



The effect of profitability and liquidity on tax avoidance

Listia Aulia Indy¹, Lamsah²

^{1,2}Accounting, Universitas Pamulang, Tangerang Selatan, Indonesia

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ABSTRACT

This study explains the phenomenon that occurred in 2019, which is suspected of carrying out tax avoidance practices. The purpose of this study is to reveal the effect of profitability and liquidity on tax avoidance. The population in this study was mining sector companies in the coal production sub-sector listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The results of the study indicate that profitability has an effect on tax avoidance and liquidity has no effect on tax avoidance.

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Corresponding Author:

Listia Aulia Indy,
Accounting,
Universitas Pamulang,
Jl. Lintas Serang - Jakarta Kampung Malandang Kel. Kelodran Kec. Walantaka, Kota Serang - Banten 42183,
Indonesia
Email: dosen03022@unpam.ac.id

1. INTRODUCTION

Tax is the largest source of income for the state, which is used to finance state expenditures, both routine expenditures and national development expenditures. In accordance with Law No. 28 of 2007 concerning general provisions and procedures for taxation, tax is "a mandatory contribution to the state owed by individuals or bodies that is mandatory based on the Law without receiving direct reciprocity and is used for state needs for the greatest prosperity of the people". Based on the contents of the Law, it is clear that tax is a source of income for the state. Meanwhile, for companies, tax is a burden that will reduce a company's net profit (Ilanoputri, 2020).

One of the obstacles in optimizing taxes is resistance to tax avoidance by companies that seek to reduce business costs, including tax burdens. High tax burdens encourage many companies to avoid taxes so that they pay less tax. The government is currently intensively improving the tax system in Indonesia in the hope of optimizing tax sector revenues. There are differences of interest between the government and companies, where for the government taxes are a source of revenue to fund government administration, while for companies taxes are a burden that will reduce the profits of the company itself. Therefore, there is a tendency for individual taxpayers, especially corporate taxpayers, to minimize the amount of tax that must be paid. One of the steps companies take to minimize the amount of tax that must be paid is to carry out tax avoidance (Ilanoputri, 2020).

Tax avoidance is a way to avoid paying taxes legally carried out by Taxpayers by reducing the amount of tax owed without violating tax regulations or in other words looking for weaknesses in regulations. As a tax saving that arises by utilizing tax provisions that are carried out legally to minimize tax obligations. With the existence of tax avoidance, it causes low tax revenues that are not in accordance with the realization of the State revenue budget. Tax Avoidance is measured using ETR (Effective Tax Rate), The lower the ETR value indicates a level of tax avoidance in the company. A

low ETR indicates a smaller income tax burden than income before tax. A low ETR is indicated if a company pays taxes less than the corporate income tax rate 1 while a high ETR is said if a company pays taxes above the corporate income tax rate (Jamaludin, 2020).

The tax avoidance case that occurred in 2019 was carried out by PT. Adaro Energy Tbk, which is suspected of carrying out tax avoidance practices. PT. Adaro Energy Tbk, is suspected of carrying out tax avoidance practices by carrying out transfer pricing, namely by transferring large amounts of profits from Indonesia to companies in countries that can exempt taxes or have low tax rates, this was done from 2009 to 2017. PT. Adaro Energy Tbk, is suspected of having carried out these practices, so that the company can pay taxes of IDR 1.75 trillion or US\$ 125 million lower than the amount that should have been paid in Indonesia. Based on this case, the tax avoidance carried out was by means of transfer pricing (www.globalwitness.org).

There are several factors that are thought to influence companies to do tax avoidance, namely Profitability and Liquidity. Profitability shows the extent to which a company can grow and develop by utilizing its resources. Investors will be interested in investing in companies that have high profitability. The ultimate goal that the company wants to achieve is to obtain the greatest possible profit or gain, in addition to other things (Indy & Uzliawati, 2023). Profitability is measured using ROA. Return On Assets (ROA) is a ratio that shows the results of the amount of assets used in the company (Indy et al., 2023). Increased profits result in the amount of tax that must be paid by the company is getting higher, this is what drives the company to be aggressive towards taxes. However, on the other hand, companies with low profits have a low tax burden and will not even pay taxes if the company experiences losses (Ilanoputri, 2020).

Research by (Gultom, 2021 dan Devi & Arinta, 2021) found that profitability has an effect on tax avoidance. These results differ from research conducted by (Saputro et al., 2021; Budianti & Curry, 2018; Ramanata, 2022; Fatimah et al., 2021). Which states that profitability does not affect tax avoidance.

Liquidity is also one of the factors that companies suspect of tax avoidance. Tax is one part of the company's short-term liabilities. If the company has a high liquidity ratio, the company is in a smooth cash flow condition. Short-term liabilities will be able to be met if the company's liquidity ratio is high and the company is able to carry out its tax payment obligations Harahap, (2018). Conversely, low liquidity can reflect that the company is having difficulty meeting its short-term obligations, so that this can lead to corporate tax avoidance Rohmah, (2019). Liquidity is measured using the current ratio indicator, namely by comparing current assets with current liabilities.

Research by (Devi & Arinta, 2021; Budianti & Curry, 2018; Ramanata, 2022) found that liquidity has an effect on tax avoidance. These results differ from research conducted by (Gultom, 2021; Saputro et al., 2021; Fatimah et al., 2021) which states that liquidity has no effect on tax avoidance.

2. RESEARCH METHOD

The object or sample of this study is the mining sector companies in the coal production sub-sector listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The research variables used in this study are profitability and company liquidity as independent variables, and tax avoidance as the dependent variable. The data used in this study are secondary data in the form of annual reports for the period 2019-2023. Sampling was carried out using the purposive sampling method with the criteria of the mining sector in the coal production sub-sector listed on the IDX consecutively from 2019-2023 through the Indonesia Stock Exchange website (www.idx.co.id) and mining sector companies in the coal production sub-sector that publish annual reports of complete financial data and profits consecutively during 2019-2023. Data processing in this study used SPSS version 26 with a multiple linear regression equation model. The multiple regression equation model is as follows:

$$TA = \alpha_1 + \beta_1 P + \beta_2 L + e_1$$

Information:

TA : Tax Avoidance

P	: Profitability
L	: Liquidity
α	: Constant
β	: Regression coefficient
e	: <i>Error Term</i>

The operational variables in this study are as follows:

1. Profitability (X_1)

In Kasmir (2017), the profitability ratio is a ratio to assess the company's ability to seek profit, ROA (Return on Asset) This ratio describes the turnover of assets measured from net profit. The greater this ratio the better because the assets will rotate faster and make a profit. This ratio can be calculated from the ratio of net profit to total assets (Brigham, 2010). ROA is calculated using the formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

2. Liquidity (X_2)

In Devi & Arinta, (2021), said that the liquidity ratio is a ratio that describes the company's ability to meet its short-term obligations to short-term creditors. The liquidity ratio or also called the working capital ratio aims to measure the company's ability to meet its short-term obligations. In this study, the liquidity ratio is measured by the Current Ratio (CR).

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

3. Tax Avoidance

Tax avoidance is an efficient activity carried out companies to carry out tax avoidance legally and safely by does not violate the law. Tax avoidance is a practice for taxpayers using the tax weaknesses that exist in the tax law (Qurrotulaini & Anwar, 2021). It is also stated that tax avoidance is an effort made by taxpayers to reduce or eliminate tax debts without violating the provisions of tax laws and regulations. This tax avoidance is deliberately carried out by companies to reduce the level of tax payments that must be issued and increase the company's cash flow. In this study, the author uses ETR because it is able to describe comprehensively the tax burden that will have an impact on accounting profit which can be seen in the notes to the company's financial statements. ETR is a measure of results based on the income statement which generally measures the effectiveness of tax reduction strategies and leads to high after-tax profits. ETR is used because it is considered to reflect the fixed difference between the calculation of book profit and fiscal profit. ETR can be calculated by comparing the tax burden with profit before tax.

$$ETR = \frac{\text{Tax Expense}}{\text{Earnings Before Interest and Taxes}}$$

3. RESULTS AND DISCUSSIONS

Descriptive statistical analysis provides a description or illustration of data seen from the minimum, maximum, average (mean) and standard deviation values of the research variables consisting of Profitability (P), Liquidity (L) and Tax avoidance (TA). The results of descriptive analysis using SPSS 26 on the research variables are as follows:

Table 1. Descriptive Statistics

Variable	N	Minimum	Maksimum	Mean	Std. Deviation
Profitability	45	0.38	0.89	0.6072	0.14667
Liquidity	45	0.69	1.78	1.179	0.21513

Variable	N	Minimum	Maksimum	Mean	Std. Deviation
Tax Avoidance	45	0.00	0.83	0.6051	0.18812
Valid N (listwise)	45				

Source: Data Processed by Researchers, 2024

Based on table 1, it can be seen that the dependent variable, namely tax avoidance (TA) with a sample of 45 secondary data from 2019 - 2023 has a minimum value of 0.00 owned by the company PT. Transcoal Pacific Tbk in 2019 and 2020. This shows that the company has low tax avoidance. Furthermore, the maximum value of 0.83 owned by the company PT. Indo Tambangraya Megah Tbk in 2020. This shows that the company has high tax avoidance. Furthermore, tax avoidance has an average of 0.6051 with a (standard deviation) of 0.18812.

Meanwhile, the Independent variable, namely profitability (P) based on table 1, can be seen that with a sample of 45 secondary data from 2019 - 2023, it has a minimum value of 0.38 owned by the company PT. Adaro Energy Tbk in 2020, PT. Batulicin Nusantara Maritim Tbk in 2019, PT. Transcoal Pacific Tbk in 2020, and PT. Trans Power Marine Tbk in 2020. This shows that the company has low profitability. Furthermore, the maximum value of 0.89 is owned by the company PT. Golden Energy Mines Tbk in 2022. This shows that the company has high profitability. Furthermore, profitability has an average of 0.6072 with a (standard deviation) of 0.14667.

Another Independent Variable, namely liquidity (L) based on table 1, it can be seen that with a sample of 45 secondary data from 2019 - 2023, it has a minimum value of 0.69 owned by the company PT. Batulicin Nusantara Maritim Tbk in 2019. This shows that the company has low liquidity. Furthermore, the maximum value of 1.78 owned by the company PT. Harum Energy Tbk in 2020. This shows that the company has high liquidity. Furthermore, liquidity has an average of 1.179 with a (standard deviation) of 0.21513.

Regression Analysis

The following are the results of testing the regression equation which can be seen in the following table.

Independent variable	Dependent variable	
		TA
(Konstan)	β	0.155
	T	0.953
	Sig.	0.046**
P	β	0.328
	T	2.723
	Sig.	0.092*
L	β	0.212
	T	1.635
	Sig.	0.110*
R Square		0.164
F		4.111

Sig: 0.1 (10%) *, 0.05 (5%) **

Source: Data Processed by Researchers, 2024

The first research hypothesis assumes that profitability has an effect on tax avoidance. Based on the regression results in table 2 above, it is proven that the profitability variable has an effect on tax avoidance with a calculated t value of $2.723 > t$ table of 2.017 with a significance value of $0.092 < 0.1$. Thus, it can be concluded that the test proves that profitability has an effect on tax avoidance. Thus, the first hypothesis in this study is accepted.

The second hypothesis in this study assumes that liquidity has an effect on tax avoidance. Based on the regression results in table 2 above, it is proven that the liquidity variable does not have an effect on tax avoidance, the calculated t is $-1.635 < t$ table of 2.017, with a significance value of

0.110 > 0.1. This means that the test is able to prove that liquidity has no effect on tax avoidance. Thus, the second hypothesis in this study is rejected.

Discussion

The Effect of Profitability on Tax Avoidance

The first objective of this test is to determine whether there is an effect of profitability on tax avoidance. The first hypothesis predicts that profitability has an effect on tax avoidance, and the results of this study indicate that profitability has an effect on tax avoidance. This study is in line with research conducted by (Gultom, 2021; Devi & Arinta, 2021; Hermawan et al., 2021; Ariska et al., 2020; Apriani & Sunarto, 2022; Khairunnisa et al., 2023; I. A. laksmi S. Devi et al., 2023) which states that profitability has an effect on tax avoidance.

The Effect of Liquidity on Tax Avoidance

The second objective of this test is to determine whether there is an effect of liquidity on tax avoidance. The second hypothesis predicts that liquidity has an effect on tax avoidance, but the results of the hypothesis test in this study show different results, namely that liquidity has no effect on tax avoidance. This study is in line with research conducted by (Gultom, 2021; Saputro et al., 2021; Fatimah et al., 2021; I. A. laksmi S. Devi et al., 2023; Muthmainah & Hermanto, 2023; Amalia, 2021; Chandra, 2023; Pulungan et al., 2022) which states that liquidity has no effect on tax avoidance.

4. CONCLUSION

The analysis in this study proves that the profitability variable has an effect on tax avoidance, thus the first hypothesis in this study is accepted. It can be said that increasing profits results in the amount of tax that must be paid by the company getting higher, this is what drives the company to be aggressive towards taxes.

Meanwhile, the liquidity variable does not affect tax avoidance, thus the second hypothesis in this study is rejected. Based on the results of the regression analysis that has been carried out, it shows that liquidity in mining sector companies in the coal production sub-sector that have been listed on the IDX has no effect on tax avoidance. This can be said that companies that are very liquid may not always be more likely to do tax avoidance. Thus, the company's liquidity does not directly or automatically affect the company's decision to avoid taxes.

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