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Do Capital Intensity and Profitability Affect Tax Avoidance in Manufactuting Company in Indonesia?

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Abstract

The objective of this research is to obtain empirical evidence about the influence of capital intensity, profitability, leverage, company size, sales growth, independent commissioner, and fiscal loss compensation, as independent variables to tax avoidance as dependent variable in Indonesian manufacturing companies.

This research employed multiple regression methodology for data analysis. There are 56 companies listed in manufacturing sectors in Indonesia stock exchange on 2016-2018 that meet the criteria by using purposive sampling method.

The result indicates that capital intensity and profitability have effects to tax avoidance, while other independent variables such as leverage, company size, sales growth, independent commissioner, and fiscal loss compensation have no effect to tax avoidance practice in the company.

This paper contributes to showing how the economic capacity of companies can affect the reluctance of companies to pay taxes.

The action of tax avoidance is beneficial for the company because the company will pay a smaller tax burden. However, this action causes losses for the government in tax collection.

Keywords: tax avoidance, capital intensity, profitability.

I. INTRODUCTION

Tax revenue is the most important element for developing countries in order to support national development for all aspects of the country's development. The imposition of taxes by the government in the form of tax collection on individual and corporate taxpayers, is essentially a manifestation of the taxpayers' obligations and roles to take part in carrying out state financing. The difference between the interests of the state and companies where the state expects large tax revenues is in contrast to the wishes of companies, which as the largest tax contributor to the state, want small tax payments. This has led to many company efforts to carry out tax reduction practices such as tax planning and tax management in companies. The difference in interests between the company and the government forces the government to further tighten the collection of funds (taxes) from the public (Puspita & Febrianti, 2018) The government needs taxes as a source of financing to develop the country. The government forms an institution that will collect taxes from individuals and business entities. The government and tax authorities need to continue to be supported by credible provisions, accountable and fair tax rates (Putra et al., 2018).

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However, the tax burden paid has no direct benefit for the company. Conversely, the tax burden will reduce the company's income or cash surplus. The self-assessment tax system and options in certain tax laws in Indonesia provide the possibility for companies to seek alternatives in taxation arrangements and try to legally minimize tax payments (Sonia & Suparmun, 2019). Tax avoidance is an effort to reduce tax payable legally and still comply with existing tax regulations such as the use of allowable exemptions and deductions or tax deferrals that have not been regulated in taxation regulations and generally through the steps taken by the company (Desmiranti & Sulhendri, 2019). Less strict tax laws and regulations can provide opportunities for companies to practice tax avoidance. This is what triggers many cases of tax avoidance practices that occur in go public companies (Riza et al., 2017).

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Agency Theory

Agency theory is the development of a theory that studies a contract design between the two parties between the shareholders or company owners (principal) and the manager (agent). The relationship between the agent and the principal is a reciprocal relationship in which the agent will perform his duties in the company in accordance with the orders from the principal and the principal will provide a reasonable reward for the agent. In the relationship between the principal and the agent, if there is an imbalance in the control of information, information asymmetry can arise which is part of the agency problem (Jensen & Meckling, 1976). Tax resistance by companies leads to non-compliance activities with regulations. This is caused by an agency conflict, so that management makes business decisions which result in the company taking tax planning actions through tax avoidance (Pattiasina et al., 2019).

Based on agency theory, company managers have the ability to change information and manipulate income by selecting alternatives and accounting methods used to record every transaction that occurs. The company managers have an incentive to increase revenue for financial reporting purposes and to decrease earnings for tax reporting purposes (Rani et al., 2018).

2.2. Tax Avoidance

Tax avoidance is an act of tax burden avoidance that is carried out legally for taxpayers because it is unlikely to conflict with taxation provisions, where the methods and techniques used are to take advantage of the weaknesses (gray area) contained in the tax laws and regulations themselves. So that it is expected to be able to reduce the tax burden which is still within the limits of the tax laws and regulations. Tax avoidance is a series of tax planning activities with the aim of explicitly reducing the amount of tax. Companies take tax avoidance by taking advantage of loopholes in tax regulations in a country (Jingga & Lina, 2017).

2.3. Capital Intensity

Investment decisions can affect tax payments. Ownership of fixed assets and depreciation of fixed assets by companies can reduce tax payments paid. Depreciation expense can be a tax deduction tool. Unemployed company funds can be allocated to purchase fixed assets as investment (Suciarti et al., 2020). The capital intensity describes the amount of capital needed in order to obtain income from an increase or decrease in fixed assets. This variable will always be paired with depreciation expense, where depreciation expense is an expense that reduces income. With increasing costs, the company's net profit will decrease, which results in lower taxes that should be paid

(Puspita & Febrianti, 2018). Therefore, Therefore, hypothesis of this research study is below:

H_{a1}: there is an effect of capital intensity on tax avoidance.

2.4. Profitability

Profitability describes the ability of a company to generate profits and is an indicator of management performance in managing the company's wealth. Increased benefits will result in higher taxes to be paid, or it can be said that there is a possibility of tax evasion (Putra et al., 2020). These companies usually face a lower tax burden because of their high efficiency. The company managed to take advantage of its own advantages that helped it pay a lower tax burden than it should have, for example by using tax incentives and other tax deductions (Darmadi & Zulaikha, 2013). Therefore, Therefore, hypothesis of this research study is below:

H_{a2}: there is an effect of profitability on tax avoidance.

2.5. Leverage

Leverage is the ratio to measure the extent to which the company's investment comes from debt. Companies that make loans will be faced with an interest expense that arises from the agreement of both parties and also the company must pay the principal of the loan to the creditor. Interest expense is one of the deductible elements of company taxable income, which is also known as deductible expense. The reduced taxable profit due to interest expense will result in lower taxes that must be paid. Meanwhile, if the financing uses equity financing, it will incur a dividend expense, which cannot be a deduction for taxable income (Puspita & Febrianti, 2018). Therefore, Therefore, hypothesis of this research study is below:

H_{a3}: there is an effect of leverage on tax avoidance.

2.6. Company size

The variable of company size can be interpreted as a scale in measuring the size of a company by sharing ways, including: total assets, log size, value and others. The stability and ability of a company to carry out its economic activities is also shown in the size of the company. as well as the company's ability to act to reverse tax decisions. The larger the number of the size of the dining company, the more it will become the center of attention of the government and will lead to the tendency of companies to comply with government regulations (compliances). The size of the company is indicated by the log of total assets, because it is considered capable of having a greater level of stability than other proxies and tends to be sustainable between periods (Kurniasih & Sari, 2013). Therefore, Therefore, hypothesis of this research study is below:

H_{a4}: there is an effect of company size on tax avoidance.

2.7. Sales Growth

Sales growth is an indicator of company growth in addition to the company's assets and share price. When sales growth is able to produce high value, it can be concluded that the company is in a period of rapid growth and the profit that should be generated has also increased. As previously known, an increase in the company's operating profit will also increase the tax burden borne by the company because it will directly affect the imposition of the company's taxable income which is the basis for calculating the company's payable tax (Puspita & Febrianti, 2018). Therefore, Therefore, hypothesis of this research study is below:

H_{a5}: there is an effect of sales growth on tax avoidance.

2.8. Composition of Independent Commissioners

The composition of independent commissioners is a percentage that describes the ratio between independent commissioners and all members of the board of commissioners in a company that supervises the company's operational activities (Dewi & Jati, 2014). With the existence of independent commissioners, it will make financial reports more objective because of the monitoring function that is carried out. Independent commissioners supervise and control the policies of the directors which are considered to be detrimental to the company in the future, one of which is tax avoidance (Kurniasih & Sari, 2013). Therefore, hypothesis of this research study is below:

H_{a6}: there is an influence from the composition of independent commissioners on tax avoidance.

2.9. Fiscal Loss

Fiscal loss compensation is a variable with a condition in which a company that is experiencing losses in an accounting period will get relief in paying taxes. This loss can be compensated within the next five years and with the amount of compensation for the loss deducted from the profit owned. Fiscal loss compensation can be one of the variables that affect tax avoidance. This is because the company that loses money can compensate for losses where in taxation the company that experiences losses is able to accumulate its losses to be compensated if they experience a profit, so that if the tax loss compensation is higher, the company will be able to avoid high tax liability (Kurniasih & Sari, 2013). Therefore,

H_{a7}: there is an effect of fiscal loss compensation on tax avoidance.

The objective of this research is to obtain empirical evidence about the influence of capital intensity, profitability, leverage, company size, sales growth, independent commissioner, and fiscal loss compensation, as independent variables to tax avoidance as dependent variable in Indonesian manufacturing companies.

III. RESEARCH METHODOLOGY

The research object used by researchers as the research population is manufacturing companies listed on the Indonesia stock exchange in the 2016-2018 period. The sample selection method was done by using purposive sampling method. Based on the predetermined sample selection criteria, this study obtained 56 companies as samples, so that the total data used in this study was 168 data.

Tax avoidance is an action to reduce the tax debt that must be paid by the company, but in a way that does not violate existing tax regulations. In this research, the tax avoidance variable will be proxied by using the formula of the cash effective tax rates (CETR). Proxy cash effective tax rates are cash disbursed to finance tax expense divided by profit before tax. The CETR value used in this study is that which has a value below 1 which means that the company is avoiding tax because the tax that should be paid is not paid by the company. The value of CETR can be measured using the formula for paying taxes divided by profit before tax (Puspita & Febrianti, 2018).

Capital intensity is the ratio of total fixed assets (fixed assets) such as equipment, machinery, and various properties to total assets. This ratio describes how much capital the company needs to generate revenue. Company prospects can be seen through capital intensity, because companies that have high capital intensity will be able to take existing market opportunities. This can be calculated by the ratio of fixed assets to total assets that the company owns. Capital intensity can be measured by total fixed assets divided by total assets (Puspita & Febrianti, 2018).

Profitability (ROA) is an indicator that can describe the financial performance of a company. Return on assets is the comparison between net income and total assets at the end of the period. The higher the return on assets, the better the company is in generating profits. Return on assets can be calculated by dividing net profit after tax by total assets (Puspita & Febrianti, 2018).

Leverage is a financial ratio that is used to find out how much the company's investment financing comes from debt. Leverage is calculated by using the debt to equity ratio (DER). DER itself is a comparison between total debt and total company capital, both of which are sources of financing in a company. In this study, to be able to measure the ratio of leverage, it uses total liabilities divided by total equity (Puspita & Febrianti, 2018).

The size of the company describes the size of a company which will be measured by the size of the assets owned by the company. The size of the company is shown through the total assets natural logarithm, because it has a better level of stability compared to other proxies. The greater the total assets indicates that the company has good prospects in the long term. So in this study the company size is measured based on the natural logarithm of total assets (Sonia & Suparmun, 2019).

Sales growth is the development of the company's sales rate that occurs every year. This development has the character of growing or even decreasing. Sales growth has an important role in working capital management. Sales growth will be calculated by sales at the end of the period minus the sales at the beginning of the period divided by the sales at the beginning of the period.

The composition of independent commissioners is a member of the board of commissioners who is not affiliated with the company's management, so this commissioner does not prioritize management's interests. The amount can be determined by dividing the independent board of commissioners with the total number of commissioners who have a role in overseeing the management of the company. The greater the percentage of the composition of independent commissioners, the better because company supervision is considered quite tight so that tax avoidance may be minimal. The composition of independent commissioners can be calculated by using the percentage of independent commissioners (Sonia & Suparmun, 2019).

Fiscal loss compensation is the fiscal loss of a company that can be compensated for in the next period, which is only allowed during the next five consecutive years. Variable tax loss compensation can be measured using dummy variables, 1 if there is tax loss compensation and 0 if there is no tax loss compensation.

IV. RESULTS AND DISCUSSIONS

The hypothesis result can be seen below.

Table 1
T-test Results

Model	B	Sig.
Constant	0,454	0,040
CAPT	-0,208	0,009
ROA	-0,004	0,008
LEV	0,012	0,536
SIZE	-0,002	0,759
GROW	0,097	0,310
IC	0,000	0,830
FLC	-0,043	0,304

The sig value at capital intensity is 0.009. So it can be concluded that the capital intensity affects tax avoidance. The negative coefficient in the regression model on capital intensity means that capital intensity has a negative effect on the CETR proxy, where the greater the value of capital intensity, the lower the CETR value, assuming the other independent variables of the regression model are fixed.

The capital intensity has an effect on tax avoidance because the capital intensity reflects how much capital (in the form of fixed assets) is needed to generate income. Fixed assets owned by the company result in depreciation costs which are costs that can reduce taxable income which is the basis for calculating payable tax. Thus, the greater the amount of capital intensity in the form of fixed assets owned by the company, the greater the cost of depreciation so that it can reduce taxable income and cause the effective tax rate to be smaller.

Sig value on profitability with a value of 0.008. This shows that the return on assets has an effect on tax avoidance. The negative coefficient on ROA means that return on assets has a negative effect on the CETR proxy, where the greater the ROA value, the lower the CETR value assuming the other independent variables in the regression model are fixed. Indirectly this indicates tax avoidance.

Return on assets is a ratio that describes the condition of a company's performance as seen from how the company's management manages its resources, including assets, in order to contribute to increasing profits. Good company performance also has an impact on the company's operational efficiency. The efficiency of a company can be seen with an increase in company revenue, which greatly affects the taxation that the company owes to the government. The more efficient a company is, the more mature the company will try to optimize its tax planning to deal with the increase in profit. Increased profit will certainly result in an increase in taxable income which is the basis for calculating the payable tax.

Sig value. the value of leverage is 0.536. This shows that the leverage has no effect on tax avoidance. This shows that the greater or lower the leverage will not affect the tax avoidance carried out by the company. Companies sampled in this study have low long-term liabilities. Therefore, the interest expense of the resulting long-term debt is also low so that it is unable to have a significant effect on tax avoidance.

Sig value. on the company size, the value is 0.759. This shows that the company size has no effect on tax avoidance. Large companies will be more likely to use the resources they have than to use financing that comes from debt (leverage). Large companies and small companies are also able to practice tax avoidance, or even choose to comply with tax regulations.

The sig value in sales growth is 0.310. This shows that the sales growth has no effect on tax avoidance. Most of the sales growth samples in this study showed a high growth rate. The higher the gross sales growth, the company's revenue will also increase. If the income generated increases, the resulting profit is also large. With the increased profit generated, company management must greatly optimize its tax planning. Companies with low sales growth rates also did not speak of the possibility of tax evasion. The reason is that if the level of sales is low, the company will be able to take advantage of fiscal loss compensation in the following fiscal year, which means that the company pays lower taxes and allows indications of tax avoidance.

The sig value on the composition of independent commissioners is 0.830. This shows that the composition of independent commissioners has no effect on tax avoidance. The average value of the composition of the independent commissioners is 41.29%, which in the limited liability company law no. 40 of 2007. The higher the percentage of the composition of the independent commissioners indicates that the greater the supervision of management performance so that the decision to take tax avoidance measures will be very minimal. Direct internal supervision by companies is quite difficult to influence tax avoidance. This is because the final decision in a company is still determined by management, the authority of the independent commissioner cannot reduce management decisions.

The sig value of the tax loss compensation is 0.304. This shows that the tax loss compensation has no effect on tax avoidance. The average tax loss compensation in this study is 10%, which is quite low. The company uses tax loss compensation to reduce income tax after obtaining legal certainty from the tax authorities on the reported financial statements.

V. CONCLUSION

Based on the results of data management and analysis of 56 samples of manufacturing companies on the Indonesia stock exchange in 2016-2018, it can be concluded that the capital intensity and profitability have negative effect on tax avoidance, while leverage, company size, sales growth, composition of independent commissioners, and tax loss compensation has no effect on tax avoidance.

This study has limitations, including:

1. The independent variable used is very limited, namely only seven variables, while there are other variables that may influence the dependent variable tax avoidance,
2. The study period is only 3 years, from 2016 to 2018, so that only 56 sample companies can be used as research data and it can be said that the data is less representative of the population of the companies that are in the research period, and
3. Data used in the fiscal loss compensation variable is not too significant to be tested because more than 90% of the companies involved do not have fiscal loss compensation.

Recommendations that can be given are as follows:

1. Adding other independent variables that are expected to have an influence on tax avoidance, for example earnings management, or executive risk, and
2. Adding data by adding research years to more than 3 years, for example 4 or 5 years, so that the results can better reflect the overall conditions in Indonesia. Further research can also compare between existing sectors in Indonesia.

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