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THE INFLUENCE OF LEVERAGE, PROFITABILITY, THIN CAPITALIZATION, AND COMPANY SIZE ON TAX AVOIDANCE

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Abstract.

This study aims to determine the effect of leverage, profitability, thin capitalization, and company size on tax avoidance. This type of research is explanatory research using quantitative methods. The population is 164 manufacturing companies, and the basic industry and chemical sub-sectors are 72 companies, with a total of 236 companies listed on the Indonesian Stock Exchange. The sampling technique used was purposive sampling, with results from 180 companies. The data used are financial reports for 2018-2012. The analysis used is multiple linear regression analysis, and hypothesis testing uses the F test and t test. The results of hypothesis research using the F test prove that simultaneously leverage, profitability, thin capitalization, and company size have a significant effect on tax avoidance. The results of the t-test hypothesis test prove that leverage and company size partially have a significant effect on tax avoidance, while profitability and thin capitalization partially have no significant effect on tax avoidance.

Keywords: Leverage, Profitability, Thin Capitalization, Company Size, Tax Avoidance

1. Introduction

The development of company strategy aims to maximize profits and minimize costs, including tax expenditures (Pujiastuti, 2011). Tax evasion, which is a significant problem in Indonesia, results in reduced state revenues (Hidranto, 2023). Many companies, including state-owned companies such as PT Indofarma Tbk, are indicated to be evading taxes by taking advantage of loopholes in regulations. This practice is also carried out by multinational companies, which can be dangerous for tax revenues and economic growth (Khairani & Aeny, 2016).

Several factors influence tax avoidance, including financial characteristics and corporate governance. Leverage, which measures the composition of debt to capital, shows mixed research results. Some studies state that leverage has no effect on tax avoidance (Darmawan & Sukartha, 2014; Hidayat, 2018), while others show the opposite, where a high leverage value can increase tax avoidance actions (Barli, 2018; Octavia et al., 2022).

Profitability, measured through ROA, also plays a role in tax avoidance. Research results show that profitability can have a positive or negative effect on tax avoidance, depending on the context and type of company (Hidayat, 2018; Yulianty et al., 2021). Thin capitalization, which involves debt financing at a higher interest rate than share capital, has been found to have a positive effect on tax avoidance in several studies (Utami & Irawan, 2022).

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The manufacturing industry is an important sector in the national economy, but the COVID-19 pandemic has had a significant impact (Kementerian Perindustrian Republik Indonesia, 2020). Tax avoidance forces the government to take control measures (Annuar et al., 2014). In this context, agency theory shows the relationship between managers and owners in maximizing profits (Jensen & Meckling, 1976). Based on this background, this research will explore the influence of leverage, profitability, thin capitalization, and company size on tax avoidance, considering that the results of previous research are still mixed.

This study aims to analyze the influence of leverage, profitability, thin capitalization, and company size on tax avoidance.

2. Hypothesis Development

2.1 The Effect of Leverage on Tax Avoidance

Hidayah and Ernandi (2022) explain that efforts to minimize the tax burden by using loans, ownership of loans by business entities, will increase the interest burden and can also reduce company profits and minimize the company's tax burden. Likewise, Barli's (2018) research results explain that leverage has no effect on tax avoidance. Meanwhile, according to Roslita (2022) and Octavia et al. (2022), leverage has no effect on tax avoidance. Based on the results of previous research, the hypothesis of this research is:

H_1: *Leverage has a significant effect on tax avoidance*

2.2 The Effect of Profitability on Tax Avoidance

Dewinta and Setiawan (2016) stated that the higher the profitability, the higher the net profit generated, the taxable income will also increase, and as a result, the tendency to avoid taxes will increase. This statement is also supported by research conducted by Hidayat (2018) and Yulianty et al. (2021), which states that profitability has a positive effect on tax avoidance. In contrast to Wanda and Halimatusadiah (2021) and Hidayah and Ernandi (2022) stated that profitability has no effect on tax avoidance. Likewise, the research results of Kartika et al. (2023) explain that profitability has no effect on tax avoidance. Based on the results of previous research, the hypothesis of this research is:

H_2: Profitability has a significant effect on tax avoidance

2.3 The Effect of Thin Capitalization on Tax Avoidance

Anah (2022) explains that thin capitalization has no effect on corporate tax avoidance. Research by Olivia and Dwimulyani (2019) states that thin capitalization has a positive but not significant effect on tax avoidance. Research by Utami and Irawan (2022) and Gouwvara and Susanty (2023) explains that thin capitalization has an effect on tax avoidance. Based on the results of previous research, the hypothesis of this research is:

H_3: Thin Capitalization has a significant effect on tax avoidance.

2.4 The Effect of Company Size on Tax Avoidance

Saputra et al. (2020) explain that company size is unable to strengthen the negative influence of leverage on tax avoidance. Research conducted by Putty and Badjuri (2023) also explains that company size cannot stop leveraging through tax avoidance. This is different from Nugraha et al. (2023), who state that company size can strengthen the influence of leverage on tax avoidance. This shows that the debt a company has is, in fact, directly proportional to the size of the company. Based on the results of previous research, the hypothesis of this research is:

H_4: Company size has a significant effect on tax avoidance

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3. Method

This type of research is explanatory research using quantitative methods. The population is 164 manufacturing companies, and the basic industry and chemical sub-sectors are 72 companies, with a total of 236 companies listed on the Indonesian Stock Exchange. The sampling technique used was purposive sampling, with results from 180 companies. The data used are the 2018-2012 financial reports, which are accessed online at http://www.idx.co.id. The analysis used is multiple linear regression analysis, hypothesis testing using the F test (simultaneous) and t test (partial).

4. Result

a. F Test (Simultaneous)

Table 1. F Test (Simultaneous)

Variable	F	Sig F
X_1, X_2, X_3, dan $X_4 \rightarrow Y$	6,550	0,000

Where: X1 = Leverage, X2 = Profitability, X3 = Thin Capitalization, X4 = Company size, Y = Tax Avoidance.

Based on the F test results in Table 1, it can be seen that the F value is 6.550 with a significance value of 0.000. So the independent variable simultaneously has a significant influence on the dependent variable, because the significance value is smaller than 0.05.

b. t Test (Partial)

Table 2. t-test (Partial)

Variable	t	Sig t
$X_1 \rightarrow Y$	3,536	0,001
$X_2 \rightarrow Y$	-1,893	0,060
$X_3 \rightarrow Y$	-0,118	0,907
$X_4 \rightarrow Y$	-2,808	0,006

Where: X1 = Leverage, X2 = Profitability, X3 = Thin Capitalization, X4 = Company size, Y = Tax Avoidance.

Based on the results of the t-test (partial) in Table 2, it can be seen:

1) The t-test result of X1 (leverage) is 3.536, and the significance value is 0.001. This can be interpreted as meaning that X_1 has a significant effect on Y (tax avoidance), so that H_1 is accepted.
2) The t-test result of X2 (profitability) is -1.893, and the significance value is 0.060. This can be interpreted as meaning that X2 has no significant effect on Y (tax avoidance), so H_2 is rejected.
3) The t-test result of X3 (thin capitalization) is -0.118, and the significance value is 0.907. This can be interpreted that X3 has no significant effect on Y (tax avoidance), so H_3 is rejected.

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4) The t-test result of X4 (company size) is -2.808, and the significance value is 0.006. This can be interpreted as meaning that X_4 has a significant effect on Y (tax avoidance), so that H_4 is accepted.

c. Coefficient of Determination Test (R^2)

Table 3. Determination Coefficient Test (R^2)

Model	*R Square*	*Adjusted R Square*
X_1, X_2, X_3, dan $X_2 \rightarrow Y_1$	0,130	0,110

Based on Table 3, it can be seen that the results of the Adjusted R Square analysis are 0.110. This means that 11% can be explained by the independent variables in this model, while the remaining 89% is explained by other variables not studied.

5. Discussion

5.1 The Effect of Leverage on Tax Avoidance

The first hypothesis of the leverage variable shows that there is a significant influence on tax avoidance, as indicated by a significance level of 0.001, which is smaller than 0.05. In line with research conducted by Barli (2018) and Hidayah and Ernandi (2022), which states that leverage has an effect on tax avoidance. Leverage is a measure that shows how much a company can pay long-term debt with its capital. The higher the leverage ratio in a company, the lower the tax burden because it is closely related to the interest burden. The greater the company's debt, the greater the interest expense that can be charged in order to minimize the tax that must be paid in accordance with applicable tax regulations.

5.2 The Effect of Profitability on Tax Avoidance

The second hypothesis of the profitability variable shows that there is no significant effect of 0.060 greater than 0.05, so the hypothesis results are rejected. In accordance with the results of previous research, namely Wanda and Halimatusadiah (2021), who concluded that the profitability variable has no influence on tax avoidance. Manufacturing companies can be said to be able to generate high profits seen from the high number of assets. High company profitability can cause the tax burden that the company has to pay to be greater, because of the influence of the large tax burden, the company will try to reduce its tax burden. Companies will compete to take advantage of the loopholes that exist in tax regulations by carrying out appropriate tax planning.

5.3 The Effect of Thin Capitalization on Tax Avoidance

The third hypothesis of the thin capitalization variable, where the results show that there is a significant influence of 0.907, which is greater than 0.05, so the hypothesis results are rejected. In line with the research results presented previously by Anah (2022), which concluded that thin capitalization has no effect on tax avoidance. The higher the thin capitalization, the higher the company's tendency to avoid taxes. On the other hand, if the lower the thin capitalization, the lower the company will avoid tax.

5.4 The Effect of Company Size on Tax Avoidance

E-ISSN:
2721-13988

The fourth hypothesis is from the company size variable, where the results show that there is a significant influence on tax avoidance. The resulting significance value is 0.006, which is smaller than 0.05. This result is the same as research by Nugraha et al. (2023) that company size can strengthen the influence of leverage on tax avoidance. This is because the detrimental impact of leverage on a company's tax avoidance practices becomes more apparent as the company's size increases. The size of a company is often related to the size of the amount of debt it has, because the larger the company will choose to finance by maximizing its operational resources.

6. Conclusion

The findings of this study indicate that leverage and company size have a significant effect on tax avoidance, suggesting that these two variables play an important role in influencing a company's efforts to minimize its tax obligations. In contrast, profitability and thin capitalization do not have a significant effect on tax avoidance, implying that a company's level of profit and its thin capitalization practices are not major determinants in its tax avoidance strategies.

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