

The Effect of Corporate Risk, Sales Growth and Profitability on Tax Avoidance

(Study in Food Sub-sector of Indonesian Stock Exchange on 2018-2020)

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Abstract: - This research was conducted to analyse, observe and test the effect of Corporate Risk, Sales Growth, and Profitability on Tax Avoidance practices. The object of this research is the food and beverage sub-sector companies listed on the IDX during the 2018-2020 period. The sample selection used the purposive sampling method with a total of 143 samples that met the criteria. The analytical method used is multiple linear regression analysis with the help of the SPSS statistical program. From this test, the results show that (1) corporate risk, profitability and corporate size have no effect on tax avoidance, (2) sales growth have a negative effect on tax avoidance, (3) leverage have a positive effect on tax avoidance.

Keywords: Tax Avoidance, Corporate Risk, Sales Growth, profitability, Leverage, Corporate Size

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1 Introduction

In Indonesia, there are many cases of deliberate tax evasion by business actors. Based on the estimated income tax loss data released by Global Financial Integrity in 2016, income tax losses due to misuse of data in Indonesia reached 6.5 billion dollars. Supporting this data, based on the OECD tax ratio, Indonesia since 2017 has been far below other countries at only 11.5%, even lower than neighbouring countries such as Malaysia which reached 13.6% and Papua New Guinea at 13.7%. The comparison of the amount of tax revenue with the amount of GDP is called the OECD tax ratio [1]. So the low tax ratio in Indonesia can indicate the high level of tax avoidance in Indonesia. There are many factors that can increase a company's efforts to implement tax avoidance. In a number of studies that have been carried out previously trying to link the factors of the company's financial condition with tax avoidance, the financial condition factors include company risk, sales growth, profitability, leverage, company size, and other economic factors that can affect tax avoidance. According to [2] in their research, they examine the effect of the company's risk aspects on tax avoidance. It is

concluded that the fluctuations that occur as a result of the company's risk reflect the tendency of the company's actions or policies. The return obtained by the company is closely related to risk, risk is a deviation or foreign exchange from the results obtained with the expected. So, if the company's risk level is greater, it will lead to greater opportunities for companies to take risky actions such as tax avoidance. If sales grow larger, there will be greater profit growth, this can show that tax avoidance practices are strongly influenced by profit growth. The increase in sales will increase the sales revenue received by the company, so it is likely that the company will generate greater profits, this can result in the company's tax burden being greater. So it is likely that the company will try to carry out tax avoidance practices in order to minimise the tax burden. The results of his research by [3], the higher the profitability or the company's ability to generate profits, the greater the profits. then the amount of tax borne by the company also increases, because of the high tax burden, the company tends to find ways to minimise the tax burden paid and tend to take tax avoidance actions. ROA is one of several types of profitability ratios. ROA is a scale that describes the financial performance of a company, if a company

is able to achieve a high ROA, then the company is considered to have been efficient in maximising the use of assets to generate profits in the company's operations. ROA is one of several types of profitability ratios. ROA is a scale that describes the financial performance of a company, if a company is able to achieve a high ROA, then the company is considered to have been efficient in maximising the use of assets to generate profits in the company's operations. ROA is one of several types of profitability ratios. ROA is a scale that describes the financial performance of a company, if a company is able to achieve a high ROA, then the company is considered to have been efficient in maximising the use of assets to generate profits in the company's operations.

To avoid tax avoidance then government can also use the policy of tax amnesty [4] Amnesty or tax amnesty is a policy regarding taxation by providing a limited-time opportunity for certain groups of taxpayers to pay a certain amount and within a certain time in the form of amnesty of tax obligations (including interest and fines) relating to the previous tax period or a certain period without fear of criminal penalties.

2 Hypothesis Development

2.1. The Influence of Company Risk on Tax Avoidance

In making a decision for the company, the company's leadership and management realise that every decision or policy contains an element of risk. Corporate risk is related to the characteristics of executives, whether they are risk takers or risk avers. Where the measurement of the company's risk is carried out by the standard deviation of ebitda divided by total assets. The higher the level of return from the deviation and the total assets, the greater the risk, this can show the characteristics of management, namely risk taking. So it is likely that the company will take a policy to do tax avoidance. In Research [2] proves that corporate risk positively affects tax avoidance. From this statement, the first hypothesis can be formulated with;

H1 : Company risk has a positive effect on Tax avoidance

2.2. Effect of Sales Growth on Tax avoidance

High sales growth can affect the profit generated by the company to be higher as well, a large company profit level will result in high tax liability that must be borne by the company, so companies tend to look for ways to reduce or minimise the tax liability that must be paid. This can lead to the company's efforts

to implement tax avoidance. If the level of sales grows higher, the company's efforts to implement Tax Avoidance will also be higher. This is consistent with the results of his research [5] which proves that sales growth positively affects tax avoidance. From the description above, the following hypotheses can be obtained;

H2 : Sales Growth positively affects Tax Avoidance.

2.3. The Effect of Profitability on Tax avoidance

Companies that have a high level of profitability will also provide large profits, thus requiring companies to pay high taxes. Based on this, there is a tendency for companies to minimise their tax payments, namely by reducing the profits earned by the company with the aim of minimising tax payments. Thus, if the level of profitability of the company is greater, the company's tendency to implement tax avoidance will be more open. This is corroborated by his research [5] which proves that profitability positively affects tax avoidance. Based on this theory, the following hypotheses can be obtained;

H3 : Profitability positively affects Tax Avoidance.

3 Research Method

Multiple linear regression analysis in this case is done by including the variables to be tested, namely Company Risk, Sales Growth and Profitability on tax avoidance. The equation of panel data is a combination of cross section data with time series data, namely;

$$TAV = \alpha + \alpha_1 CR + \alpha_2 Sales + \alpha_3 ROA + Lev + Size + e \dots\dots\dots(1)$$

- TAV = Tax Avoidance
- α = Konstanta
- $A_1 CR$ = Corporate Risk
- $A_2 Sales$ = Sales Growth
- $A_3 ROA$ = Profitability
- Lev = Leverage
- Size = Firm Size
- e = Error

4 Result and Discussion

4.1 Multiple Linear Regression Analysis

Multiple linear regression analysis in this case is used to test the hypothesis and see whether there is an influence between the independent variables on

the dependent variable. The table of test results will be presented in the following table;

Table 1. Multiple Linear Regression Test

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,236	0.055		4,293	,000
	CR(X1)	,026	0.060	0.049	,427	,670
	SG (X2)	,122	,033	,333	3,678	,000
	ROA (X3)	-,001	,061	-,002	-,022	,982
	LEV (X4)	-,066	,032	-,223	-2,077	0.040
	SIZE (X5)	,002	,004	0.054	,626	,533

Dependent Variable : TAV

From the results above, the equation can be written as below;

$$TAV = 0.236 + 0.026X1 + 0.122X2 - 0.001X3 - 0.066X4 + 0.002X5 + e.....(2)$$

Then from the test results can be explained about the correlation between the independent variables and the dependent variable, namely:

- 1) The constant value of 0.236 shows that if all the independent variables do not exist or there is no change, then the average possibility of tax avoidance is 0.207 which has a positive value.
- 2) The coefficient value of the company risk variable is 0.026, where the regression coefficient on this variable has a positive direction, so that the relationship between the company's risk variable and tax avoidance is directly proportional.
- 3) The coefficient value of the sales growth variable is 0.122, where the regression coefficient on this variable has a positive direction, so that the relationship between the sales growth variable and tax avoidance is directly proportional.
- 4) The coefficient value of the profitability variable is -0.001, where the regression coefficient on this variable has a negative direction, so that the relationship between the profitability variable and tax avoidance is inversely proportional.

4.2 Hypothesis Testing

4.2.1 Coefficient of Determination Test (R-Square)

This test aims to assess how big the correlation between the independent variables and the dependent variable. The value of R square can be said to be good if the value is between 0 - 1. If the value of R square is close to 1, then the independent variable is said to provide the information needed to

estimate the dependent variable. But on the contrary, if the value of R square is lower, then the ability of the independent variable is increasingly limited in explaining the dependent variable.

The results of the coefficient of determination (R-square) obtained in this study are:

Table 2. Coefficient of Determination (R-Square)

Model	R	R Square	adj. R Square	Std. Error of the Estimate
1	,392a	,154	,119	0.06515

a. Predictors: (Constant), SZ, SG, LEV, ROA, CR

b. Dependent Variable : abresid

Based on table 2 the results of the R-Square determination coefficient test have a value of 0.154, which means that if the relationship between the dependent variable is influenced by the independent variable, namely company risk, sales growth and profitability are 15.4% where the value is 84.6% for the remainder. explained by other variables not included in this study.

4.2.2 Simultaneous Significance Test (F statistic test)

This test aims to obtain the results of the research hypothesis test. Using the F test with a constant of 0.05 so that if the significance shows the number <0.05 then the hypothesis is accepted, on the contrary if the significance is > 0.05 then the hypothesis is not accepted. Then it is also seen by looking at the value of F count and F table, where if the value of Count is greater than Ftable then this research model can be accepted or suitable for use in this study. Below are the test results;

Table 3. Statistic Test

ANOVAa					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	,093	5	0.019	4,396	,001b
Residual	,514	121	,004		
Total	,607	126			

a. Dependent Variable : TAV

b. Predictors: (Constant), SZ, SG, LEV, ROA, CR

The table above shows that all variables have an influence on tax avoidance. The calculated F value obtained is 4.396 with a significance level of 0.001 and the F table value from the number of samples is 127 and the number of independent variables (k) as much as 5 is 2.28. Then the value of F count > F table is 4.396 > 2.28 with a significance value of <

0.05 so the conclusion is the research model in this study is accepted where company risk, sales growth, profitability, leverage and company size affect tax avoidance significantly.

4.2.3 Individual Parameter Significance (Test Statistical t)

The following are the results of the individual parameter significance test (t statistical test) in this study:

Table 4. Test Statistic t

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,236	0.055		4,293	,000
	CR(X1)	,026	0.060	0.049	,427	,670
	SG (X2)	,122	,033	,333	3,678	,000
	ROA (X3)	-,001	,061	-,002	-,022	,982
	LEV (X4)	-,066	,032	-,223	2,077	0.040
	SIZE (X5)	,002	,004	0.054	,626	,533

Dependent Variable : TAV

The results of the tests shown in the table above can be concluded as follows:

- 1) The company's risk as the first independent variable has a significance value of 0.670 > 0.05, meaning that the company's risk does not affect tax avoidance.
- 2) Sales growth as the second independent variable has a significance value of 0.000 < 0.05, meaning that sales growth negatively affects tax avoidance.
- 3) Profitability as the third independent variable has a significance value of 0.982 > 0.05, which means that profitability does not affect tax avoidance.
- 4) *Leverage* As a control variable, the significance value of 0.040 < 0.05 means that leverage positively affects tax avoidance.
- 5) Firm size as a control variable has a sig value. 0.533 > 0.05 means that the size of the company does not affect tax avoidance.

4.3 Hypothesis Result

1) Company risk Positively Affects Tax Avoidance H1 beeps; corporate risk positively affects tax avoidance. Based on the test results, it shows that the beta regression coefficient is 0.026 with a value of sig. 0.670 > 0.05. Which means that partially the

company's risk affects tax avoidance with a significant negative, so it can be concluded if it rejects H1.

2) Sales Growth Positively Affects Tax Avoidance H2 beeps; Sales growth positively affects tax avoidance. Based on the test results, it shows that the beta regression coefficient is positive, namely 0.122 with a significance value of 0.000 < 0.05, where partially sales growth negatively affects tax avoidance, so H2 is rejected.

3) Profitability Has Positive Effect on Tax Avoidance

H3 sounds; profitability positively affects tax avoidance. The test results show that the beta regression coefficient is negative, which is -0.001 with a significance value of 0.982 > 0.05 where partially profitability does not affect tax avoidance, therefore it can be concluded if H3 is rejected.

4.4 Discussion

1) The Influence of Corporate Risk on Tax Avoidance

The results of the partial test show that the company's risk has a beta coefficient value of 0.026 and a significance of 0.670 > 0.05 with a value of t count and t table 0.427 > -1.97730. This shows that the company's risk does not affect tax avoidance. The results of this study are not the same as those of [6], and the research of [2] which proves that corporate risk affects corporate tax avoidance. However, this study is the same as [7] which proves that corporate risk cannot have a direct influence on tax avoidance, but can strengthen or weaken the influence of the character of directors in carrying out tax avoidance actions. The company's risk is closely related to the company's category as a risk taker or risk averse. It is further explained that, within each of these categories.

2) Effect of Sales Growth on Tax Avoidance

Based on the partial test results, it shows that sales growth has a beta coefficient value of 0.122 and a significance of 0.000 < 0.05 with a -tcount and t table value of 3.678 > 1.97730. This shows that sales growth negatively affects tax avoidance. The results of this study are not in accordance with research by [5], research by [3], [8], and [9] which prove that sales growth positively affects tax avoidance. Higher sales growth does not affect tax avoidance. This can be stated because the increase in sales growth is not always followed by an increase in the company's net profit.

3) The Effect of Profitability on Tax avoidance
Based on the partial test results, it shows that

profitability has a beta coefficient value of -0.001 and a significance of $0.982 > 0.05$ with a value of t count and t table $-0.022 > 1.97730$. Thus, it shows that profitability has no effect on tax avoidance. The results of this study are in accordance with the research [10] which proves that profitability does not affect tax avoidance. Companies with large profitability indicate that there is efficiency carried out by management. The ROA ratio is an indicator that can reflect the company's financial performance, the higher the ROA, the better the company's performance. Companies that earn profits are assumed not to do tax avoidance because they are able to regulate their income and tax payments. This is the reason why the profitability variable in this study has no effect on tax avoidance.

4 Conclusion

From the results of tests and research that have been carried out, conclusions can be drawn as follows:

1. Corporate risk does not affect tax avoidance. The company's risk is considered not to be able to directly affect tax avoidance, but can strengthen or weaken the influence of the character of the board of directors in carrying out tax avoidance actions.
2. Sales growth negatively affects tax evasion. The higher the company's sales is always followed by the potential for tax avoidance, because increased sales do not always result in an increased tax burden as well, because there are factors such as expenses and costs that must be incurred by the company if sales growth increases.
3. Profitability does not affect tax avoidance. The greater the profitability of the company, the potential for tax evasion is not possible. The high profitability is caused by the company having good performance, so the company can manage its income and tax payments. This is the reason why profitability has no effect on tax avoidance.

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