International Journal of Economics, Management and Accounting

ISSN: 2988-7615 | 2024(8)
Page 649-658

Research Article

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Factors Affecting Tax Avoidance (Study in Manufacturing Companies of Building Construction Sub-Sector of Indonesia Stock Exchange)

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Received: January 23, 2024; **Accepted:** January 26, 2024; **Online:** January 31, 2024 | DOI: https://doi.org/10.47353/ijema.v1i8.93

Abstract: *According to The State of Tax Justice 2020 report, Indonesia's position in tax avoidance cases is ranked fourth in Asia. This research aims to examine the factors that affect tax avoidance in manufacturing companies on the Indonesia stock exchange. This research covers the building construction manufacturing business of the Indonesia Stock Exchange in 2021–2022. Purposive sampling was used in this study and produced 34 samples. This research uses descriptive statistics, classical assumption tests, and multiple linear regression. This research found that Audit Quality and Profitability have a significant positive impact on Tax Avoidance.*

Keywords: *Tax Avoidance, Quality Audit, manufacturing company*

Introduction

Companies are motivated to reduce their tax payments when faced with a high tax burden, as shown by the Effective Tax Rate (ETR) (Kiswanto et al., 2020). This is the fundamental factor that drives many individuals and even organizations to avoid tax. Tax avoidance behavior attempts to minimize the company's tax obligations by manipulating its profits. This activity will certainly reduce the company's value in the eyes of investors. However, it remains in accordance with tax regulations by taking advantage of valid exceptions and deductions, as well as tax deferrals that are not yet regulated in the applicable tax laws and regulations. (Tebiono et al., 2019) This action is usually implemented through policies established by company executives. Even though tax avoidance is legal, the government still opposes it.

Approximately 25% of corporate income is allocated to taxes, thereby creating motivation for companies to engage in tax planning efforts, thereby increasing the possibility of tax authorities detecting their involvement in tax avoidance (Chaudhry 2014). The phenomenon of many multinational companies transferring profits to countries is considered a tax utopia. An average tax ratio that is below the target may indicate significant tax avoidance, resulting in suboptimal tax collection for the Indonesian state(Darmawan and Sukartha et al., 2014).

PT. Indofood Sukses Makmur Tbk. The practice of tax avoidance was reported to be worth IDR 1.3 billion. This case started when PT Indofood Sukses Makmur Tbk (INDF) established a new company and transferred the assets, liabilities and operations of the Noodle Division (instant noodle factory) to PT Indofood CBP Sukses Makmur Tbk (ICBP), this could be said to be expanding the business to avoid taxes, but with this business expansion the DJP still made the decision that the company must continue to pay the tax owed amounting to 1.3 billion (www.gresnews.com 2013).

Considering the research background, can identify various research problems. Specifically, we want to know whether the independent factors of audit quality and profitability have an impact on the dependent variable tax avoidance. The research problem formulation shows that the research objective is to determine the impact of the independent factors of audit quality and profitability on the dependent variable tax avoidance. Research provides advantages for regulators in developing better and more comprehensive regulations for tax supervision, so that they can optimize state revenues. This study provides valuable insights for companies, especially those operating in the manufacturing sector, which can be used for future company analysis and assessment purposes. Future researchers will benefit from the ability to provide information or references related to this research.

Literature Review

Tax Avoidance

*Tax avoidance*refers to a deliberate strategy aimed at reducing the amount of tax owed by exploiting legal loopholes in a country's tax laws. According to the analysis carried out by (Hakim Reddy Giridharan et al., 2016), Tax avoidance refers to the practice of avoiding taxes in a legal way. According to research (James Kessler Andersonet et al., 2018), tax avoidance can be categorized into two types, namely:

- *Acceptable tax avoidance* refers to the practice of legally minimizing tax liabilities by complying with certain criteria, such as having a legitimate purpose, not committing tax evasion, and not committing fraudulent activities.
- *Unacceptable tax avoidance* refers to deliberate actions to evade taxes by carrying out fraudulent practices such as carrying out transactions without a legitimate purpose and carrying out fictitious transactions.

(Rahiminejad et al., 2018)Tax avoidance refers to the lawful and justifiable practice of minimizing tax liabilities by using tax planning strategies that comply with the limitations set by tax law. In essence, tax avoidance is considered legal because it does not conflict with tax regulations. Nonetheless, this approach may have a significant impact on a country's tax revenues. Therefore, it is recognized that tax avoidance is an undesirable activity. Tax avoidance is in an ambiguous realm, precisely between tax compliance and tax evasion.

This research uses CETR (Current Effective Tax Rate) as a substitute for tax avoidance. CETR is a metric used to assess the extent to which an organization is involved in tax avoidance. In the case of tax avoidance, it is calculated by dividing the current tax liability by profit before tax. The following formula is used to determine CETR, which is calculated using the tax avoidance ratio scale according to(Sterling and Christina et al., 2021):

CETR = Current Tax Expense / Profit Before Tax

Audit Quality and Tax Avoidance

Based on research findings(Oliviana and Muid Empirical et al., 2019) There is a relationship between audit quality and tax avoidance. As a consequence, The Big Four KAP auditors are seen as having more professionalism and expertise compared to The Big Four non-KAP auditors. Big Four KAP auditors are renowned for their expertise in identifying deficiencies or fraudulent activities in a company's financial statements. As a result, corporations examined by KAP The Big Four will face challenges in carrying out tax avoidance. Based on research findings conducted (Eksandy, 2017), it was found that there was a positive impact of audit quality on tax avoidance. Evidence shows that audit quality has a beneficial impact on tax avoidance practices.

The quality of auditors can be assessed through the categorization of audits carried out by KAP The Big Four and KAP The Non-Big Four.(Mody Kusumatuti et al., 2022)Using the following nominal scale or fictitious variable, audit quality is measured: A value of 1 displays organizations that continue to use the audit services of the Big Four KAPs, which are the four largest KAPs globally. A value of 0 represents organizations that use non-Big Four KAP audit services or the four largest KAPs globally (Muh Ajron & Yohanes, 2023).

H1: Audit quality has a positive effect on Tax Avoidance

Profitability and Tax Avoidance

Profitability is the key to a company's success in gaining profits(Azhari & Nuryatno, 2020).Research(Ajron & Yohanes, 2023)argue that profitability has a beneficial impact on tax avoidance practices. Consequently, organizations displaying great profitability must manage their tax planning strategically to minimize their tax liabilities effectively. According to the latest research conducted by (Sterling and Christina et al. 2021), it shows that profitability is inversely related to tax avoidance. This shows that the level of profit obtained has a direct impact on the amount of tax that must be paid. When the company's income increases, the costs incurred also increase. As a result, companies carry out tax avoidance strategies to reduce the amount of tax they have to pay (Chandra Ariyanto & Goenawan Soedarsa, 2022).
Return on Assets (ROA) can function as a substitute for profitability because of its ability to characterize an organization's profits (Anggraeni & Febrianti, 2019). ROA is calculated by dividing the company's net profit by total assets at the end of the period; it serves as a measure of business profitability. In this context, profitability is determined by dividing net profit by total assets. As stated by (Sterling and Christina et al., 2021), the following formula can be used to measure profitability on a ratio scale:

ROA = Profit After Tax/ Total Assets

H2: Profitability has a positive effect on Tax Avoidance

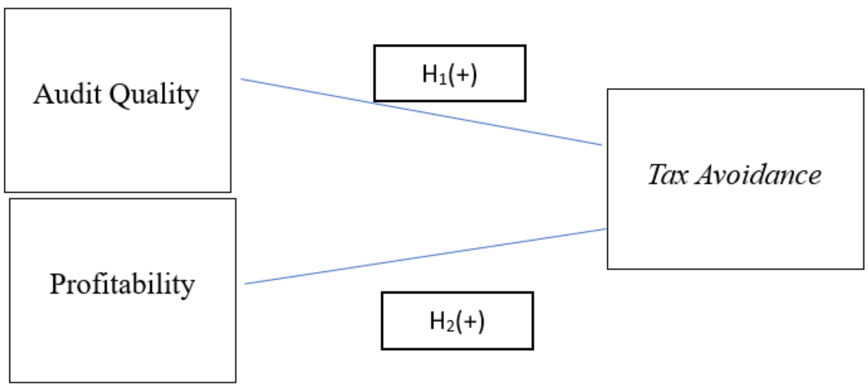

Figure 1. Framework of Thought
Image Source: Author's Process

Method

This quantitative research examines how audit quality and profitability impact tax avoidance.(Sugiyono et al., 2017)Associative research is a type of research that attempts to determine the impact or correlation between two or more factors. The sample in this research is companies in the building construction subsector listed on the IDX in 2021-2022. Data collection is carried out through a documentation process. The purpose of this document is to collect data in the form of verified financial reports from the company. Documents are archival documents that record historical events, including various media such as written text, illustrations, or significant artistic creations(Sugiyono et al., 2017). Data obtained from idnfinancial.co.id and idx.co.id.

The sample selected from the existing population was determined through the application of purposive sampling. This is done to ensure that the data obtained meets the research objectives and can be compared fairly with the findings of previous investigations. In accordance with the methodology mentioned above, the sample selection criteria for this investigation consisted of the following:

1. Companies registered on the IDX.
2. Financial report data for the 2021-2022 period.
3. Financial reports are presented in Indonesian currency.

Based on the criteria above, 17 companies registered on the IDX were used as samples for this research.

Table 1. Sample companies

No.	Stock code	Company name
1	PTPP	PT Pembangunan Perumahan Tbk
2	WIKA	PT Wijaya Karya Tbk
3	ADHI	PT Adhi Karya Tbk
4	BUCK	PT Bukaka Teknik Utama Tbk
5	ACST	PT Acset Indonusa Tbk
6	SSIA	PT Surya Semesta Internusa Tbk
7	JKON	PT Jaya Kontruksi Manggala Pratama Tbk
8	TOTL	PT Total Gedung Persada Tbk
9	PBSA	PT Paramita Bangun Sarana Tbk
10	PPRE	PT PP Presisi
11	PTPW	PT Pratama Widya Tbk
12	DGIK	PT Nusa Kontruksi Engineering Tbk
13	RONY	PT Aesler Group Internasional Tbk
14	IDPR	PT Indonesia Pondasi Raya Tbk
15	SMKM	PT Sumber Mas Kontruksi Tbk
16	WSKT	PT Waskita Karya Tbk
17	MTPS	PT Mitra Pemuda Tbk

Source: Author's Processed Results

Results and Discussion

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Quality	34	0	1	.15	,359
ROA	34	-3.39	.28	,1071	,06305
Tax Avoidance	34	-,24	2.12	,1559	,14163
Valid N(listwise)	34				

Source: Data processed by SPSS 17

Based on the results of descriptive statistics it can be assessed as follows:

a) Of these 34 data, the highest (maximum) Audit Quality score is owned by JKON in 2021 and TOTL IDPR SMKM WSKT in 2022. The lowest (minimum) audit quality score is owned by other PTs. The mean value of Audit Quality is 0.15. The average Audit Quality value is more inclined towards the minimum value, which means that the company's average Audit Quality is quite low.

b) From a sample of 34, the smallest (minimum) Profitability value can be taken as -3.39RONY 2022. The largest (maximum) Profitability value is 0.28 ACST 2021. The mean value of Profitability is 0.1071. The average Profitability value tends to be more towards the maximum value, which means that the company's average Profitability tends to be high.

c) From a sample of 34, the smallest (minimum) Tax Avoidance value can be taken as -0.24 JKON 2021. The largest Tax Avoodance (maximum) value is 2.12 IDPR 2022. The mean value of Tax Avoidance is 0.1559. The average Tax Avoidance value tends to be more towards the minimum value, which means that the company's average Tax Avoidance tends to be high.

Classic assumption test

Normality test

Assessing data normality is the aim of testing the normality of the regression model. The results of the data normalization test were carried out using a single sample test *Kolmogorov-Smirnov.*

Table 3. Normality Test
One Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		34
Normal Parameters a, b	Mean	,0000000
	Std. Deviation	,37780084
Most Extreme Difference	Absolute	,272
	Positive	,272
	Negative	,272
Statistical Tests		,272
Asymp. Sig. (2-tailed)		,178c

Source: Data processed by SPSS 17

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

The table above displays the residual values tested using the Kolmogorov-Smirnov test, with the corresponding asymptotic values. The p-value (two-sided) is 0.178 > 0.05. This shows that the data distribution for all research variables is normal so that research can continue.

Linearity Test

The linearity test determines whether the model being built displays a linear relationship or not, which is indicated by the line plot connecting the variables (typical PP).

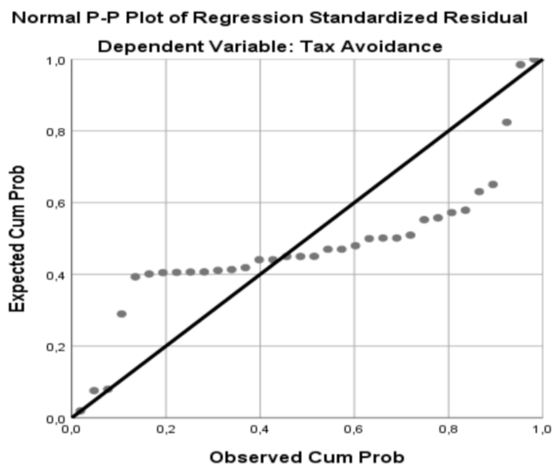

Figure 2. Line plot between variables (normal PP)
Source: Data processed by SPSS 17

Figure 2 is a graph that displays the relationship between residual value (ZRESID) and projected value (ZPRED) in the second (multiple) regression path. This figure allows us to assess the linearity of the multiple regression model. The model in this research is linear because the residual value is parallel to the residual path. See Figure 1 for a standard representation

Multicollinearity Test

Table 4. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Audit Quality	,993	1,007
	ROA	,993	1,007

Source: Data processed by SPSS 17

It can be seen from the table above that the VIF of all independent variables is below 10. Therefore, it can be concluded that the model does not deviate from traditional assumptions regarding multicollinearity between the independent variables.

Heteroscedasticity Test

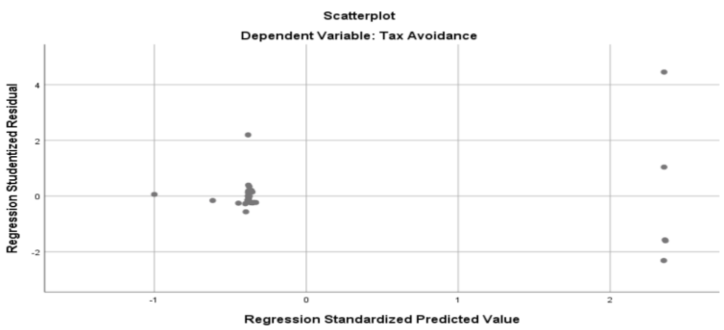

Figure 3. Autocorrelation Test Results
Source: Data processed by SPSS 17

Figure 3 displays that by focusing on ZPRED (predicted value) and ZRESID (residual value), one can see certain patterns. The derived model does not have a clear pattern on the graph, thus showing that the model is free from heteroscedasticity problems

Autocorrelation Test

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,420a	,176	,123	,38980	1,949

Source: Data processed by SPSS 17

a. Predictors: (Constant), ROA, Audit Quality

b. Dependent Variable: Tax Avoidance

From the results of data testing, the research has a DW value = 1.949, which is around 2, so the data is free from autocorrelation problems

Multiple Linear Regression

Table 6. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1(Constant)	,089	0.74		1,206	,237
Audit Quality	,479	,189	,413	2,528	,017
ROA	,532	,108	,048	4,295	,001

Source: Data processed by SPSS 17

The obtained regression equation provides the following interpretation of the regression model:

1. Impact of Audit Quality on Tax Avoidance

The t test findings above show that audit quality has an impact on tax avoidance techniques. The test results show that audit quality has a significant impact on tax evasion with a p-value of (0.017<0.05). Therefore, it can be concluded that audit quality has a significant impact on tax avoidance practices.

2. The Impact of Profitability on Tax Avoidance

The t test findings show that profitability as measured by ROA has a significant impact on the use of tax avoidance strategies. The test results show that profitability has a significant impact on tax avoidance, with a p-value of 0.001 < 0.05. Profitability has a fairly large impact on tax avoidance practices.

Closing

Conclusion

After analyzing the research data above, audit quality and profitability have a positive impact on tax avoidance in manufacturing companies in the construction and building subsector in 2021-2022. The better the audit quality a company has, the smaller the company's tax avoidance will be. The higher the company's profitability, the more vulnerable the company is to tax avoidance.

Suggestion

Future research is expected to include other characteristics that are believed to have an impact on corporate tax avoidance. As well as adding to the coming year.

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