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The Effects of Profitability, Capital Intensity, and Leverage on Tax Avoidance on Companies in the Jakarta Islamic Index

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ABSTRACT

The purpose of this study was to investigate potential correlations between tax evasion and leverage, capital intensity, and profitability. This investigation's primary goals and focus are companies that are listed in the Jakarta Islamic Index for the 2019–2021 period. 54 observation samples in all were used in this study, and they were all chosen using purposive sampling methods. The data examined using Eviews software was subjected to multiple linear regression testing methodology for the purposes of this investigation. The use of leverage and tax evasion are unrelated, according to study findings. Tax evasion is impacted by both capital intensity and profitability considerations.

Keywords: Leverage; Capital Intensity; Profitability; Tax Avoidance

INTRODUCTION

The introduction should identify key ideas of the research, why it is important, pose research question that needs

Indonesia as a country continues to develop in seeking progress in various fields, one of which is progress in achieving national prosperity. As part of development requires a relatively large amount of funds for infrastructure. Funds come from domestic and foreign sources. Taxes are a form of income that can be used for community welfare, improving education, helping the government's economy to support infrastructure, increasing security and resilience, and supporting national development (Pasaribu & Mulyani, 2019).

Tax revenues in 2019 amounted to IDR 1322.6 trillion with a target amount of IDR 1577.6 trillion. Meanwhile in 2018, the total revenue was IDR 1313.3 trillion with a target of IDR 1424.0 trillion (www.kemenkeu.go.id, nd). This tax revenue cannot meet the targets designed by the government, which raises the question of whether tax collection carried out by the government has not been carried out properly and optimally or whether taxpayers have taken action to reduce the amount of tax considering that the government and taxpayers have different interests.

Cases of reducing the amount of tax in Indonesia occur in various companies. In 2019, a tax avoidance case occurred at PT Adaro Energy (Tbk), which only paid taxes to Indonesia in the amount of Rp. 1.75 trillion, less than the actual amount.(Merdeka.com, nd). Apart from that, in 2017, the Indonesian Director General of Taxes corrected the sales value of PT Toyota Manufacturing Indonesia. The company is suspected of transferring income as an act of tax avoidance, namely by transferring profits to companies in different countries that have lower tax costs. Cost transfer is carried out by changing the price amount so that it becomes inappropriate. Singapore has smaller tax costs than Indonesia, there are several companies with offices based in Singapore (Kompasiana.com, 2017).

There are several factors related to tax avoidance, one of which is leverage. The leverage ratio is a ratio that explains the relationship between a company's assets and capital and debt(Rani & Darminto, 2021). A larger amount of debt will indicate an increase in leverage, resulting in higher interest costs for the company. By increasing interest expenses, the company's tax burden will decrease. The capital intensity factor can also influence tax avoidance. Capital intensity is where a company invests through fixed assets such as equipment and buildings (Febrina Fitria, 2018). According toWahyu Widodo & Wulandari (2021)Fixed assets have different economic lives. Depreciation of a company's fixed assets causes the company to incur depreciation costs which are presented in the company's financial statements. These depreciation costs will result in a decrease not only in the amount of corporate tax paid, but also in the company's profitability.

Apart from that, tax avoidance practices can be seen from profitability. A company's ability to generate profits or profits can be known through profitability (Artinasari, 2018). Companies with high profitability can be an indicator that the company's performance is good. The company's tax burden can be reduced due to profitability. Efficient companies will try to take advantage of tax incentives and other tax deductions so they tend to have a low tax burden (Rianto & Alfian, 2022). Based on this explanation, the author wants to conduct research entitled The Effect of Leverage, Capital Intensity

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and Profitability on Tax Avoidance.

Literature Review

Agency Theory

Jensen and Meckling describe an agency relationship as a cooperative arrangement in which one or more individuals (the principal) enlist the help of another individual (the agent) to carry out a task on the principal's behalf, thereby giving the agent the ability to make decisions. in the name of the principal. An agency connection may exist between two or more individuals. According toWahyu Widodo & Wulandari (2021) Agency theory assumes that agents take actions that benefit them to get better rewards for their performance by increasing company profits. This action may encourage agents to evade taxes.

Tax Avoidance

According to (Frida, 2020:24) Tax evasion is a form of resistance carried out actively by individuals. Tax avoidance refers to efforts made by taxpayers to reduce their legitimate taxable income by using existing tax provisions, such as profits from things that have not been determined, allowed deductions and exceptions, and other weaknesses in tax laws and regulations. Taxpayers can avoid taxes in various ways. Taxpayers who participate in tax avoidance may misunderstand the law in light of the lawmakers' intent, even though they are not technically breaking the law by engaging in this practice.

Leverage

The leverage ratio is one of the ratios that can be used to analyze the risks posed by a company. According to Kasmir (2017:151), leverage is a ratio of debt to equity which attempts to determine how much debt is used to finance the company's operational activities in order to determine how much debt is used to fund the company's operational activities. business. To determine the amount of leverage, this research uses the debt to equity ratio. A higher DER figure indicates that the amount of debt that must be repaid is less than equity (Rani & Darminto, 2021).

Capital Intensity

The proportion of a company's total assets that consists of fixed assets is referred to as "capital intensity". In accordance with the provisions of PSAK 16 (as revised in 2015), permanent assets are defined as assets owned by the company and used to carry out profitable business operations. Examples of permanent assets include equipment, real estate, buildings, land, and other types of assets(Wahyuni et al., 2020). This research compares total assets and total assets to determine the capital intensity of a company (Wahyu Widodo & Wulandari, 2021).

Profitability

Profitability can be an important way to measure how effective a business is at generating profits. According to (Kasmir, 2017: 151), the aim of determining the profitability of a company is to find out how much money it earned over a certain period of time, how profitable it is compared to this year and the previous year, how profitable it has been throughout its history, and how profitable it is. it makes a lot of money after accounting for taxes and equity. According to Floriana et al. (2021), profitability ratios are used in the process of determining a company's tendency to generate profits. According to Kasmir (2017), the aim of measuring the profitability of a business is to calculate its income over a certain period of time, compare the previous year's profit position with the current year, assess its profits periodically, and determine its profits.

The Effect of Leverage on Tax Avoidance

Based on agency theory, agents, namely company executives, tend to utilize debt to finance the company so that the interest costs incurred by this debt can reduce profits and reduce the amount of company tax. High interest costs will reduce corporate tax payments. Leverage influences tax avoidance. The company's tax burden is lower than the company's debt level. As a company's leverage increases, the company bears a lower tax burden (Astuty et al., 2022).

H1: Leverage has an Effect on Tax Avoidance

The Effect of Capital Intensity on Tax Avoidance

The extent to which a company invests in its properties is referred to as "capital intensity." According to the agency hypothesis, agents make decisions about the amount of money that should be invested in fixed assets rather than used for other reasons. Depreciation costs will be deducted from the tax amount so that managers can reduce the amount of company

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profits that are taxable. Increasing depreciation expenses will result in a decrease in company income which ultimately has an impact on reducing the amount of tax that the company must pay (Artinasari, 2018).

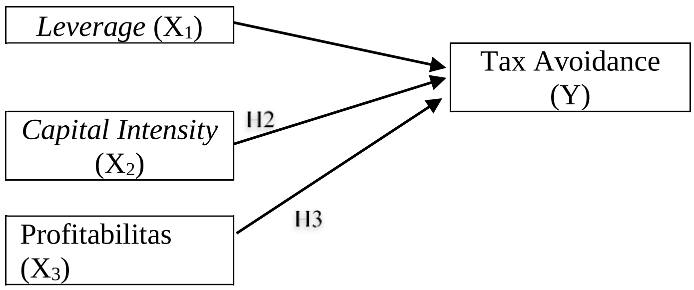
H2: Capital Intensity Influences Tax Avoidance

The Effect of Profitability on Tax Avoidance

High profitability shows that company agents manage finances effectively to get the best possible profits. Based on agency theory which encourages managers to increase company profits. The amount of tax that a company must pay will increase in proportion to the level of income it generates. A direct consequence of this is that managers will be more likely to participate in tax fraud if corporate profits increase in order to avoid increasing their proportion of the total tax burden. According to research by Mariadi et al., tax avoidance increases as an organization's profits increase (2022).

H3: Profitability Influences Tax Avoidance

Conceptual Framework



METHOD

Types of Research

This research uses quantitative methods to analyze causal relationships, with a focus on causal relationships. This research was conducted with the aim of determining the independent influence of profitability, capital intensity and leverage on the variable studied, namely tax avoidance. The focus of this research is on organizations that will be included in the Jakarta Islamic Index for the 2019–2021 period. This research uses panel data, namely data that includes time series and cross-site data (Ghozali, 2017: 14). This research uses secondary data by visiting the Indonesia Stock Exchange website and obtaining financial reports of companies included in the Jakarta Islamic Index. These companies will be listed between 2019 and 2021.

Population and Sample

Population is a generalization category that includes people and objects whose characteristics have been selected by the researcher to be studied in order to draw conclusions. These categories can be used to draw conclusions about the characteristics of the population as a whole. For the purposes of this research, a population consisting of 43 companies included in the Jakarta Islamic Index for the period 2019–2021 was used.

The samples observed in the research were obtained by determining criteria, namely using a purposive sampling technique(Siyoto & Sodik, 2015: 64). The samples obtained were 18 samples with observations for 3 consecutive years, namely 2019-2021, so the total sample amounted to 54 data.

Research Variable

Leverage (X1)

Leverage measurement is calculated using the Debt To Equity ratio formula, namely:(Kasmir, 2017: 157)

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

Capital Intensity (X2)

Capital intensity measurement is carried out by calculating the Capital intensity ratio formula, namely:(Wahyu Widodo & Wulandari, 2021)

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$$Capital\ Intensity\ Ratio = \frac{\text{Total Fixed Assets}}{Total\ Assets}$$

Profitability (X3)

Profitability measurement is carried out by calculating the ROA formula, namely:(M. Hanafi 2016, 42)

$$Return\ On\ Assets = \frac{Net\ Profit}{Total\ Assets}$$

Tax Avoidance

For calculations*tax avoidance*This is done by calculating the Effective Tax Rate (ETR), namely: (Wahyu Widodo & Wulandari, 2021)

$$Effective\ Tax\ Rate = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

Data analysis technique

The data analysis method used in the research project is a multiple linear regression testing approach. The first test is called the descriptive test or classical assumption test, and consists of many other tests, including multicollinearity, heteroscedasticity and coefficient of determination tests. Excel and Eviews were used to perform data analysis.

RESEARCH RESULTS AND DISCUSSION

Classic Assumption Test Results

Data processing carried out on the 54 observational data tested stated that the test results showed that the observational data had met the classical assumption test. The classical assumption test consists of the Multicollinearity and Heteroscedasticity Tests.

Multiple Linear Regression Analysis

Table 1. Multiple Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.19266	0.68937	2.847033	0.0064
X_1	0.047295	0.028731	1.646140	0.1060
X_2	0.271259	0.129677	2.091801	0.0416
X_3	-0.710996	0.352296	-2.018176	0.0490

Source: Data Processed

Based on table 1, the results of the regression equation are :

$$Y = 0.196266 + 0.047295(X1) + 0.271259(X2) – 0.710996(X3) + e$$

From the regression equation in table 1, it is known that:

1. The constant obtained from the regression equation is 0.196266, indicating that if the independent variables (leverage, capital intensity and profitability) are considered zero, then the increase in Tax Avoidance will be 0.196266%.

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2. *Coefficient*of leverage is 0.047295, this means that if leverage experiences an increase of 1% causing an increase in Y of 0.047295% assuming the other independent variables remain constant.
3. *Coefficient*The capital intensity variable has a value of 0.271259, this means that capital intensity increases by 1%, causing an increase in Y of 0.271259% provided that the leverage and profitability variables remain constant.
4. *Coefficient*The profitability variable has a value of -0.710996, this means that if profitability increases by 1%, it causes a decrease in Y of -0.710996% provided that the leverage and capital intensity variables remain constant.

Coefficient of Determination (R2)

Based on the test results, it is known that the value of R squared is 0.173768, so it is concluded that the independent variable has an ability of 17.38% in explaining the relationship between the dependent variable, while the remaining 82.62% is influenced by independent variables that are not included in the research.

Discussion

The Effect of Leverage on Tax Avoidance

The research results provide support for the conclusion that the first hypothesis (H1) must be rejected. The first hypothesis cannot be supported, as shown by testing, because the probability value of the variable X1 is 0.1060, more than 0.05. The test results show that variable X1 has no effect on the amount of tax avoidance carried out. The results of this research are in line with those found by Anindyka S. et al (2018) who found that there was no relationship between the use of leverage and tax avoidance. The company will use its debt to support the continuity of its operations rather than reducing tax payments because this is more profitable. If the debt ratio is high, management will be more careful in making decisions regarding the company's future. In case the company's debt to asset ratio is much higher, it will also accept higher risks. This will encourage management to be more careful when using the debt to equity ratio to reduce the amount of tax (Winning Arianandini & Wayan Ramantha, 2018)

The Influence of Capital Intensity on Tax Avoidance

The research results show that the second hypothesis (H2) is accepted as the correct hypothesis. This can be seen in the test which concludes that H2 is true if the variable X2 has a probability value of more than or equal to 0.05. Based on the test results, tax avoidance is influenced by variable X2 in several ways. According to research conducted by Artinasari (2018), it was found that higher capital intensity causes a decrease in tax avoidance. These criteria are consistent with these findings. The large depreciation costs that will be incurred by a company due to having a large number of fixed assets will be a fairly large burden for the company. Large expenses will reduce the profits that the company gets, resulting in a smaller corporate tax rate. The calculation of the depreciation method applied by a company also plays a role in the amount of tax. Differences in depreciation methods give rise to positive corrections which can have an impact on increasing the company's tax burden (Puspitasari et al., 2021)

The Effect of Profitability on Tax Avoidance

The results of the hypothesis test show that the third hypothesis (H3) is reliable, so conclusions can be drawn. This is shown by testing which concludes that the third hypothesis can be trusted because the probability value associated with variable X3 is 0.0490, which is lower than the required value, namely 0.05. Based on these data, it can be seen that variable X3 has an influence on tax avoidance. These results are in line with those reported in research conducted by Yulianty et al. (2019) who found that a company's profitability has a beneficial influence on tax avoidance. The tax burden calculation is based on the profits the company earns. Increasing profits generated by companies can trigger managers to take tax avoidance actions. The high profitability of the company means the company produces high profits so that the company has a high incentive to minimize its taxes (Dayanara et al., 2018).

CONCLUSIONS

Based on the research analysis carried out, it was concluded that:
1. The Leverage variable has no effect on tax avoidance. Debt is only used by companies purely to fund company activities.
2. *Capital intensity*influence on tax avoidance. Business entities with large amounts of investment in fixed assets cause the depreciation burden on these assets to increase so that the burden borne by the company becomes higher. A high amount of depreciation expense will affect the company's profits so that it can result in a reduction in the company's tax debt.
3. The profitability of a business is one factor in tax avoidance. Businesses that are primarily motivated by profits will have to pay more taxes, which will encourage agents to engage in tax avoidance practices to reduce the total amount of taxes they have to pay.

Limitations

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The scope of this research is limited to only covering companies that are members of the Jakarta Islamic Index. In addition, the observation period for this study is limited to 2019–2021. If this happens, the ability of the independent variables, namely leverage, capital intensity and profitability, to explain the dependent variable, namely tax avoidance, decreases to 17.38%. An additional 82.62% of the explanation may be caused by other variables not considered in the study.

Suggestion

1. For other researchers, it is recommended to add different variables, namely the independent commissioner variable, company size and liquidity.
2. For the latest research, it is recommended to use samples from other stock indices such as LQ45, Indonesian Sharia Stock Index (ISSI), IHSG and IDX30.
3. Because taxes are one of the main sources of income used by the government to support the development of public utilities for the benefit of the people, taxpayers are expected to be able to carry out their obligations as citizens by paying their fair share of taxes.

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