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THE INFLUENCE OF PROFITABILITY, LEVERAGE & AUDIT COMMITTEE ON TAX AVOIDANCE

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ABSTRACT

This research aims to determine the effect of profitability, leverage and audit committee on tax avoidance. The object of this research is manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period with a total sample of 64 companies. This research uses quantitative methods with panel data. The data analysis technique used is the panel data estimation selection test, classical assumption test, multiple linear regression test and hypothesis testing using a significance of 5%. The results of this study indicate that profitability has a negative effect on tax avoidance while leverage and audit committee have no effect on tax avoidance.

Keywords: *Profitability, Leverage, Audit Committee and Tax Avoidance*

INTRODUCTION

Taxes are mandatory payments that every corporate and personal taxpayer must deposit to the state for the prosperity and well-being of society. Revenue comes from the taxation sector as the largest contributor to state revenue in the country (Fadrianto & Mulyani, 2020). However, the government's efforts to increase tax revenue have not reached the target because of tax resistance and the lack of tax compliance which causes one of the reasons this tax revenue target has not been achieved. Many tax avoidance cases is often by many companies in Indonesia, for example, as happened in an automotive manufacturing company, namely PT Toyota Motor Manufacturing Indonesia (TMIIN). This company avoided tax by utilizing transfer pricing out of the arm's length principle to Toyota Motor Asia Pacific which is its affiliated company located in Singapore and has a lower tax rate than in Indonesia. It is used by companies to avoid taxes (Putri, 2018)

Tax Justice Network (TJN) institution reported that tobacco companies owned by British American Tobacco (BAT) carried out tax avoidance in Indonesia through PT. Bentoel Internasional Investama Tbk company. The company has diverted some its revenues out of Indonesia through the intra-company loans. This was in accordance with the evidence that the company made many loans between 2013 and 2015 from the Dutch company, named Rothmans Far East BV. With this loans, the company should pay a total loan interest of US$ 164 million or 2.25 trillion rupiahs. The loan interest will be a taxable income deduction in

Indonesia. From the Rothmans Far East BV's account, it shows that the loan funds received by the company actually came from another BAT group company in the United Kingdom namely Pathway 4 (Jersey) Limited. However, the company makes loans from company located in the Netherlands (Rothmans Far East BV) not in the United Kingdom because Indonesia and Netherlands have tax agreements that exempt taxes on debt interest payments. With this scheme, it can affect that Indonesia loses state revenues of around US$ 11 million dollars in each year (Prima et al., 2021).

Then, a manufacturing company for the beverage sector, namely PT Coca Cola Indonesia (CCI) also avoided its taxes. Direktorat Jenderal Pajak (DJP) found that there was an inflated cost for advertising from 2002 to 2006 amounting to 566.84 billion rupiahs. However, the company's advertising costs are not directly related to the products which was produced by the company. The large costs cause low taxable income so that the taxes paid by the company will be reduced. According to the DJP, the total taxable income of the company was 603.48 billion rupiahs, while from the company's taxable income was only 492.59 billion rupiahs. From the difference in its taxable income, the DJP calculated the taxes underpayment of income taxes of 49.24 billion rupiah (Sumantri & Indradi, 2020)

Financial factors have an important role in considering the company's management to avoid its taxes. In this study, the financial factors are leverage and profitability. According to the research of Antari and Setiawan, leverage has a significant impact on the tax avoidance (Antari & Setiawan, 2020). Leverage can affect tax avoidance according to the research by (Putriningsih et al., 2018) and (Setyadi & Ayem, 2019). In the previous research (Zhu et al., 2019) concluded that leverage did not have any significant impact on tax avoidance. The influence between profitability and tax avoidance has been studied in several previous research, including research by (Setyadi & Ayem, 2019) and (Anouar & Houria, 2017) found a significant effect between profitability and tax avoidance, but the findings of previous research (Antari & Setiawan, 2020) showed that profitability has no effect on tax avoidance.

Tax avoidance is also related to audit committee of the company. The role of the audit committee can help to improve the performance monitoring system of company managers which can reduce tax avoidance practices as an opportunistic act of the company managers. The audit committee has a significant effect on tax avoidance according to research (Kalil, 2019) and (Antari & Setiawan, 2020). There is no significant relationship between audit committee and tax avoidance according to the research by (Setyadi & Ayem, 2019) and (Putriningsih et al., 2018).

This research reffered to the previous research (Antari & Setiawan, 2020) with several differences. First, the Cash Effective Tax Rate (CETR) was used to calculate tax avoidance, while this study uses the Effective Tax Rate (ETR) measurement. Second, the audit committee's measurement uses the audit committee's effectiveness score value. Third, this study added firm size as a control variable.

METHOD

The type of data used in this study was a type of secondary data sourced by annual reports. The data were analyzed using multiple linear regression analysis. Researcher obtained these data from Indonesia Stock Exchange (IDX) or the company's official website. The population of this study was the manufacturing companies listed on the IDX in the period 2018-2020. The selection of research samples used the purposive sampling technique that considering certain sample criteria. The criteria of this research is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2020 period, publish annual reports and financial statements that have been audited in the 2018-2020 period and the manufacturing companies does not have losses during the research period.

RESULTS AND DISCUSSION

Based on the test results, it shows that profitability has a negative effect on tax avoidance. This means that the higher the profitability obtained from the company, the lower the company avoided its taxes. The results of this study do not support the agency's theory which states that when a company makes large profit, the tax burden also increases so that the company's tendency to avoid its taxes will be higher. It is because the companies have large profits will be able to pay tax burden according to regulations and the companies prefer to maintain the company's good name because of consideration of the company's reputation being bad and it have an impact on the decline in the company's share (Oktamawati, 2017).

Based on the test results, it means that leverage does not affect on tax avoidance. This means that the leverage used in the company does not affect on tax avoidance or the leverage is not one of the aspects used by the company to avoid its taxes. The results of this study do not support the trade-off theory which states that companies can exchange tax benefits by utilizing their debt because interest expense can be used as a deduction for the company's taxable income. It is because the leverage used by the company is not necessarily aimed to reduce the company's tax burden but it is actually used to fulfil the company's operational or investment needs and it is not used as main consideration for the company to avoid its taxes.

Based on the test results, it shows that the audit committee has no significant effect on tax avoidance. It means that the role by the audit committee does not have an influence on the tax avoidance actions of the company. This result does not support the agency theory that the audit committee can assist the role of the board of commissioners in improving the supervisory function to the company's management which can affect the company managers in minimizing their tax avoidance. The reason is because the supervisory function of the audit committee is still low in monitoring the actions of company managers which related to the preparation of company financial statements to supervise the actions of the company's management to carry out its tax avoidance.

CONCLUSION

According to the results of the study and previous discussions, it can be concluded that profitability as an independent variable in this study has a significant negative affect on the tax avoidance. This means that the higher the profitability obtained from the company, the lower the tax avoidance actions by the company so the first hypothesis in this study is accepted. Leverage as an independent variable in this study does not have a significant affect on tax avoidance. This means that the leverage policy used in the sample company does not affect on the tax avoidance so the second hypothesis in this study is rejected. Then the audit committee does not affect on the tax avoidance. This means that the role by the audit committee does not have an influence on tax avoidance actions carried out by the company so the third hypothesis in this study is rejected.

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