The effect of tax avoidance on profitability with corporate governance as moderation

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ABSTRACT

The increase in profitability in most companies listed on the Indonesia Stock Exchange occurred from 2017 to 2019. Consumer Non-cyclical sector companies began to show an increase in profitability from 2021 to 2022. The aim of this research is to analyze the effect of Tax Avoidance on Profitability with Corporate Governance as moderator. This research uses a quantitative descriptive method carried out on non-cyclical consumer companies listed on the Indonesia Stock Exchange for the 2020-2022 period. A total of 38 companies as samples in this research observed financial report data for 3 years, namely from 2020 to 2022 using the Moderated Regression Analysis (MRA) analysis model. The research results show that tax avoidance has no effect on profitability, corporate governance has a positive and significant effect on profitability, and corporate governance is unable to strengthen the effect of tax avoidance on profitability.

Keywords: Tax avoidance, Profitability, Corporate governance, Non-cyclical consumer, Companies

Introduction

Companies in this sector produce or distribute goods and services that have anti-cyclical characteristics or primary/basic goods so that demand is not influenced by economic growth (Dwicahyaniet al., 2022). The term non-cyclical means that if economic conditions occur in the form of a recession, then this type of need cannot still be eliminated from daily use. Companies in the primary consumer goods sector include drug stores, supermarkets, beverage manufacturers, primary goods retailers, packaged foods, sellers of agricultural products, household goods, cigarette manufacturers, and personal care goods (Nugroho & Munari, 2021).

Profitability is a ratio to calculate a company's capability to obtain profits from the business sector it carries out. The high income received by the company makes profits also large. Large profits can increase the amount of tax the company must pay. This is contrary to the company's principle of wanting large profits, for this reason agents will try to reduce the tax burden so that the profits obtained are greater, thus giving rise to principal satisfaction with large profits (Azizah, 2023). Fluctuations in profitability in Consumer Non-cyclical sector companies can be a reason for companies to practice tax avoidance.

The figure above shows that Profitability (Return On Asset) in Non-cyclical Consumer sector companies tends to fluctuate. From 2017 to 2019 most companies experienced an increase in profitability.
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Figure 1. Profitability (Return On Asset) in Non-cyclical Consumer sector companies tends to fluctuate

Tax avoidance is a legal practice used by individuals or companies to minimize tax payment obligations. Tax evasion is not illegal, but it can be considered unethical if it involves exploiting loopholes in the tax system. Tax avoidance is an example of a strategy that can be used by management in a company to save on company expenses which can ultimately increase the company's net profit (Amri, 2017).

Agency theory and stakeholder theory are two grand theories used to understand company dynamics in the context of tax policy and tax avoidance practices. Agency theory describes the relationship between shareholders (principal) and managers (agent) in the company. Agency conflicts occur when managers have the initiative to pursue personal gain that can conflict with the interests of shareholders. Agency conflicts can be reflected in tax avoidance practices when managers try to optimize corporate taxes for personal gain. There are various ways that individuals and companies can use to avoid paying taxes. One common way is through offshore accounts, such as keeping income in countries with low tax rates. Tax avoidance is a risky action, companies can deal with the law if they are found to have committed illegal tax avoidance actions (Amri, 2017).

Taking advantage of loopholes in the tax system is one way that many individuals or companies use to avoid paying taxes. Tax avoidance actions carried out by taxpayers have an impact on tax revenues, causing a significant loss of income for the government (Mahdiana & Amin, 2020). The report issued by the Tax Justice Network shows that there is lost tax revenue of US$427 billion/year globally, and Indonesia loses US$4.864 billion/year due to tax avoidance (Cobham et al., 2020).

Companies that are indicated to be evading taxes can be seen from the funding policies adopted by the company. The implementation of corporate governance can provide effective protection for stakeholders with the aim of minimizing the emergence of agency problems in the form of conflicts that occur due to differences in interests between managers and company owners, so a corporate governance system is needed (Jefri & Khoiriyah, 2019). The disclosure of cases regarding the company's efforts to take tax avoidance actions by minimizing the size of its tax liabilities, raises conflicts with corporate governance which results in the fact that the corporate governance system has not been fully implemented in companies in Indonesia (Subagiastra et al., 2016). This can result in a lack of information that the company is less precise in presenting information with the facts provided and urging the company to avoid the amount of tax liability charged, therefore the company is more likely to commit accounting fraud (Oktaviana & Kholis, 2021). In this era of globalization, many companies implement good corporate governance practices, to minimize business risks that occur. This good corporate governance issue began to emerge in Indonesia after the financial crisis (Jefri & Khoiriyah, 2019). Research conducted by Istighfarin et al. (2015), Oktaviana & Kholis (2021), and Putra et al. (2022), found that Good Corporate Governance has a positive effect on profitability. The results of this study contradict the research conducted by Hamid et al. (2022) which shows that Good Corporate Governance has no effect on profitability.

Corporate Governance can strengthen the relationship between tax avoidance and profitability. In a business environment and competition that is always changing, appropriate corporate tax management practices and the influence of corporate governance in tax regulation are increasing. The right financial management decisions can have a significant impact on company profits. Based on this, research on the effect of tax avoidance on profitability with corporate governance as a moderating variable is very relevant for companies in developing appropriate and efficient tax strategies to maintain strong profitability amidst intense business competition.

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This research aims to determine the effect of Tax Avoidance and Corporate Governance on Profitability. The next objective is to determine the ability of Corporate Governance to strengthen the influence of Tax Avoidance on Profitability.

Method

This research was conducted on companies listed on the Indonesia Stock Exchange (BEI). The company routinely provides financial report data which can be accessed or downloaded via the official IDX website. The data used is data for 3 years starting from 2020 to 2022. This period is used as an observation year with the consideration that it can provide the latest picture of the company's financial report data which has been informed to the public via the website www.idx.co.id.

The scope of this research covers the research subjects, namely non-cyclical consumer companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. This research uses quantitative methods which is a form of research carried out based on data collected during the research. This data systematically covers all the facts and characteristics of the object under study by combining the relationships between each variable involved in it, then the results are interpreted based on theory and literature related to this research.

The operational definition of each variable in this research is as follows: 1) Tax avoidance is an effort to avoid taxes legally and safely by taxpayers and does not conflict with applicable tax provisions (Pohan, 2018). In this research, companies registered on the IDX for the 2020-2022 period and selected as samples will have their tax avoidance measured; 2) Profitability ratio is a ratio to assess a company's ability to make a profit (Kasmir, 2018). In this research, the profitability ratio is measured by the return on assets ratio (ROA). ROA is a measuring tool used to assess the percentage of profit on total assets owned by a company and is useful for knowing the level of company performance regarding profits earned on company assets (Kasmir, 2018); 3) Organization for Economic Cooperation & Development (OECD), Corporate Governance is a collection of relationships between company management, shareholders and other parties with an interest in the company. Ranking of the implementation of the corporate governance concept in participating companies by giving scores according to the results of value weighting based on investors' assessments.

The population in this research is 122 non-cyclical consumer companies listed on the Indonesia Stock Exchange for the 2020-2022 period. Purposive sampling is a technique for determining samples with certain considerations (Sugiyono, 2014). The criteria determined in selecting the sample for this study are as follows: 1) Non-cyclical consumer companies with a final tax collection system; 2) Non-cyclical consumer companies that have complete data according to the variables studied in this research; 3) Non-cyclical consumer companies that implement a Corporate Governance system. Based on the criteria above, 38 companies were obtained as samples in this research during 3 years of observation, namely from 2020 to 2022. The data collection method used in this research is the non-participant observation method, namely observations carried out without involving oneself and only as an independent observer. The way to obtain data using this method is by observing, recording, and studying descriptions from books, management and accounting journals, official websites, as well as research related to the problem under study in order to obtain a theoretical basis and reference for processing. The data analysis used in this research is descriptive analysis, classical assumption testing and moderating regression analysis (MRA). This MRA model uses an analytical approach that maintains sample integrity and provides a basis for controlling the influence of moderator variables (Ghozali, 2018).

Results and Discussions

Descriptive Statistical Analysis

Descriptive statistical analysis is an analysis technique that describes or describes research data through minimum, maximum, average (mean) and standard deviation values. This research uses 38 non-cyclical consumer sector companies listed on the IDX in 2020-2022. Description of data from 38 sample companies related to research variables is shown in Table 1 below.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax avoidance</td>
<td>114</td>
<td>-6.70</td>
<td>2.94</td>
<td>0.18</td>
<td>0.93</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>114</td>
<td>0.75</td>
<td>1.00</td>
<td>0.90</td>
<td>0.09</td>
</tr>
<tr>
<td>Profitabilitas</td>
<td>114</td>
<td>-0.12</td>
<td>0.17</td>
<td>0.05</td>
<td>0.05</td>
</tr>
</tbody>
</table>

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Based on the results of descriptive statistical tests in Table 5.1, the number of N is 114 data. This means that there were 114 observational data studied, consisting of 38 non-cyclical consumer sector companies during the 3 years of research, namely 2020-2022. Tax avoidance from 38 non-cyclical consumer sector companies during 3 years of observation had the lowest value of -6.703 and the highest value of 2.94. The average value is 0.18. The standard deviation value is 0.93, which is greater than the average value, so it can be seen that the distance between the lowest and highest values for tax avoidance from all the companies observed is large. Corporate governance of 38 non-cyclical consumer sector companies during 3 years of observation had the lowest value of 0.75 and the highest value of 1.00. The average value is 0.90. The standard deviation value is 0.09, which is smaller than the average value, so it can be seen that the distance between the lowest and highest values for corporate governance of all the companies observed is small. The profitability of 38 non-cyclical consumer sector companies during the 3 years of observation had the lowest value of -0.12 and the highest value of 0.17. The average value is 0.0505. The standard deviation value is 0.05, which is greater than the average value, so it can be seen that the distance between the lowest and highest values for the profitability of all the companies observed is large.

**Classic assumption test**

The classical assumption test is carried out with the aim of getting the best, linear and unbiased regression coefficient on Ordinary Least Squares (OLS). Before testing the hypothesis using multiple regression analysis, it is necessary to first test the classical assumptions.

**Normality test**

The normality test is carried out to test whether a regression has a normal distribution or not. In this research, the union of normality uses a statistical test, namely the Kolmogorov – Smirnov (K-S) test. The results using the K-S test can be seen in Table 2.

<table>
<thead>
<tr>
<th>No</th>
<th>Model</th>
<th>Z</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Y = α + β1X + β2Z + β3XZ + e</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>2</td>
<td>Z = α + β1X + e</td>
<td>0.11</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Based on Table 2, it can be seen that the significant value of the first equation model is 0.08 and the second equation model is 0.06. This shows that the three equation models meet the normality test because the Asymp. Sig. greater than 0.05.

**Multicollinearity test**

The multicollinearity test aims to test whether in the regression model a correlation is found between the independent variables. To detect whether there is multicollinearity in the regression model, you can look at the tolerance value and variance inflation factor (VIF) value. If the tolerance value is more than 10% or VIF is less than 10, it is said that there is no multicollinearity. The results of the multicollinearity test can be seen in Table 3.

<table>
<thead>
<tr>
<th>No</th>
<th>Model</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Y = α + β1X + β2Z + β3XZ + e</td>
<td>0.19</td>
<td>5.23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.93</td>
<td>1.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.19</td>
<td>5.39</td>
</tr>
</tbody>
</table>

Based on Table 3, it can be concluded that the tolerance value for each variable is above 10% (0.10) and the VIF value is below 10. This explains that the two existing regression models do not have multicollinearity.

**Autocorrelation test**

The autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in period t and confounding errors in period t-1 (previously). Autocorrelation occurs when consecutive observations over time are related to each other. The results of the autocorrelation test are shown in Table 4 below.

<table>
<thead>
<tr>
<th>No</th>
<th>Model</th>
<th>Durbin – Watson</th>
<th>DU</th>
<th>4-DU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Y = α + β1X + β2Z + β3XZ + e</td>
<td>1.860</td>
<td>1.69</td>
<td>2.31</td>
</tr>
<tr>
<td>2</td>
<td>Z = α + β1X + e</td>
<td>1.949</td>
<td>1.74</td>
<td>2.26</td>
</tr>
</tbody>
</table>

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Table 4 shows that the Durbin-Watson (DW) values in both equations are between the DU and 4 – DU values. So it can be stated that no cases of autocorrelation were found in these two equations.

**Heteroscedasticity test**

The heteroscedasticity test is carried out to test the regression model whether there is inequality of variance from the residuals of one observation to another. The heteroscedasticity test in this study used a statistical test using the Glejser test. The Glajser test is carried out by regressing the absolute residual value of the estimated model on the independent variables. If the significant value is greater than 0.05 then there are no symptoms of heteroscedasticity. The results of the heteroscedasticity test can be seen in Table 5.

**Table 5. Heteroscedasticity Test Results**

<table>
<thead>
<tr>
<th>No</th>
<th>Model</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$Y = \alpha + \beta_1X + \beta_2Z + \beta_3XZ + e$</td>
<td>-1.040</td>
<td>0.301</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.684</td>
<td>0.495</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.960</td>
<td>0.339</td>
</tr>
<tr>
<td>2</td>
<td>$Z = \alpha + \beta_1X + e$</td>
<td>0.816</td>
<td>0.416</td>
</tr>
</tbody>
</table>

Based on Table 5, it can be concluded that the significance value of each variable in the two regression models exceeds 0.05. This shows that the two regression models are free from symptoms of heteroscedasticity.

**Moderated Regression Analysis (MRA)**

The results of the Moderated Regression Analysis (MRA) analysis are shown in Table 6 below.

**Table 6. Moderated Regression Analysis Test Result**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std.Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-0.3730</td>
<td>0.0356</td>
<td>-10.482</td>
</tr>
<tr>
<td>Tax avoidance</td>
<td>-0.0045</td>
<td>0.0507</td>
<td>-0.080</td>
<td>-0.088</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>0.0047</td>
<td>0.0004</td>
<td>0.781</td>
<td>11.846</td>
</tr>
<tr>
<td>Tax Avoidance*Corporate governance</td>
<td>0.0001</td>
<td>0.0006</td>
<td>0.186</td>
<td>0.206</td>
</tr>
</tbody>
</table>

$\text{Adjusted R-square} : 0.613$

$F_{hitung} : 60.613$

$\text{Sig. } F_{hitung} : 0.000$

**Hypothesis test**

1) The Effect of Tax Avoidance on Profitability. The t test results show a tcount value of -0.088 with a significance of 0.930. A significance value greater than the significance level ($\alpha = 0.05$) indicates that the first hypothesis in this study is rejected. So it can be stated that Tax Avoidance has no effect on Profitability; 2) The Influence of Corporate Governance on Profitability. The t test results show a tcount value of 11.846 with a significance of 0.000. A significance value that is smaller than the significance level ($\alpha = 0.05$) indicates that the second hypothesis in this study is accepted. So it can be stated that Corporate Governance has a positive and significant effect on Profitability; 3) The influence of Corporate Governance in moderating the influence of Tax Avoidance on Profitability. The t test results show a tcount value of 0.206 with a significance of 0.837. A significance value greater than the significance level ($\alpha = 0.05$) indicates that the third hypothesis in this study is rejected. So it can be stated that Corporate Governance is unable to strengthen the influence of Tax Avoidance on Profitability.

Corporate governance is not only concerned with managing tax risks, but also involves various aspects of corporate management, such as business strategy, regulatory compliance, business ethics, and corporate social responsibility. The focus of corporate governance on these aspects may reduce the priority given to the monitoring of tax avoidance practices, thus limiting their impact on profitability.

The role of corporate governance is considered important in managing agency risk between shareholders and management, but existing oversight mechanisms are not always effective enough in controlling tax avoidance practices. Management who tend to use aggressive tax avoidance strategies may still be able to find ways to avoid scrutiny or cover up their practices, even in a strict corporate governance environment.

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Other external factors that can affect company profitability besides corporate governance are market conditions, industry competition, tax regulations, and changes in government policies. Tax avoidance practices undertaken by companies may only be one of many factors that affect profitability, and corporate governance does not have a significant influence in strengthening the relationship between tax avoidance and profitability in this research.

Conclusions

Tax Avoidance has no effect on Profitability. This shows that non-cyclical consumer companies can have a more careful approach to corporate tax practices, focusing on other factors that have a greater impact on profitability and paying attention to the company's reputation and social responsibility. Corporate Governance has a positive and significant effect on Profitability. This shows that effective corporate governance has a significant positive impact on the profitability of non-cyclical consumer companies and emphasizes the importance of good governance in creating long-term value for companies and ensuring the sustainability of strong financial performance. Corporate Governance is unable to strengthen the influence of Tax Avoidance on Profitability. This indicates that although good corporate governance practices can increase supervision and accountability within the company, they are not able to significantly strengthen the influence of tax avoidance practices on profitability. There are other factors outside tax practices that have a greater influence on the profitability of non-cyclical consumer companies. Factors such as operational management, marketing strategy, product innovation, and consumer satisfaction can have a greater impact on profitability than tax practices.

References


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