



## The Effect of Company Size, Profitability, Liquidity, Inventory Intensity, and Sales Growth on Tax Aggressiveness of Non-Cyclical Consumer Companies

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### ABSTRACT

Taxes are one source of state income which used for the welfare of society. However, the public, namely taxpayers, including companies, have not contributed to tax payments and have taken tax-aggressive actions. This research aims to determine the effect of company size, profitability, liquidity, inventory intensity, and sales growth on tax aggressiveness in non-cyclical consumer companies listed on the Indonesia Stock Exchange in 2019–2022. This research uses secondary data and selection using purposive sampling to find a research sample of 55 companies for the 2019–2022 period. The results of research using SmartPLS show that the company size variable has a positive effect on tax aggressiveness. Meanwhile, profitability, liquidity, inventory intensity, and sales growth have no effect on tax aggressiveness.

## INTRODUCTION

One of the contributors to state income and revenue is taxes. One way the state raises money for community welfare and development is through taxes. In reality, the tax revenue target in Indonesia has not yet been reached. The failure to achieve the tax revenue target could result from several factors, including economic growth, the COVID-19 pandemic, and differences in interests. The difference in interests in question is between the government and taxpayers. On the one hand, the government uses tax revenues for state financing and expenditure. However, on the other hand, for taxpayers or companies, the tax burden is considered a burden that can reduce profits or business profits. In this case, companies often carry out and look for ways to reduce and reduce the tax burden by taking tax aggressive actions.

Tax aggressiveness according to Hidayati et al. (2021) is tax planning that is used to reduce the tax burden and is aggressive. Where in tax regulations there are gray areas so that taxpayers use them to reduce the tax burden by means of tax aggressiveness. In Indonesia, there have been several cases of tax aggressiveness through tax avoidance which is detrimental to the state. From page pajakku.com by Fatimah (2021), according to the Tax Justice Network report states that tax evasion costs Indonesia US\$ 4,86 billion year, or Rp 68,7 trillion (at a rupiah exchange rate of Rp14,149 per US\$). Cases of tax aggressiveness or tax avoidance also occur in several corporate sectors, one of which is the Consumer Non-Cyclicals sector. In 2019, there was a case regarding tax aggressiveness by PT Bentoel Intermoda Investama Tbk. with the stock code RMBA which is a tobacco and cigarette industry company reported by Tax Justice.

On market.bisnis.com, Simamora (2019) stated that in the report, Bentoel carried out tax evasion of up to US\$14 million per year through loan interest payments. between British American Tobacco (BAT) and PT Bentoel Intermoda Investama Tbk. in 2013 and 2015. There are several specific factors in making tax-aggressive decisions, as shown by previous research. Previous research shows that these factors are company size, profitability, liquidity, inventory intensity, and sales growth. The differences in research results for each of these variables attracted the attention of researchers. Differences understanding the relationship between these variables and tax aggressiveness can add insight for all readers, practitioners, and decision-makers. From this background, research become attracted and choose to carrying out studies with the title "The Effect of Company Size, Profitability, Liquidity, Inventory Intensity, and Sales Growth on Tax Aggressiveness of Non-Cyclical Consumer Companies." The aim of the research is to determine the effect of company size, profitability, liquidity, inventory intensity and sales growth on tax aggressiveness in non-cyclical consumer companies.

## LITERATURE REVIEW

### *Agency Theory*

Agency theory is a theory that studies the agency relationship between principals and agents. This theory illustrates the relationship between the party granting the authority (principal) and the party given the authority to run the company (agent), and it arises when there is an employment relationship agreement between the two. Principal parties who are not directly involved in managing the company have limited information compared to agent parties. Agents who have been given authority will use it to carry out tax reduction actions with the aim of reducing the tax burden that must be paid. The principal or owner certainly does not want actions that are likely to be detrimental and have the potential to disrupt the continuity of their business if the company encounters problems as a result.

### *Tax*

Tax is one of the state revenues that is required for individual taxpayers and companies with the aim of funding all development and state interests. Both the national government and the local governments are in charge of this tax to manage.

### *Tax Aggressiveness*

Tax aggressiveness is a tax planning action carried out by companies and taxpayers in an effort to aggressively reduce their tax obligations. Aggressive transactions and decision making may potentially constitute a matter of tax avoidance or tax evasion. Therefore, companies will tend to make efforts to avoid and/or save taxes in an effort to pay taxes as efficiently as possible (Septiawan et al., 2021:23). According to Susanto (2018) tax aggressiveness is measured using the following formula:

$$\text{Effective Tax Rate (ETR)} = \frac{\text{Tax Expense}}{\text{Profit Before Tax}}$$

### *Company Size*

Company size is a company scale that shows the size of a company using various measurement methods. Company size can be measured using several methods, including total assets, total revenue, market capitalization, and number of employees. The formula used to measure company size ratios according to Leksono et al. (2019) are as follows:

$$\text{Size} = \text{Log Total Assets}$$

H1: Company Size has effect on tax aggressiveness.

### **Financial Ratios**

Evaluation of company performance can be done in various ways, one of which is by using financial ratios to compare the elements of financial reports. Financial ratios help in making decisions for the company and provide an understanding of its financial health. Financial ratios are divided into several types: liquidity ratios, profitability ratios, solvency ratios, activity ratios, and investment ratios. In this research, two financial ratios are used: the liquidity ratio and the profitability ratio. These two ratios are chosen because they have a relationship with tax aggressiveness. According to Seto et al. (2023:45-46), several liquidity ratios can be calculated using various methods. However, in this research liquidity uses the following formula:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The method can be used to calculate profitability ratios according to Seto et al. (2023:50-51) uses the following formula:

$$\text{Return On Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

**H2: Profitability has effect on tax aggressiveness.**

**H3: Liquidity has effect on tax aggressiveness.**

### **Inventory Intensity**

Inventory refers to the amount of materials or goods that a company has for production, sales, and equipment processes. Inventory can include raw materials, semi-finished goods or work in progress, and finished goods. According to Christina & Wahyudi (2022), inventory intensity can be calculated using the following formula:

$$\text{Inventory Intensity (INVINT)} = \frac{\text{Total Inventory}}{\text{Total Assets}}$$

**H4: Inventory Intensity has effect on tax aggressiveness.**

### **Sales Growth**

Growth is a financial ratio used to asses how well a business can continue to operate economically. The percentage rise in sales from the prior year to the current one is known as sales growth. The performance of the company is better the higher the sales growth values. Sales growth according to Christina and Wahyudi (2022) uses the following formula:

$$\text{Sales Growth} = \frac{\text{Sales (t)} - \text{Sales (t - 1)}}{\text{Sales (t - 1)}}$$

**H5: Sales Growth has effect on tax aggressiveness.**

Based on the development of the hypothesis, a conceptual framework can be described (see Figure 1).

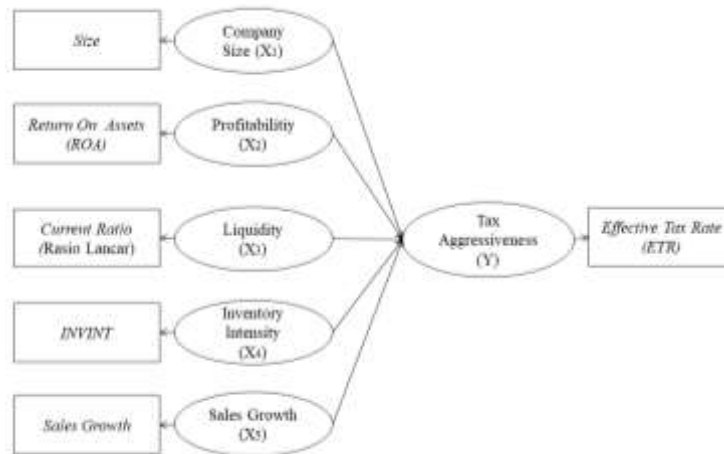


Figure 1. Conceptual Framework

**METHODOLOGY**

The population of this research is all manufacturing companies in the Consumer Non-Cyclicals sector listed on the Indonesia Stock Exchange (BEI) between 2019 and 2022. Based on criteria of manufacturing companies in the Consumer Non-Cyclicals sector that have been listed on the Indonesian Stock Exchange (BEI) from 2019 to 2022 and manufacturing companies in the sam sector that published financial reports consecutively from 2019 to 2022, this sample for research was selected through the use of purposive sampling method. The regression model in this research is:

$$Y_{it} = \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \zeta_{it} \dots \dots \dots (1)$$

**RESEARCH RESULT**

*Outer Model Test*

Table 1. Outer Loadings Table

	Y	X4	X3	X5	X2	X1
X1						1,000
X2					1,000	
X3			1,000			
X4		1,000				
X5				1,000		
Y	1,000					

Based on the interpretation of Table 1 described above, the analysis indicates that the indicators of company size, profitability, liquidity, inventory intensity, sales growth, and tax aggressiveness have values >0.7. Therefore, it can be concluded that there are no errors in the indicators, and they exhibit a relationship level of 100%.

**Table 2. Cross Loading Table**

	Y	X4	X3	X5	X2	X1
X1	0,152	0,028	-0,099	0,020	-0,020	1,000
X2	0,043	-0,050	0,124	-0,045	1,000	-0,020
X3	-0,080	0,027	1,000	-0,116	0,124	-0,099
X4	-0,085	1,000	0,027	0,021	-0,050	0,028
X5	-0,047	0,021	-0,116	1,000	-0,045	0,020
Y	1,000	-0,085	-0,080	-0,047	0,043	0,152

From Table 2, it can be observed that each indicator's cross-loading value is greater than the threshold value. This indicates that the indicators used are valid.

**Table 3. Average Variance Extrated Table**

	AVE
Company Size (X1)	1,000
Profitability (X2)	1,000
Liquidity (X3)	1,000
Inventory Intensity (X4)	1,000
Sales Growth (X5)	1,000
Tax Aggressiveness (Y)	1,000

**Table 4. Construct Reliability and Validity Table**

	Cronbach's Alpha	Composite Reliability
Company Size (X1)	1,000	1,000
Profitability (X2)	1,000	1,000
Liquidity (X3)	1,000	1,000
Inventory Intensity (X4)	1,000	1,000
Sales Growth (X5)	1,000	1,000
Tax Aggressiveness (Y)	1,000	1,000

Table 3 and Table 4 display the results of the Average Variance Extracted (AVE), Cronbach's Alpha, and Composite Reliability tests, indicating that each indicator is reliable and valid.

### *Inner Model Test*

**Table 5. R-Square Table**

	R Square
Tax Aggressiveness	0,040

Test the Inner Model in Table 5. According to the results in Table 4.13, the R-Square table indicates that the coefficient value obtained is 0.040, which accounts for 4%. Therefore, 96% of the variance is explained by other variables not included in this study.

*Hypothesis Test*

**Table 6. Path Coefficient Table**

		Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
H1	Company Size -> Tax Aggressiveness	0,149	0,151	0,065	2,280	0,023
H2	Profitability -> Tax Aggressiveness	0,049	0,055	0,053	0,920	0,358
H3	Liquidity -> Tax Aggressiveness	-0,076	-0,067	0,068	1,110	0,268
H4	Inventory Intensity -> Tax Aggressiveness	-0,084	-0,085	0,058	1,447	0,149
H5	Sales Growth - > Tax Aggressiveness	-0,055	-0,040	0,059	0,939	0,348

**DISCUSSION**

*The Effect of Company Size on Tax Aggressiveness*

The results of the researchers' test on the hypothesis regarding the effect of Company Size on tax aggressiveness in Consumer Non-Cyclical Companies for the period 2019-2022 showed a t-statistic value of 2.280, which is greater than 1.96, and a p-value of 0.023, which is less than 0.05. These results indicate that Hypothesis 1 (H1) is accepted, suggesting that the company size variable has a significant positive effect on Tax Aggressiveness. The findings on Company Size align with previous research conducted by Hidayati et al. (2021) and Allo et al. (2021), which also found a positive effect of company size on tax aggressiveness. This research indicates that larger companies tend to have a higher Effective Tax Rate (ETR), suggesting lower levels of tax aggressiveness. Larger companies with substantial assets often incur depreciation costs, which can reduce taxable profits. Lower taxable profits lead to a lower tax burden, prompting companies to exhibit reduced tax aggressiveness. According to Mulya & Anggraeni (2022), companies with extensive assets frequently experience annual depreciation, further contributing to lower profits and subsequently lower tax burdens.

According to agency theory, which defines the relationship between the party granting authority (principal) and the party delegated authority to manage the company (agent), the large size of a company with significant capacity enables it to engage in tax aggressive actions, thereby giving rise to conflicts of interest between management (agent) and owners or shareholders (principal). This situation also entails the risk of fines. Agents who have been delegated authority often use it to engage in tax deduction practices aimed at reducing the company's tax burden.

### ***The Effect of Profitability on Tax Aggressiveness***

The results of the researchers' test of the Profitability hypothesis on tax aggressiveness in Non-Cyclical Consumer Companies for the period 2019-2022 showed a t-statistic value of 0.920, which is less than 1.96, and a p-value of 0.358, which is greater than 0.05. These results indicate that Hypothesis 2 (H2) is rejected, suggesting that the profitability variable has no significant effect on Tax Aggressiveness. The profitability results align with previous research by Dharmayanti (2019), which found that profitability does not significantly influence tax aggressiveness. Profitability reflects a company's ability to generate profits relative to its total assets. A higher level of profitability or Return On Assets (ROA) typically correlates with lower tax aggressiveness, indicated by a lower Effective Tax Rate (ETR). This contradicts the expectation that companies with high profitability would engage in tax aggressiveness, as suggested by a low ETR. These findings indicate that high profitability does not necessarily lead to tax aggressiveness, as supported by the researchers' findings.

### ***The Effect of Liquidity on Tax Aggressiveness***

The results of the researchers' test on the Liquidity hypothesis regarding tax aggressiveness in Non-Cyclical Consumer Companies for the period 2019-2022 showed a t-statistic value of 1.110, which is less than 1.96, and a p-value of 0.268, which is greater than 0.05. These results indicate that Hypothesis 3 (H3) is rejected, suggesting that the liquidity variable has no significant effect on Tax Aggressiveness. The results regarding Liquidity are consistent with previous research by Hidayati et al. (2021) and Alfin (2022), which also found that liquidity does not affect tax aggressiveness. High company liquidity indicates the company's ability to meet its short-term obligations, including tax payments. However, these findings differ from the results of the current study. Based on our research, liquidity does not significantly impact tax aggressiveness. Hidayati et al. (2021) suggested that companies, whether with high or low liquidity levels, consistently fulfill their obligations.

### ***The Effect of Inventory Intensity on Tax Aggressiveness***

The results of the researchers' test on the Inventory Intensity hypothesis regarding tax aggressiveness in Non-Cyclical Consumer Companies for the period 2019-2022 showed a t-statistic value of 1.447, which is less than 1.96, and a p-value of 0.149, which is greater than 0.05. These results indicate that Hypothesis 4 (H4) is rejected, suggesting that the inventory intensity variable has no significant effect on Tax Aggressiveness. The output results regarding Inventory Intensity align with previous research conducted by Nugraha & Rusliansyah (2022) and Prawiro (2022), which found that inventory intensity does not affect tax aggressiveness. Inventory levels in a company can lead to increased costs such as storage expenses, additional costs due to high inventory levels, and potential costs from goods damage. This perspective is consistent with Statement of Financial Accounting Standards (PSAK) 14 No. 15, which stipulates that certain costs associated with inventories are recognized as expenses in the period incurred, not as inventory costs. However, these findings contrast with the current study's results, which indicate that inventory intensity has no significant effect on tax aggressiveness.

According to Nugraha & Rusliansyah (2022), substantial investments in inventory do not necessarily correlate with increased tax aggressiveness in companies.

### *The Effect of Sales Growth on Tax Aggressiveness*

The results of the researchers' test on the Sales Growth hypothesis regarding tax aggressiveness in Non-Cyclical Consumer Companies for the period 2019-2022 showed a t-statistic value of 0.939, which is less than 1.96, and a p-value of 0.348, which is greater than 0.05. These results indicate that Hypothesis 5 (H5) is rejected, suggesting that the sales growth variable has no significant effect on Tax Aggressiveness. The results regarding Sales Growth are consistent with previous research conducted by Wibawa & Nursiam (2021), which found that sales growth does not affect tax aggressiveness. Companies experiencing high or increasing sales growth typically align their net profit with company performance. However, these findings differ from the results of the current study, which indicate that sales growth has no significant effect on tax aggressiveness. According to Wibawa & Nursiam (2021) companies whether experiencing increasing or decreasing sales growth are still obligated to pay taxes

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the research results, the following conclusions can be drawn:

1. Company size has a positive effect on Tax Aggressiveness.
2. Profitability has no effect on Tax Aggressiveness.
3. Liquidity has no effect on Tax Aggressiveness.
4. Inventory Intensity has no effect on Tax Aggressiveness
5. Sales growth has no effect on tax aggressiveness.

Companies should continue to enhance compliance and awareness of relevant tax regulations to uphold their reputation and contribute to the country's development. This research provides companies with deeper insights into tax aggressiveness and its implications. Governments can use this information to formulate effective tax policies aimed at preventing actions detrimental to the state. Increasing education and outreach on tax compliance and the consequences of tax aggressiveness can help mitigate its negative impacts.

## **ADVANCED RESEARCH**

Future researchers can explore additional variables that may influence tax aggressiveness, as the current research indicates that only one variable has a significant effect. They may also expand their scope beyond the non-cyclical consumer sector and extend the study period to further enhance understanding in this area.

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