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Profitability, sales growth, and solvency: Determinants of corporate tax avoidance

Subjects
Accounting and Auditing

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ABSTRACT

Purpose: This study aims to determine the effect of profitability, sales growth, and solvency on tax avoidance.

Methods: This study uses a quantitative approach based on secondary data on primary consumer goods sector manufacturing companies listed on the IDX for the 2017-2019 period. The sample was selected purposively based on certain criteria. Data analysis was carried out through descriptive statistics, classical assumption tests, panel data regression, and hypothesis testing, with the help of Eviews software version 10.

Findings: The results of this study indicate that based on research conducted to analyze the effect of profitability, sales growth, and solvency on tax avoidance in primary consumer goods sector manufacturing companies located on the IDX for the 2017-2019 period, it can be concluded that profitability, sales growth, and solvency have a negative effect on tax avoidance.

Practical Implications: The results of this study provide important insights into the relationship between profitability, sales growth, and solvency with tax avoidance in manufacturing companies in the primary consumer goods sector listed on the Indonesia Stock Exchange. In this context, companies with high profitability and sales growth tend to avoid taxes, while high solvency encourages tax avoidance. These findings indicate the need for stricter supervision from the tax authorities to prevent tax avoidance practices. Furthermore, companies are advised to develop more ethical and transparent tax policies to maintain their reputation and social responsibility.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk mengetahui pengaruh profitabilitas, sales growth, dan solvabilitas terhadap tax avoidance

Metode: Penelitian ini menggunakan pendekatan kuantitatif berbasis data sekunder pada perusahaan manufaktur sektor barang konsumen primer yang terdaftar di BEI periode 2017–2019. Sampel dipilih secara purposive berdasarkan kriteria tertentu. Analisis data dilakukan melalui statistik deskriptif, uji asumsi klasik, regresi data panel, dan uji hipotesis, dengan bantuan software Eviews versi 10.

Hasil: Hasil penelitian ini menunjukkan bahwa berdasarkan hasil penelitian yang telah dilakukan untuk menganalisis pengaruh profitabilitas, sales growth, dan solvabilitas terhadap tax avoidance pada perusahan manufaktur sektor barang konsumen primer yang terdapat di BEI periode 2017-2019 dapat disimpulkan bahwa profitabilitas, sales growth berpengaruh negatif dan solvabilitas berpengaruh positif terhadap tax avoidance.

Implikasi Praktis: Hasil penelitian ini memberikan wawasan penting tentang hubungan antara profitabilitas, sales growth, dan solvabilitas dengan tax avoidance di perusahaan manufaktur sektor barang konsumen primer yang terdaftar di Bursa Efek Indonesia. Dalam konteks ini, perusahaan yang memiliki profitabilitas dan pertumbuhan penjualan yang tinggi cenderung untuk menghindari pajak, sedangkan solvabilitas yang tinggi justru mendorong penghindaran pajak. Temuan ini menunjukkan perlunya pengawasan lebih ketat dari pihak otoritas perpajakan untuk mencegah praktik penghindaran pajak. Selanjutnya, perusahaan disarankan untuk mengembangkan kebijakan pajak yang lebih etis dan transparan, guna mempertahankan reputasi dan tanggung jawab sosial mereka.

Kata Kunci: Profitabilitas, Pertumbuhan Penjualan, Solvabilitas, Penghindaran Pajak.

1. Introduction

Taxes play an important role as the main contribution to the state, which taxpayers, both individuals and business entities, must fulfill. Although the tax system is coercive and does not expect direct reciprocity, this obligation is often a burden for taxpayers. Based on the opinion of Darmawan and Sukartha (2014), taxes are used by the government to build infrastructure and achieve general welfare. In this context, taxpayers try to pay as little tax as possible to increase profits, while the government expects an increase in tax revenue. This mismatch of interests between the government and taxpayers creates opportunities for tax avoidance practices, also known as tax avoidance. Tax avoidance is a tax planning method that aims to achieve efficiency. According to Hutagol (2007), this practice allows companies to avoid taxes within the limits set by law, utilizing existing regulatory loopholes. This issue is increasingly attracting attention, especially globally, where large companies often shift their profits to lower-tax jurisdictions, resulting in losses to state revenues.

The importance of the tax avoidance issue has been widely examined in various previous studies. Early research suggested that multiple factors contribute to tax avoidance, including ownership structure and operational efficiency. However, recent studies have found that companies in Indonesia still frequently practice tax avoidance practices. Notable examples are the cases of Adaro Energy and British American Tobacco, which show how multinational companies utilize such practices to shift profits to low-tax countries to the detriment of state revenues. While many studies have addressed various aspects of tax avoidance, there is still a lack of information regarding the long-term impact of this practice on the local economy. Most studies tend to focus on analyzing the financial data of companies in a single period, while the broader social and economic impacts are less explored. In addition, many existing studies have not analyzed the relationship between government regulation and tax avoidance behavior by companies.

In this context, this study aims to examine the effect of profitability, sales growth, and solvency on tax avoidance in the primary consumer goods manufacturing company sector listed on the Indonesia Stock Exchange from 2017 to 2019. Hopefully, the results of this study will provide significant benefits for companies and related stakeholders.

2. Theoretical Background

Profitability

According to Fahmi (2015), profitability is a ratio that measures the effectiveness of company management, reflected in the level of profit generated from sales or investment. Using Return on Assets (ROA) as a measure, high profitability indicates large profits. This allows the company to utilize depreciation and amortization expenses as tax deductions to appear as if it is doing tax avoidance.

Sales Growth

Sales Growth or sales growth is a ratio that describes the company's ability to maintain its economic position in conditions of economic growth and the business sector (Kasmir, 2014). According to Brigham and Houston (in Andriyanto, 2015), stable sales provide more security in obtaining loans and allow companies to bear high fixed costs than companies with unstable sales. Therefore, sales reflect the success of past investments and serve as a predictive indicator of future growth.

Solvency

Solvency, or leverage ratio, is a financial ratio that describes the relationship between a company's debt and its capital and assets. According to Periansya (2015), this ratio measures the extent to which the company's assets are financed by debt. Fahmi (2015) also states that the leverage ratio measures how much of the company's financing comes from debt. Most large companies utilize internal resources rather than rely on debt because their debt can attract government attention, encouraging management to be more compliant or act aggressively (Darmawa & Sukantha, 2014).

Hypotheses

The effect of profitability on tax avoidance

Kasit B (2014) found that profitability, as measured by ROA, hurts tax avoidance, meaning that the higher the company's ROA, the lower the tendency to do tax avoidance. This happens because companies with good tax planning can utilize their resources to meet tax obligations without avoiding them. In contrast, Darmawan (2014) shows different results, where ROA positively influences tax avoidance. Research by Dewinta and Setiawan (2016) and Darmawan and Sukartha (2014) also support these findings, indicating that the higher the company's profitability, the greater the possibility of tax avoidance. This is due to the flexibility that companies with high profits have to take advantage of loopholes in tax management, supported by effective tax planning. Based on the theoretical framework and the results of previous research, the first hypothesis is proposed as follows:

H1: Profitability has a significant effect on tax avoidance

The effect of sales growth on tax avoidance

sales growth is an indicator of the company's demand and competitiveness. Increasing sales growth tends to make a company earn large profits, and companies also tend to avoid taxes. Research conducted by Okmawati (2017) and Dewinta and Setiawan (2016) shows that sales growth positively affects tax avoidance. Meanwhile, according to Calvin S (2016), sales growth hurts tax avoidance because the higher the sales growth, the lower the tax avoidance activity. Based on the theoretical framework and the results of previous research, the second hypothesis is proposed as follows:

H2: Sales growth has a significant effect on tax avoidance

Thee effect of Solvency on tax avoidance

Leverage or solvency is a measure that shows how much the company's assets are financed with debt. In this case, the research by Oktamawati (2017) is in line with the findings of Kim and Im (2017), which show that solvency positively influences tax avoidance. However, research by Dewinta and Setiawan (2016) found that solvency hurts tax avoidance. Thus, studies have different perspectives regarding the impact of solvency on tax avoidance. Based on the theoretical framework and the results of previous research, the first hypothesis is proposed as follows:

H3: Solvency has a significant effect on tax avoidance

3. Methods

This study uses a quantitative approach, and the data used in this study uses secondary data. The population in this study used primary consumer goods sector manufacturing companies listed on the IDX in the 2017 - 2019 period totaling 39 companies. Sampling in this study using purposive sampling. With the following company criteria: 1. Primary Consumer Goods Sector Manufacturing Companies listed on the Indonesia Stock Exchange (BEI) in 2017-2019. 2. Primary Consumer Goods Sector Manufacturing Companies in Indonesia that do not have subsidiaries abroad. 3. Primary Consumer Goods Sector Manufacturing Companies that do not publish complete annual financial reports for 2017-2019. 4. Primary Consumer Goods Sector Manufacturing Companies that experienced losses during the 2017-2019 period.

Variable measurement

In this study, tax avoidance is determined as the dependent variable. Tax avoidance refers to legally avoiding taxes that do not conflict with tax regulations. This is done by taking advantage of weaknesses or gray areas in tax laws to reduce the amount of tax owed (Pohan, 2013). Tax avoidance in this study is measured using the CETR approach.

CETR = Tax Payment / Profit Before Tax

Furthermore, this study's independent variable is profitability. A profitability ratio is a financial measure describing a company's profit potential and strength in generating profits from certain revenues, assets, and share capital (Hanafi & Halim, 2003). This study uses Return on Assets (ROA) to measure profitability.

ROA = Net Income / Total Assets × 100%

The following independent variable is sales growth. Sales growth is a ratio that shows the extent to which a company can increase its sales compared to its total sales (Kasmir, 2016).

NSGR = (Net $Sales_t$ - Net $Sales_{t-1}$) / Net $Sales_{t-1}$

The following independent variable is solvency. The solvency ratio is a comparison used to assess debt to equity (Kasmir, 2014). This study calculates solvency using the debt-equity ratio (DER).

DER = Total Debt / Total Equity × 100%

Analysis technique

The data analysis technique in this study utilizes multiple linear regression analysis using Eviews 10 statistical software, which carries out descriptive statistical tests first to describe or identify the characteristics of the data that has been collected in such a way. Furthermore, it fulfills the classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Then, hypothesis testing is carried out, namely, the T-test to determine the influence of each profitability, sales growth, and solvency variable on the tax avoidance variable and the coefficient of determination test to see how much influence the profitability, sales growth and solvency variables have on the tax avoidance variable compared to other variables outside this study. Thus, the multiple linear regression analysis model in this study is described as follows:

CETR = α + β1 ROA + β2 SG + β3 DER + e

4. Results and Discussion

Descriptive statistics test

In the results of Table 1, CETR as a dependent variable shows a maximum value of 0.696970 and a minimum value of 0.087870, which are owned by the companies Dharma Satya Nusantara Tbk (DSNG) and Budi Starch & Sweetener Tbk (BUDI), respectively. The average CETR obtained is 0.280553, with a standard deviation of 0.140677. Furthermore, profitability is proxied through ROA, which records a maximum value of 0.846850 and a minimum value of 0.011760, which are owned by the companies Siantar Top Tbk (STTP) and Sumber Alfaria Trijaya Tbk (AMRT).

Table 1.
Descriptive statistics

Variable	N	Mean	Maximum	Minimum	Std. Dev
CETR	39	0,280553	0,69697	0,08787	0,140677
ROA	39	0,101131	0,84685	0,01176	0,141991
SG	39	0,131927	0,47118	0,00054	0,110875
DER	39	0,476285	0,93397	0,11417	0,208678

Source: Eviews 10

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According to the financial statements, the average profitability shows a value of 0.101131 with a standard deviation of 0.141991. On the other hand, the sales growth variable obtained a maximum value of 0.471180 and a minimum value of 0.000540, which were owned by the companies PP London Sumatra Indonesia Tbk (LSIP) and Siantar Top Tbk (STTP), with an average sales growth recorded at 0.131927 and a standard deviation of 0.110875. Finally, the solvency variable proxied by DER recorded a maximum value of 0.933970 and a minimum value of 0.114170 from the companies Indofood Sukses Makmur Tbk (INDF) and Dharma Satya Nusantara Tbk (DSNG), with an average DER disclosed in the financial statements of 0.476285 and a standard deviation of 0.208678.

Hypotheses test

The T-test results show that profitability, as measured by ROA, has a significant effect on tax avoidance with a probability of 0.0256, which means that the higher the profitability, the greater the tax avoidance. In addition, sales growth also has a significant effect with a probability of 0.0064, and the higher the sales growth, the higher the tax avoidance. As measured by DER, solvency has a probability of 0.0400, indicating that the higher the company's debt, the higher the tax avoidance. Thus, profitability, sales growth, and solvency contribute to corporate tax avoidance.

Table 2.
hypotheses test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,319289	0,023416	13,63528	0,0000
ROA	-0,039603	0,065688	-0,6029	0,0256
SG	-0,326107	0,108609	-3,00258	0,0064
DER	0,017409	0,036732	0,473958	0,0400
Adjusted R-Squared	0.336424			

Source. Eviews 10

Based on Table 2, the Adjusted R-squared determination coefficient result is 0.336424 or 33.64%, which means that all independent variables (ROA, SG, and DER) can explain the variation in the dependent variable by 33.64%. In comparison, the remaining 66.36% (100% - 33.64%) is explained by other factors not included in this research model. Multiple linear regression analysis based on the calculation results using statistical software Eviews obtained the following equation:

$$CETR = 0.319289 - 0.039603\ ROA - 0.326107\ SG + 0.017409\ DER$$

The regression equation above shows a constant value of 0.319289 for CETR when profitability, sales growth, and solvency are considered continuous. A 1% increase in ROA results in a decrease in tax avoidance of -0.039603, indicating that higher ROA is associated with lower levels of tax avoidance. Furthermore, a 1% increase in sales growth also results in a decrease in tax avoidance of -0.326107, reflecting that sales growth does not always increase profitability due to additional burdens. On the other hand, a 1% increase in DER increases tax avoidance by 0.017409, indicating a positive relationship between DER and tax avoidance caused by debt interest expenses that reduce taxable profits.

Discussion

The Effect of Profitability on Tax Avoidance

The study results indicate that ROA does not affect tax avoidance as measured by CETR, which means that company profitability does not affect tax avoidance. Therefore, the hypothesis stating that profitability affects tax avoidance is rejected. This evidence is supported by the results of multiple regression, which shows a negative coefficient and indicates that profitability hurts tax avoidance. This finding contradicts previous studies conducted by Darmawan (2014), Dewinta and Setiawan (2016), and Susanti and Ichsani (2019), which state that profitability (ROA) has a positive effect on tax avoidance, where the higher the ROA, the greater the tax avoidance carried out by the company.

The Effect of Sales Growth on Tax Avoidance

Based on the study's results, sales growth as measured by SG shows an adverse effect on tax avoidance as measured by CETR, which means that tax avoidance is not affected by the company's sales growth. Therefore, the hypothesis stating that sales growth affects tax avoidance is rejected. This evidence is supported by the results of multiple regression, which show a negative coefficient value and indicate that sales growth hurts tax avoidance. This finding is inconsistent with previous studies conducted by Okmawati (2017) and Nadya and Purnamasari (2020), which showed that sales growth affects tax avoidance.

The Effect of Solvency on Tax Avoidance

Based on the study's results, as measured by DER, solvency shows a positive and significant effect on tax avoidance as measured by CETR.

This means that the level of company solvency influences tax avoidance, so the hypothesis stating that solvency impacts tax avoidance can be accepted. This evidence is supported by the results of multiple regression, which show a positive coefficient value and confirm that solvency affects tax avoidance. This finding aligns with previous studies conducted by Oktaviani (2017) and Dharma and Ardhiana (2016), which also stated that solvency affects tax avoidance. However, the results of this study contradict the findings of Dewinta and Setiawan (2016) and Irianto et al. (2017), which state that solvency does not affect tax avoidance. When the company's solvency value is high, the amount of the company's debt also increases. This causes the interest costs borne by the company to increase, which in turn will reduce the tax burden that must be paid.

5. Conclusion

Based on the panel data regression testing that has been carried out, several conclusions can be drawn regarding the effect of profitability, sales growth, and solvency variables on tax avoidance. First, profitability is proven to hurt tax avoidance. The results show that companies with high levels of profitability tend to engage in lower tax avoidance. Furthermore, sales growth also indicates an adverse effect on tax avoidance. This means that companies that experience high sales growth will be less involved in tax avoidance practices.

On the other hand, solvency positively affects tax avoidance; companies with high debt appear to be more involved in tax avoidance. Although this study provides valuable insights, several limitations need to be noted. First, this study only uses samples from primary consumer goods manufacturing companies listed on the Indonesia Stock Exchange (IDX), so the results may not be generalizable to other sectors. In addition, this study only considers three variables: profitability, sales growth, and solvency, while many different factors can affect tax avoidance. Based on the existing limitations, the author suggests that future research can develop this topic further. It is recommended that further researchers take broader research objects, for example, by involving samples from various industrial sectors and extending the observation period. In addition, researchers are expected to add other independent variables that have the potential to affect tax avoidance, such as corporate governance, executive character, and company size. In this way, future research results can provide a more comprehensive and in-depth analysis.

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