

The Effect of Profitability, Leverage and Capital Intensity on Tax Avoidance (Study of Non Cyclical Consumer Sector Companies Listed on the IDX in 2019-2023)

Oktafiana Akmal

Politeknik Cendana, Medan, Indonesia

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ABSTRACT

From 2019 to 2023, this study will look at the consumer non-cyclicals sector companies listed on BEI to see how tax avoidance is influenced by profitability, leverage, and capital intensity. In this study, profitability, leverage, and capital intensity are treated as independent variables. To the contrary, tax evasion is the dependent variable here. The Purposive Sampling method is utilised in the sampling technique. Out of 135 samples, 27 were deemed to have met the criteria. The statistical package SPSS, version 26, along with its multiple linear regression analysis tools, was used to process the data for this study. This study found that tax evasion is affected by profitability, leverage, and capital intensity all at once. Tax avoidance is affected by capital intensity and profitability to a lesser extent than by leverage.



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Corresponding Author:

Oktafiana Akmal
Politeknik Cendana
Email: Oktafianaakmal19@gmail.com

INTRODUCTION

Among the most populous countries in the world, Indonesia ranks high. Its strategic location and abundance of natural resources make Indonesia a center of international trade (Sumantri & Kurniawati, 2023). Entrepreneurs, both local and international, are attracted to set up businesses in Indonesia because of this. Due to the potential increase in tax revenue, this is good news for Indonesia (Maulani et al., 2021). Citizens are obliged to pay taxes as a way to contribute to the development of their country. The first paragraph of Article 1 of Law Number 16 of 2009 concerning General Provisions and Tax Procedures states that tax is a taxpayer's contribution to the state that can be imposed through a body or individual without direct reward. Taxes are used for state purposes and, to the extent possible, for the prosperity of the community. However, the proportion of taxpayers is still very small when compared to the total population of Indonesia. This shows that the Indonesian people are still not fully aware of the obligation to pay taxes.

However, in reality, there are still many business actors who have not paid taxes completely. Business actors try as much as possible to avoid taxes because this can reduce profit margins (Marlinda et al., 2020).

Increasing state revenue is highly dependent on taxpayer awareness and compliance. Taxpayers and the state in reality do not always have the same priorities. Tax authorities want large and consistent tax revenues, while companies want to pay as little tax as possible. As a result, their interests conflict with each other. Because of this difference, individuals often use legal and illegal means to avoid taxes (Purba, E. L. D., Yuniar, T. Y., & Simanullang, 2020).

From a business point of view, tax is an expense that can potentially reduce profits. One of the main objectives of a company is to maximize its value to achieve optimal profitability. Another goal is to increase the welfare of shareholders or other stakeholders. As a result, businesses use various tactics to avoid or reduce their tax obligations (Ningsih et al., 2020). Businesses are considered taxpayers because they are required to pay taxes on a portion of their net income. The reason is that a bigger corporate tax bill means a fuller state treasury.

Leverage is the second component that affects tax avoidance. The company's leverage shows the extent to which its assets are funded through debt. According to (Fadila Melisa, 2017). Based on research conducted by (Sumartono & Puspasari, 2021) states that this metric company leverage shows the extent to which the company's debt exceeds its assets. The use of corporate leverage is associated with a decrease in tax avoidance, according to research (Sari & Hayu Wikan Kinasih, 2021) making tax avoidance more difficult.

If businesses attempt to avoid taxes, even if it is against the law, then they have committed tax avoidance. One of the tax avoidance strategies undertaken by companies is to engineer taxes to stay within the limits allowed by law in response to the opportunities and risks they perceive as taxpayers, such as weak human resources and lax tax regulations and laws (Henny, 2019).

According to a recent study (Awaliah et al., 2022) the property and real estate industry has engaged in widespread tax avoidance over the past five years. One industry that brings in a lot of money for the country is the property and real estate sector. Companies in the property sector grew by around 10% compared to other sectors, but state revenue from property and real estate taxes remained stagnant (Sjahril et al., 2020).

According to a Tax Justice Network report titled *The State of Tax Justice 2020: Tax Justice in the time of COVID-19*, corporations in Indonesia committed tax evasion to the tune of \$4.78 billion or around Rp 67.6 trillion. According to the study, multinational corporations actually move their money to countries that are considered tax havens. Corporations pay less tax than they should because they do not report the actual amount of profit earned in the countries where they do business. (National.kontan.id, 2020).

There are a number of factors that can influence tax avoidance in practice. Profitability is the main consideration (Hidayat & Wahyu, 2018). stated that ... The profitability of a company can be measured by looking at its ratio. Tax avoidance is positively influenced by profitability, according to research published (Ningsih, I. A. M. W., and Noviari, 2022) states that profitability has a positive effect on tax avoidance. Meanwhile, research conducted by (Aulia, I., and Mahpudin, E., 2020) states that profitability has a negative effect on tax avoidance.

Capital intensity is the third component that affects tax avoidance. The ratio of company size to the amount of capital it invests in fixed assets is known as capital intensity (Rifai, A., & Atiningsih, 2019). Based on research conducted by (Darsani & Sukartha, 2021) states that capital intensity has a positive effect on tax avoidance. Meanwhile, research conducted by (Dewi, K. K. S & Yasa, 2020) states that capital intensity has a negative effect on tax avoidance.

METHODS

Agenturtheorie

The principal-agent dynamic is the theoretical foundation of agency theory. One or more parties enter into an agency relationship when they hire another party to make decisions on their behalf (Jensen & Meckling, 1976) In this scenario, the government acts as the principal and the taxpayer acts as the agent. The government and taxpayers have different priorities. Every year, the government aims to increase revenue through taxes. However, tax is a cost that cuts into corporate profits for taxpayers who are corporations. The tax to be paid increases in proportion to the profit earned.

Conflicts of interest can arise when two parties have different goals, circumstances, interests and histories. This conflict of interest becomes the driving force behind corporate tax avoidance strategies, which aim to minimize taxable income.

Tax Avoidance

The term “tax avoidance” refers to strategies to minimize one's tax liability that are legal and safe for taxpayers to use, as long as they do not conflict with relevant tax provisions (Pohan, 2018).

Profitability

According to (Hidayat & Wahyu, 2018) The company's ability to generate profits can be measured by looking at its profitability ratio.

Leverage

According to (Fadila Melisa, 2017) Leverage is a ratio that measures how much debt is used to finance the company's assets. This metric measures the extent to which the company's debt is greater than its assets.

Capital Intensity

According to (Rifai, A., & Atiningsih, 2019) A company's capital intensity can be defined as the proportion of its total assets invested in fixed assets relative to its size.

Research Hypothesis

H1: Profitability affects Tax Avoidance

H2: Leverage affects Tax Avoidance

H3: Capital Intensity affects Tax Avoidance

Population and Sample

Our sample consists of 125 non-cyclical consumer companies listed on the IDX from 2019 to 2023. Using simple purposive sampling, this method collected data from 27 different companies. Companies in the Non-Cyclical Consumer Sector that are listed on the Indonesia Stock Exchange (IDX), have complete audited financial statements, and generated profits between 2019 and 2023 were considered for the sample.

Types and Methods of Data Collection

This research uses secondary data, which is information collected indirectly from the original source. A research methodology that incorporates documentation, which is the collection of information from published works, scientific articles, books, journals, and expert testimony regarding the object of research.

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This research uses secondary data, which is information collected indirectly from the original source. The documentation method of data collection requires collecting information from various sources, including books, literature, expert statements, journals, and previous research on the research subject.

Operational Variable Tax Avoidance

The Tax Avoidance variable in this study is calculated using the following formula, as stated in (Aulia, I., and Mahpudin, E., 2020), which is as follows:

$$\text{CETR} = \frac{\text{Tax payment}}{\text{Profit before tax}}$$

Description:

CETR = Cash Effective Tax Rate

Profitability

Return on assets (ROA) is calculated using the following formula to measure profitability in this study:

$$\text{ROA} = \frac{\text{Profit after tax}}{\text{Total assets}}$$

Leverage

The debt-to-equity ratio (DER) is used to measure the leverage variable in this study:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Capital Intensity

In this study, the capital intensity ratio (CIR) is used to measure the capital intensity variable:

$$\text{CIR} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$$

RESULTS AND DISCUSSION

Research Results

Descriptive Statistics

According to (Ghozali, 2018) Data is viewed and described using minimum, maximum, average, and standard deviation in descriptive statistics. Table 1 displays the descriptive analysis, which is summarized as follows:

Table 1. Descriptive Statistic Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	135	.02	.21	0862	.04563
Leverage	135	.10	2.49	8208	.67792
Capital Intensity	135	.10	.83	4713	.20863
Tax Avoidance	135	.01	.42	2187	.08303
Valid N (listwise)	135				

Source: SPSS results (Data processed, 2024)

The following can be concluded from table 1:

1. With a range of 0.02-0.21, the profitability variable can have a wide range of values. The standard deviation is 0.04563 and the average value is 0.0862.
2. There is a standard deviation of 0.67792, a mean value of 0.8208, and a range of values for the leverage variable from 0.10 to 2.49.
3. A value of 0.10 is the minimum value and a value of 0.83 is the maximum value for the capital intensity variable. A standard deviation of 0.20863 and a mean value of 0.4713 are presented.
4. With a range of 0.01-0.42, the tax avoidance variable can have various values. Values range from 0.08303 for the standard deviation to 0.2187 for the mean

Classical Assumption Test

Normality Test

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		135
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.07982051
Most Extreme Differences	Absolute	.049
	Positive	.046
	Negative	-.049
Test Statistic		.049
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.

Source: SPSS results (Data processed, 2024)

We can observe from Table 2 that the value of the nonparametric statistical test for normality. Since the significance value of $0.200 > 0.05$ in the one sample Kolmogorov Sminov test indicates that the data follows a normal distribution, we can call it so.

Multicollinearity Test

Table 3. Multicollinearity Test

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitabilitas	.701	1.427
	Leverage	.774	1.292
	Capital Intensity	.857	1.167

Source: SPSS results (Data processed, 2024)

It can be concluded that there is no multicollinearity between variables because the tolerance value of profitability, leverage, and capital intensity is greater than 0.1 and VIF is less than 10, as shown in Table 3.

Autocorrelation Test

Table 4. Autocorrelation Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.675 ^a	.476	.455	.18073	1.821

a. Predictors: (Constant), Capital Intensity, Leverage, Profitabilitas

b. Dependent Variable: Tax Avoidance

Source: SPSS results (Data processed, 2024)

Results obtained from SPSS (Data Processed, 2024). The Durbin-Watson value of 1.221 is shown in table 4. This value will be determined by comparing the Durbin-Watson table value with the calculated t value. There are a total of three independent variables, and a significance level of 5% (or 0.05) is used. As a result, the Durbin-Watson table value is 1.7645 with a lower limit of 1.6738. This study does not show autocorrelation, as indicated by the $1.7645 < 1.821 < 2.2355$, according to current regulations.

Heteroscedasticity Test

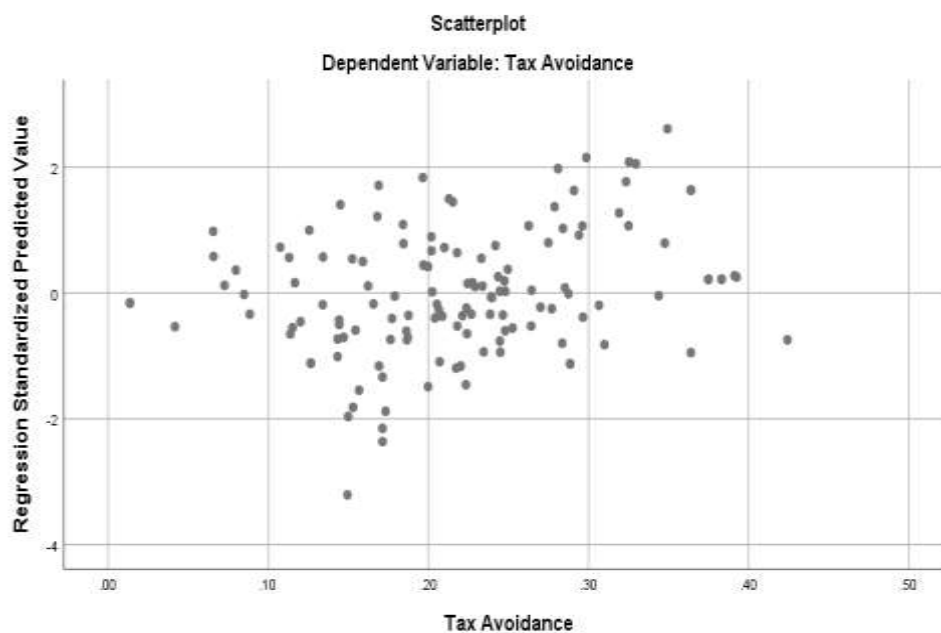


Figure 1. Scatterplot Graph

Source: SPSS results (Data processed, 2024)

The dots on the scatterplot spread above and below the number 0 on the y-axis, as shown in graph 1. This shows that this regression model does not experience heteroscedasticity, so the research can proceed to the next stage.

Multiple Linear Regression Analysis**Table 5.** Multiple Linear Regression Analysis

Coefficients ^a		Unstandardized Coefficients	
Model		B	Std. Error
1	(Constant)	.317	.031
	Profitabilitas	-.483	.183
	Leverage	-.018	.012
	Capital Intensity	-.089	.036

a. Dependent Variable: Tax Avoidance

Source: SPSS results (Data processed, 2024)

Table 5 shows that the effect of independent variables is indicated by a constant value of 0.317. Therefore, the level of tax avoidance for non-cyclical consumer sector companies is 31.7% with the assumption that profitability, leverage, and capital intensity variables remain constant. The regression coefficient of -0.483 for the profitability variable indicates that a 48.3% decrease in cetr will occur from each unit increase in the company, assuming that the other variables have a value of 0. Since the theory states that a lower cetr value indicates a higher level of tax avoidance, this value indicates that a one-unit increase in the profitability variable will result in a 0.483 unit increase in the tax avoidance variable. Since the theory states that a lower cetr value indicates a higher level of tax avoidance, this value indicates that a one unit increase in the leverage variable will result in a 0.018 unit increase in the tax avoidance variable. If the other variables are set to 0, then a one unit increase in the firm will result in a 1.8% decrease in the ceter level, according to the -0.018 value of the regression coefficient for the leverage variable. There is a regression coefficient of -0.089 for the capital intensity variable. This indicates that an 8.9% decrease in CET will occur for a one-unit increase in firm valuation if all other variables are set to zero. Using this value, we can conclude that there is an 8.9% increase in tax avoidance for every one unit increase in capital intensity, as the theory states that lower CETR values indicate higher tax avoidance.

Partial Test (t)**Table 6.** Partial Test (t)

Coefficients ^a		Unstandardized Coefficients		T	Sig.
Model		B	Std. Error		
1	(Constant)	.317	.031	10.260	.000
	Profitabilitas	-.483	.183	-2.646	.009
	Leverage	-.018	.012	-1.565	.120
	Capital Intensity	-.089	.036	-2.463	.015

a. Dependent Variable: Tax Avoidance

Source: SPSS results (Data processed, 2024)

1. Tax avoidance is influenced by profitability. The regression value is -0.483 and the significance value is 0.009 which is smaller than 0.05. The research findings show that the effect is proven to have a negative direction. After that, we can say that H1 is true.

2. The use of leverage has no effect on tax avoidance. This is evident from the regression value of -0.018 and the significance value of $0.120 > 0.05$. The research findings show that the effect has a negative direction which is proven. At that point, we can reject H2.
3. Tax avoidance is influenced by capital intensity. The regression value is -0.089 and the significance value is 0.015, which is smaller than 0.05. Thus, H3 is a valid hypothesis.

Simultaneous Test (F)

Table 7. Simultaneous Test (F)

ANOVAa						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.070	3	.023	3.581	.001b
	Residual	.854	131	.007		
	Total	.924	134			

a. Dependent Variable: Tax Avoidance

b. Predictors: (Constant), Capital Intensity, Leverage, Profitabilitas

Source: SPSS V.26 results (Data processed, 2024)

Based on table 7, the significance value is obtained at $0.001 < 0.005$. Thus, together all independent variables affect the dependent variable.

Test Coefficient of Determination (R2)

Table 8. Coefficient of Determination (R2)

Model Summaryb			
Model	R	R Square	Adjusted R Square
1	.675a	.476	.455

a. Predictors: (Constant), Capital Intensity, Leverage, Profitabilitas

b. Dependent Variable: Tax Avoidance

Source: SPSS V.26 results (Data processed, 2024)

The adjusted R Square value is 0.455, as shown in Table 8 of the test results. Profitability, leverage, and capital intensity by 45.5% explain tax avoidance.

DISCUSSIONS

Effect of Profitability on Tax Avoidance

Profitability affects tax avoidance, according to the partial test results (T). Given the regression coefficient value of -0.483 and the significance value of $0.009 < 0.05$, this is evident. It is reasonable to assume that profitability increases tax avoidance, given the inverse proportional relationship between center theory and tax avoidance. A high percentage of profitability indicates that the company is operating productively. The positive correlation between a firm's profitability and its level of tax avoidance is evident. Since a high tax burden is directly proportional to a firm's profitability, it makes sense that highly profitable businesses would engage in tax avoidance strategies to keep their tax bill to a minimum.

The findings of this study corroborate the agency theory which states that "Leverage has no effect on corporate tax avoidance."

The Effect of Capital Intensity on Tax Avoidance

Capital intensity affects tax avoidance, based on the partial test results (T). This can be seen from the regression coefficient value of -0.089 and a significance value of $0.015 < 0.05$. Capital intensity has a positive effect on tax avoidance, based on the CETR theory which states that the two variables have an inverse relationship.

Between profitability and tax avoidance. The results of this study are in line with research conducted (Ningsih, I. A. M. W., and Noviyari, 2022) in terms of tax avoidance profitability. The findings of this study which state that profitability affects tax avoidance are consistent.

The Effect of Leverage on Tax Avoidance

The partial test results (T) show that leverage does not affect tax avoidance. The regression coefficient is -0.018 and the significance value is $0.120 > 0.05$, so it can be concluded that tax avoidance is not influenced by the increase in debt. Management will be more selective in reporting company finances due to higher company debt. Managers become more careful in carrying out tax avoidance strategies in an effort to reduce their personal financial obligations. Companies tend to lose a lot of money when their debt levels are high.

In accordance with previous research, this study found that (Sari & Hayu Wikan Kinasih, 2021) which states that

This happens because the depreciation costs associated with the company's fixed assets have a direct impact on the net profit earned by the company each year, which in turn affects the amount of profit subject to tax.

CONCLUSION

The research findings show that tax avoidance is influenced by profitability and capital intensity. Although tax avoidance is not affected by leverage.

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