2019)said that the leverage ratio is the ratio used to assess how far the company uses its assets to be covered by the company's debt. Companies will make loans to increase their capital, which causes debt as well as interest on the debt that will be paid during the period of the debt, and the profit earned will decrease with the interest expense. companies that use debt as company funding, the profits generated by the company are also not optimal which does not allow the company to carry out tax avoidance (Fransiska & Sutandi, 2017). In this study using the *Debt to Asset Ratio* (DAR) proxy.

Corporate Social Responsibility

Corporate Social Responsibility is the responsibility of the company due to the impact of its operational activities. CSR is a form of company transparency to the surrounding community, workers, government, and the environment as a fulfillment of promises to their responsibilities. (Virginia & Wibowo, 2017)

Research Hypothesis

H1: . Profitability has an effect on Tax Avoidance

H_2 : Leverage has no effect on Tax Avoidance.

H_3 : Corporate Social Responsibility has an effect on Tax Avoidance.

H_4 : Profitability, Leverage, and Corporate Social Responsibility have a simultaneous effect on Tax Avoidance.

METHODS

Data Collection Techniques

The library and documentation method is the method used, by taking quantitative data and secondary data.

Population and Sample

The population is taken from various industrial sector manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. Using non-random sampling technique. The sampling criteria in this study
are as follows:

a. Manufacturing companies in the various industrial goods sector listed on the Indonesia Stock Exchange in 2017-2019.
b. A company that publishes its complete annual report on the Indonesia Stock Exchange in 2017-2019.
c. Companies that do not experience losses during the study period.
d. Companies that use the rupiah value unit in their financial statements.
e. Companies that have complete data related to the variables in this study.
f. Companies that do not have outlier data.

Data Analysis Techniques Multiple

Linear analysis is the method used in this study. Hypothesis testing was carried out using the SPSS version 25 application

1. **Descriptive Statistical**

2. **Test Classical Assumption**
   a. Test Normality
   b. Test Multicollinearity
   c. Test Autocorrelation
   d. Test Heteroscedasticity

3. **Test Statistical Test**
   a. Multiple Linear Regression Analysis
   b. Determination Coefficient Test (Adjusted R2)

4. **Hypothesis**
   a. Testing Individual Parameter Significant Test (t Test)
   b. Simultaneous Significant Test (Test F)

OPERATION OF RESEARCH VARIABLES

Dependent Variable

Of Tax Avoidance in this study was measured using the Cash Effective Tax Rate (CETR). A high CETR percentage value makes the company considered likely not to take tax avoidance actions, and vice versa, a low CETR percentage indicates that the company is doing high tax avoidance.

$$CETR = \frac{Tax\ Payments}{Total\ Profit\ Before\ Tax}$$

Source : (Mentari & Peng Wi, 2019)

Independent Variable

1. **Profitability**

ROA is a ratio that analyzes the company's ability to generate income or profit as seen from its assets, or describes the efficiency of the funds used by the company.

$$Return\ On\ Assets = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

Source : (Mentari & Peng Wi, 2019)

2. **Leverage**

Debt to Asset Ratio (DAR) is a ratio depicting a company in financing its operations using debt, and seeing the relationship between debt and assets.

$$Debt\ to\ Asset\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

Source : (Anggraeni, 2018)

3. **Corporate Social Responsibility**

Corporate Social Responsibility is the company's responsibility to the company's environment, the company will contribute in supporting the local community to improve and advance the quality of life of the surrounding community. Using the Corporate Social Responsibility Disclosure Index (CSRDI) or the Check list method (dummy method).

$$CSRDI = \frac{\sum Xyi}{ni}$$

Source : (Hidayati & Fidiana, 2017)

RESULTS AND DISCUSSION

1. **Descriptive Statistics Test**

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
ROA	36	1.00	12.00	5.1111	2.52731
DAR	36	9.00	76.00	42.3056	17.76967
CSR	36	28.00	65.00	44.4444	9.25649
CETR	36	4.00	71.00	29.2778	15.30567
Valid N (listwise)	36				

ROA with the resulting average of 5.111 and standard deviation of 2.52731. Identify that the company can use its assets properly to generate profits.

The average DAR value is 42.3056 and the standard deviation is 17.76967. With a low

DAR value, it means that the ability to pay off its debts can be well covered by its assets.

CSR with a mean of 44.4444 and a standard deviation of 9.25649. The high value of CSR shows that the company's participation in advancing the economy, education, as well as the quality of life of the nation is very good.

CETR with a mean value of 29.2778 and a standard deviation of 15.30567. The high percentage indicates the company's tax avoidance will be lower.

2. Classical Assumption

a. Test Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		36
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	11.99433595
Most Extreme Differences	Absolute	.119
	Positive	.119
	Negative	-.063
Test Statistic		.119
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Value Asymp Sig. of 0.200 > 0.05 is said to be normally distributed, and the data that has been studied is feasible to be used in this study.

b. Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	(Constant)		
	ROA	.848	1.179
	DAR	.866	1.155
	CSR	.902	1.109

a. Dependent Variable: CETR

There is no multicollinearity and got the feasibility to use multiple linear regression model.

c. Autocorrelation Test

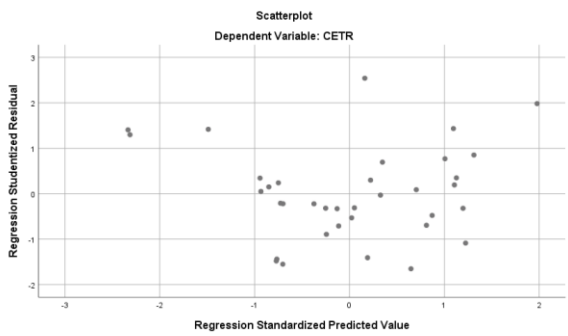
Model Summary[b]

Model	Durbin-Watson
1	1.588

a. Predictors: (Constant), CSR, DAR, ROA
b. Dependent Variable: CETR

In this study, the DW *test* was 1.588, which means that the independent variables do not have autocorrelation, so this regression model is feasible to use.

d. Heteroscedasticity Test



Random point distribution above and below the number 0. The sample reduced by the outlier method makes the spread of points close together so that it looks like a pattern in the graph.

3. **Statistical**
   a. **Test Multiple Linear Regression Analysis Test**

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error
1	(Constant)	78.630	11.516
	ROA	-1.250	.911
	DAR	-.100	.128
	CSR	-.872	.241

a. Dependent Variable: CETR

CETR = 78.630– 1.250ROA – 0,100DAR – 0,872CSR + ε

1. **Constant (α)**

The coefficient value for the constant is 78.630, if the independent variables Profitability, *Leverage*, and *Corporate Social Responsibility* are 0, then the value of the dependent variable is Avoidance The CETR proxy tax is worth 78,630.

2. **Profitability towards tax avoidance**

ROA has a coefficient value of -1,250. It can be interpreted that when ROA increases by 1 unit, then the CETR will decrease by 1,250 assuming the other independent variables have a fixed value.

3. **Leverage on Tax Avoidance**

DAR coefficient value is -0.100. It can be interpreted if the value of the other independent variables remains the same and the DAR increases by 1 unit, then the CETR will decrease by 0.100 and the remaining 0.900 is influenced by other variable factors.

4. **Corporate Social Responsibility on Tax Avoidance**

The CSR coefficient value is -0.872, if CSR has increased by 1 unit with a fixed independent variable value, then the CETR will decrease by 0.872 and the remaining 0.128 is influenced by other factors.

b. **Coefficient of Determination Test (Adjusted R2)**

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621[a]	.386	.328	12.54398

a. Predictors: (Constant), CSR, DAR, ROA
b. Dependent Variable: CETR

of *value*$^{0.328}$ or 32.8%. close to 0 means that the independent variable has limitations in making predictions on the dependent variable. The remaining 67.2% resulted from the influence of other variables not examined.

4. **Hypothesis**
   a. **Testing t Test**

Coefficients[a]

Model		t	Sig.
1	(Constant)	6,828	000
	ROA	-1.372	.180
	DAR	-.777	.443
	CSR	-3.614	.001

a. Dependent Variable: CETR

ROA has a value of 0.180 > 0.05. The first hypothesis proposed is rejected, because ROA has no effect on tax avoidance.
DAR has a value of 0.443 > 0.05. The second hypothesis is accepted, because DAR has no effect on Tax Avoidance.

CSR has a significant level of 0.001 < 0.05, CSR has an effect on tax avoidance. The third hypothesis is accepted.

b. F test

ANOVA[a]

Model		F	Sig.
1	Regression	6.703	.001[b]
	Residual		
	Total		

a. Dependent Variable: CETR
b. Predictors: (Constant), CSR, DAR, ROA

Value of f count > f table value (6.703 > 2.89). With a significant value of the f test is 0.001 which means <0.05, therefore the submission of the fourth hypothesis can be accepted because the independent variable has a simultaneous effect on the dependent variable.

CONCLUSIONS AND RECOMMENDATIONS

1. Profitability is denoted by Return On Assets (ROA) which has a significant value of 0.180 meaning it has no effect on Tax Avoidance, then the first hypothesis is rejected. With a high ROA value, the company will carry out better tax planning. Also with large profits it is possible for the company not to object too much in paying the appropriate taxes.

2. *Leverage* is proxied by the Debt to Asset Ratio, a significant value of 0.443 due to a high percentage value, so DAR does not affect Tax Avoidance. Therefore the second hypothesis is accepted. The high percentage of the DAR value does not allow the company to avoid tax because the company uses debt as funding for its operational activities.

3. *Corporate Social Responsibility* significant value is 0.001. CSR has a significant negative effect on Tax Avoidance. Also the third hypothesis is acceptable. Companies that participate in implementing CSR will act aggressively towards taxes, which will result in the company losing its reputation in the eyes of shareholders as well as having a positive impact on CSR activities that have been carried out so far.

4. The f test produces a calculated f value > f table value (6.703 > 2.89) and a significant value of 0.001 which means that the independent variable has a simultaneous effect on Tax Avoidance. So that the fourth hypothesis is accepted.

Tax agencies are expected to pay more attention and be careful in carrying out tax rules. This research can also be used as consideration for applicable tax regulations and the formulation of other regulations in the future so as to narrow the gap for taxpayers to carry out tax avoidance activities.

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