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Size of Company, Return on Assets, and Leverage on Tax Avoidance

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ABSTRACT
Many companies do tax avoidance in order to decrease the tax burden. Tax avoidance can be done in various ways. This research is to discover the impact of return on assets, firm size, and firm leverage on tax avoidance, partially and simultaneously. The author uses data collection methods by utilizing secondary data from the oil and gas companies' financial statements which can be downloaded on the website. The research data was processed using analysis of multiple regression, and Eviews. This research reveals that simultaneously firm size, return on assets, and leverage have a significant and positive effect on tax avoidance. This research also shows that the company's leverage significantly gives an effect on tax avoidance activities. It means that the higher the leverage of a firm, it will affect the company's ability to avoid its taxes. Meanwhile, firm size and return on assets partially gives no effect on tax avoidance activities.

Keywords: Size of Company; Return on Assets; Leverage and Tax Avoidance

INTRODUCTION

The state regulates the obligations and guarantees the rights of every citizen in the law and the constitution. One of the obligations of these citizens is obedience in paying taxes. The participation of citizens and the activeness of citizens in fulfilling the obligation to pay taxes is the act of defending the state to participate indirectly in nation-building and improve the welfare of the people. Citizens who are taxpayers have the obligation to contribute to financing various sectors of state development, including the education sector, health sector, infrastructure sector, and other public activities.

The goals of the government are different from the goals of the establishment of a profit-based company. Large tax collections by the government are usually not answered with a good and enthusiastic response from profit-based companies. The company organization will try to pay taxes as low as possible. This is because net income is calculated from profit minus taxes. Taxes will reduce income or net income, while the government wants taxes as high as possible in order to finance government administration. Therefore, tax planning is needed to mediate this difference. By using tax planning, tax obligations on taxpayers can be reduced legally.

Tax planning activities can minimize tax obligations without violating the applicable tax provisions. The company's business work processes and transactions made by taxpayers are the references for tax planning. This tax planning aims to steer the tax burden as small as possible without violating the laws and regulations. Economically, tax planning will try to maximize profits after deducting taxes. This tax is an element of reducing profits or profits that can be used for reinvestment or distribution to the company's shareholders.

To carry out tax planning, various tax rules and regulations are collected. Then, the company will choose which type of tax savings is more suitable for the company. The advantage of tax planning for taxpayers is the companies pay less amount of tax. Knowledge of the Taxation Law is necessary to find loopholes so that the insured's tax burden becomes smaller.

Significant tax avoidance activities can be indicated from the tax ratio target that is not achieved. Significant tax avoidance activities will have an unfavorable impact on Indonesia's tax revenues. Tax revenue will be not optimal and not as expected by the government.

The leverage ratio of the company is a financial ratio that is able to display the level of debt that has been issued by a business entity or business. The bigger the amount of debt, the bigger the interest expense that must be paid by firms.

Interest expense will decrease profit before tax, then decrease the tax liabilities. Previous research found that marginal tax rates have a large and positive effect on the leverage of the companies. The bigger the organization, the smaller the effective tax rate of the organizatio. Instead of using debt, large companies are more likely to empower the assets owned by the company itself, rather than using debt. It turns out that there is a relationship between the obedience of large companies to government regulations. Large companies tend to be in the spotlight of the community and government so company managers and company management tend to comply with applicable tax regulations and provisions (Kurniasih et al., 2013). The bigger the size of the firm, the more aware the firm will be in considering the risks in complying with its tax obligations.

To be said to be a company with good performance, the company must meet several financial conditions. One way to measure company performance is by calculating the Return on Assets. Return on Asset is used to measure the ability of the companies in generating gains from the utilization of all assets owned by the firm. ROA is an approach to financial performance that can reflect the profitability of a company. A high Return on Assets ratio indicates that the company's performance in utilizing assets in gaining net income is good.

Companies that have a high income and high level of efficiency usually have low tax liabilities. This is because the company which has high incomes is managed to take the benefits of tax deductions or tax incentives. Companies do not want to spend high taxes, then companies look for ways that could reduce tax obligations by avoiding taxes. Another research also found that Return on Assets affected tax avoidance practices.

In another study, (Permata et al., 2018) found that Return on Assets affects tax avoidance activity, but firm leverage does not give an effect on tax avoidance activity. Likewise, the other research (Handayani, 2018) found that company size and ROA of the company had a significant effect on tax avoidance activity, while company leverage had no significant effect on tax avoidance activity.

Based on the background, this study is to know whether Return on Assets, Corporate Leverage, and Firm Size affect Tax Avoidance Activities in Gas and Oil Mining Companies, that are listed on the ISE (Indonesia Stock Exchange) for 2015-2017.

MATERIALS AND METHODS

The research conducted by this research utilizes historical data sources. The data research comes from some firms that are on the Indonesia Stock Exchange list, which are specifically gas and oil companies. These companies are limited liability companies, have an audit committee, and have an AMDAL certificate.

This research uses data which is obtained from the Indonesian Capital Market Directory (ICMD). This study uses media sources (webpage) as secondary data. This research uses quantitative data in annual financial reports obtained through a literature study. All Gas and Oil Mining Companies that are listed on the Indonesia Stock Exchange from 2015 to 2017 are the study population.

The sampling method used in this research is purposive sampling. After going through some selection process, this research has 41 firms' sample data. The sampling criteria are companies with complete data, listed on the Indonesia Stock Exchange and included in the CGPI rating for the 2015-2017 period, do not have fiscal loss compensation, will not cause distortions in measuring tax avoidance practice, show financial statements in rupiah and have Cash Effective Tax Rate less than one. The variables in this research are the dependent and the independent variable. The independent variables are Firm Leverage as X_1, Firm Size as X_2, and then Return on Assets (ROA) as X_3. Meanwhile, Tax Avoidance is a Y variable (dependent variable). This research variable can be operationalized into the following:

Independent Variable

ROA (Return on Assets) will provide analysts, managers, external investors, and internal investors with an idea of how efficient the company's management is in managing its assets to gain income or profit. The higher the Return on Assets, the more efficient the company is in using assets. Profit calculates ROA which serves as an indicator of the company's ability to generate income and profit, then:

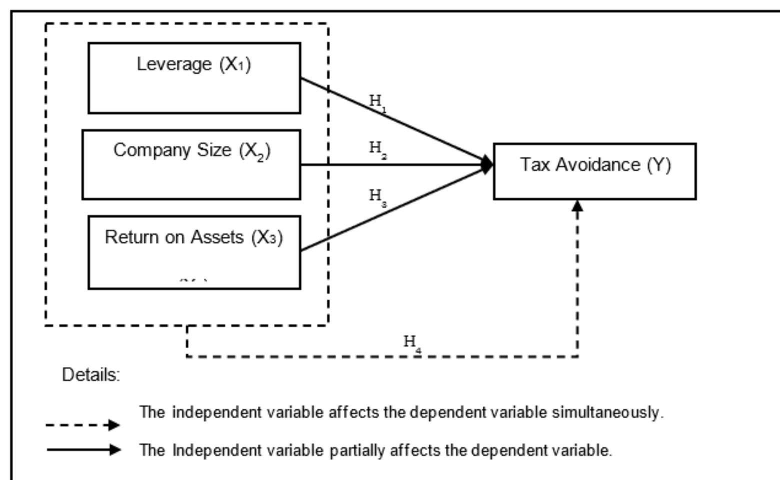
$$ROA = \frac{Net\ profit\ or\ Net\ loss\ after\ tax}{The\ Amount\ of\ Assets} x\ 100\%$$

The firm leverage ratio is used to assess the ability of long and short-term debt to finance the assets. Below is the formula to get the total debt-equity ratio:

$$Debt\ Equity\ Ratio = \frac{Total\ Debt}{Shareholder's\ Equity}$$

The research also uses firm size as a variable X. Firm size is assessed using the natural log proxy of assets. This research uses the total amount of assets as a proxy for firm size by taking into account that total assets are more stable than market capitalization and total sales. Company size indicators include a total of assets, subsidiaries, total sales, employees, subsidiaries, and others. The number of sales and operational complexity and sales transactions number also give affect the size of the company. The total assets' natural logarithm per year is a measurement of the firm size (Arifuddin & Usman, 2017).

$$SIZE = \log\ (The\ Total\ Amount\ of\ Assets)$$



Source: Secondary Data Processed (2022)

Dependent Variable

Measuring tax avoidance can be done by using the model of Cash Effective Tax Rate (CETR). This model is used to examine the aggressiveness of tax planning by utilizing temporary or permanent differences. Below is the formula to get the Cash Effective Tax Rate value:

$$Cash\ Effective\ Tax\ Rate = \frac{The\ Amount\ of\ Cash\ Tax\ Paid}{Pretax\ Income}$$

The equation of multiple linear regression analysis is below:

$$TAV = \propto\ + LEV + SIZE + ROA + e$$

Remarks:
TAV = Tax Avoidance Practice
∝ = constant
LEV = Firm Leverage
SIZE = Firm Size
ROA = Return on Assets
e = residuals

RESULTS

After performing the F_{test}, the calculation results show that 4.599 > 3.863 which means F_{count} is bigger than F_{table}. The level of significance is 0.032, which is smaller than 0.05. Then, the level of probability is lower than 0.05. It indicates that the model of the regression in this research could be used to predict Tax Avoidance. ROA (Return on Assets), SIZE (Company Size), and LEV (Leverage) together affect TAV (Tax Avoidance), so the regression model is suitable. It can be said that H_0 is rejected. So in this case, firm size, company leverage, and return on assets have an influence on tax avoidance activities.

Table 1.
Significance Test (Simultaneous)

Model	Sum of Square	df	Mean Square	F	Sig
Regression	.151	3	.050	4.599	.032[a]
Residual	.099	9	.011		
Total	.250	12			

a. Predictors: (Constant), SIZE, ROA, LEV
b. Dependent Variable: TAV
Source: Data Processed (2022)

Table 2.
Coefficient Determination Test Result

Model	R	R square	Adj R square	Standard Error of the Estimate	Durbin – Watson
	.778[b]	.605	.474	.10477	2.522

a. Predictors: (Constant), SIZE, ROA, LEV
b. Dependent Variable: TAV
Source: Data Processed (2022)

Table 2 shows that R_2 value is 0.605. This R_2 value means that the variables of Return on Assets, Company Size, and Leverage give 60.5% effect on Tax Avoidance activities. Meanwhile, the remaining 30.5% is determined by other variables.

Table 3.
t-Statistic Test Result

Model	Unstd. Coefficients		Std. Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	-.033	.291		-.115	.911
ROA	-1.292	.350	-.982	-3.690	.005
LEV	.484	.195	.757	2.489	.035
SIZE	.014	.021	.171	.690	.508

a. Variabel Dependen: TAV
Source: Data Processed (2022)

Table 4.
T-tests Result Summary

No.	Component	t_{count}	t_{table}	Note		
				H_0	Effect	Sig
1.	Return of Assets	-3.690	2,262	H_0 is rejected	Significant	5%
2.	Firm Leverage	2.489	2,262	H_0 is accepted	Significant	5%
3.	Firm Size	0.690	2,262	H_0 is rejected	Insignificant	5%

Source: Data Processed (2022)

It can be seen in Table 4 that ROA affect significantly tax avoidance activities. The firm leverage also affects tax avoidance activities significantly with a positive t-count value. This positive t-count defines if the leverage level rises, the tax avoidance activity would rise also. Tax Avoidance

itself is a violation of taxation by carrying out a tax avoidance scheme that is to lighten the tax debt by finding and exploiting loopholes in tax provisions in a country. Basically, this tax avoidance has a legal nature because it does not violate any tax provisions, but has a fairly detrimental impact on the tax revenues of a country, especially in Indonesia.

Tax avoidance activity is the practice to avoid paying tax obligations safely and legally (Pohan, 2008). The practice of tax avoidance uses a method that tends to avoid weaknesses in the tax provision and regulation itself. Based on research, the practice of tax avoidance activity is taxpayers' effort to reduce tax debt without ignoring the applicable tax provisions (Ngadiman & Puspitasari, 2017).

There are several ways to practice tax avoidance:

1. The tax object and tax subject are transferred to a country that is a special tax haven. A tax haven is a country that provides very low tax rates or no taxes at all. With this tax haven, companies and individuals have the advantage of hiding their assets to avoid taxes.
2. The transaction economy with the smallest tax obligation is kept on.
3. Anti-Avoidance practice provisions for transfer pricing, treaty shopping, and capitalization.

The practice of tax avoidance makes the ability of the tax authorities weaker in calculate the tax liabilities of large income companies (Purwanti & Sugiyarti, 2017). The practice of tax avoidance is a financial problem that is not only the tax authorities' problem. This practice also would diminish organizational and community integrity, as well as the regulatory compliance function.

Leverages describe a company's ability in using assets from borrowed funds to create good returns and reduce costs. It also explains the risks that the company has. The ratio on Leverage will be an important consideration tool for investors or creditors to assess their investments. The formula of the leverage ratio is net liabilities divided by the amount of the assets.

This study finds that corporate leverage affects significantly the tax avoidance activities of gas and oil mining firms that are listed on the Stock Exchange in Indonesia. The research result is similar to previous research. It explains that the level of firm leverage affects tax avoidance practices. When the firm leverage ratio is greater, the funding amount from the stakeholders that are used by firms is also greater, and the cost of interest arising from debt is also greater. A higher cost of interest would shorten the tax liability. The higher the value of firm leverage, then the greater the tax avoidance actions taken by the firm.

Return on Assets indicates how efficient the management of the company is in managing assets to gain income. Return on Assets is used to determine is the company effective or not in utilizing all the company's resources and assets. Return on Asset is a measurement of net income obtained from the use of resources and assets (Handayani, 2018). To measure Return on Assets, the way is to do an analysis of total assets and after-tax income. The lower the Return on Assets ratio, the weaker the company's assets in producing net income. Information on the Return on Assets ratio is needed for both external and internal parties. The Return on Assets ratio will facilitate company management in carrying out their duties, namely making decisions and evaluating.

The research result shows that the Return on Assets partially did not give any effect on the tax avoidance practice. This research result is different from the research, but is in line with other research (Eddy & Angela, 2020). Firms that manage their operations with high efficiency would get a tax subsidy. It has a lower effective tax rate compared to firms that operate with low efficiency. This research result is in line with previous research. Those researches state that companies that have high profitability are companies that have good financial performance so that the company could pay its tax obligations optimally.

This research found that company size had no effect significantly on tax avoidance practice. Company size consists of big companies, medium companies, and small companies. Company size is categorized based on certain variables, for example, log size, the number of assets, and stock market value (Setiawan, 2013). Big companies have broader accessibility to gaining funding from external. Big companies will certainly find it easier to get loans from financial institutions because companies with large sizes certainly have the ability to survive in the industry and have a bigger chance to be the winner while winning a business competition. In big companies, the political process also gives effect the choice of accounting procedures.

The research result about company size and tax avoidance is similar with (Radiany et al., 2022). This study also supports research that has been carried out by previous research (Rusydi, 2014), that tax avoidance practices can be carried out by all types of companies, whether they are carried out by

large companies, medium companies, or small companies. Although they both do tax evasion, the amount is not the same. Small and Medium Enterprises are considered to make a positive contribution to economic growth in Indonesia. Small and Medium Enterprises cannot be separated from their own obligation in paying taxes. They also have to make tax reports based on their business operations. Government Regulation Number 23 of 2018 states that the final tax of SME is 0.5% of the total gross turnover which is obtained by the company in one period (Indonesia, 2007).

The research results found that Company Size, Company Leverage, and Return on Assets have a simultaneous effect on Tax Avoidance activities in Gas and Oil Mining Firms which are listed on the 2015-2017 Stock Exchange in Indonesia. This is in line with the previous study (O. Sari et al., 2022). There are many factors that influence tax avoidance. However, this study only used three independent variables. So that the dependent variable is still only slightly explained, which shows in the coefficient determination value (R^2) which is 60.5%. That means that 39.5% of tax avoidance is influenced by other variables that can be used as material for further research.

CONCLUSIONS

Company Size, Leverage, and ROA have a simultaneous effect on Tax Avoidance activities. Company Leverage has a partially significant effect on Tax Avoidance activities. However, neither Return on Assets nor company size gives effect on Tax Avoidance activities.
For further research, other variables such as good corporate governance and political connections could be added. Tax avoidance practices can be reduced by tax authorities. They should increase supervision in the implementation of tax obligations, specifically for companies that report losses.

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