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The Influence of Leverage, Committee, and Financial Distress on Tax Avoidance (Empirical Study of Consumer Companies were Listed on the Indonesia Stock Exchange (IDX) from 2018 Until 2022)

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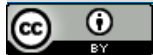
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ABSTRACT

Tax Avoidance is a legal action taken by taxpayers to minimize the compliance costs that they incur when fulfilling their tax obligations. This action is very detrimental to the state because taxes are one of the largest sources of state revenue. The goal of the research is to establish the effect of leverage, audit committees, and financial distress on tax avoidance, in conjunction with the proxy CETR. The population in this research is comprised of consumer companies were listed on the Indonesia Stock Exchange (IDX) from 2018 until 2022. Using purposive sampling approaches, samples were acquired from 14 companies over a five-year period, producing an overall total of 70 samples. In this research, the analysis of panel data regression was conducted using the Eviews 12 tool. According to the outcomes of this research, leverage, audit committees, and financial distress are all having an impact on tax avoidance. Leverage and the audit committee have no impact on tax avoidance, whereas Financial Distress has a positive impact

INTRODUCTION

According to Law of the Republic of Indonesia Number 28 of 2007 concerning General Provisions and Procedures for Taxation, Article 1 Paragraph 1 "Taxes are mandatory contributions to the state owed by individuals or entities that are compelling based on the Law, with no direct reward, and are used for state purposes for the greatest prosperity of the people". The government and corporation have different interests related to taxation. From the government's point of view, taxes are the main source of funds that will be used in government activities. Meanwhile, for firms, taxes are a burden because they reduce the profits received by the firms. Then, if the firms has to pay high taxes to the governane, it tends to do tax avoidance (Puspita & Febrianti, 2017). This condition may cause firms to look for loopholes in regulations to reduce their tax burden.

According to Rahayu (2020), tax avoidance is a legal strategy that taxpayers can take to minimize the compliance costs that they incur when fulfilling their tax obligations. Tax Avoidance is also related to agency theory, which examines the relationship between principal and agent. In this case, the principal is the government that collects taxes from the company, and the agent is the company that calculates, pays, and reports its obligations to the government. Jensen and Meckling (1976) revealed that in this theory, problems often arise because of the interests of the government (principal), who wants tax revenue in accordance with the provisions and tax rates, while company management (agent) wants a low tax burden.

In 2013 and 2015, Bentoel took multiple loans from a related Dutch company, Rothmans Far East BV. It is known that Rothmans Far East BV is not purely a company on paper; the number of employees is relatively small, namely three outside the Netherlands, and some other work is done by employees of BAT firms. The accounts of this Dutch company show that the funds loaned to Bentoel came from another company in the BAT group, Pathway 4 (Jersey) Limited, headquartered in the UK. The loan from Jersey to the Netherlands was in rupiah, which

explains that the money was to be lent to Bentoel. Bentoel had to pay a total of IDR 2.25 trillion in interest on the loan, which is equivalent to USD 164 million. In Indonesia, this interest is deducted from taxable income. In detail, interest payments amounted to \$6.3 million in 2013, \$43 million in 2014, \$68.8 million in 2015, and \$45.8 million in 2016, respectively. Indonesia applies a tax discount of 20%, but due to an agreement with the Netherlands, the tax becomes 0%. However, the initial loan did not come directly from the Jersey company, as Indonesia and the UK do not have a similar agreement. Indonesia has an agreement with the UK for a 10% interest tax. This strategy causes Indonesia to lose \$11 million in government revenue each year. This is because Indonesia's debt is \$164 million, so it must be able to collect taxes of 20%, or \$33 million, or \$11 million a year (Kontan.co.id, 2019).

There are multiple variables that impact tax avoidance such as leverage, the audit committee, and financial distress. Some of these factors have been found in several previous studies, but there are still varying results and inconsistencies. Therefore, these factors are re-examined in this research using the object of the consumer goods sector.

Agency Theory

Jensen and Meckling, the first originators in 1976, defined agency theory as a contract that occurs between two parties, namely the agent and the principal, where the principal appoints an agent to carry out a service by delegating the authority to make decisions to the agent. In this case, the principal is the government that collects taxes from the company, and the agent is the company that calculates, pays, and reports obligations to the government. Jensen and Meckling (1976) contend that in the interaction between the government (principal), and firm management (agent), asymmetric information arises, which can lead to moral hazard if the agent prioritizes his interests over the interests of the principal. Company management (the agent) wants to decrease the amount of tax payable to the state in order to obtain a larger net

profit. Meanwhile, the government (principal) wants as much tax revenue as possible.

Tax Avoidance

According to Rahayu (2020), tax avoidance is a legal action taken by taxpayers to minimize the compliance costs that they incur when fulfilling their tax obligations. The CETR indicator is applied in the calculation of tax avoidance because it provides for the direct calculation of the cash outflow used for tax payments and an explanation of the actual tax rate that affects taxpayer income. (Pangestu & Asalam, 2021).

$$\text{Cash ETR} = \frac{\text{Worldwide cash taxed paid}}{\text{World total pre-tax accounting income}}$$

Leverage

Leverage is defined as a ratio used to measure how much the company is financed by (Fahmi, 2020). In this research, to measure the level of company leverage, researchers used the DAR ratio. Kasmir (2018) argues that the DAR ratio is a ratio to measure leverage by comparing total debt and total assets.

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

The more a company is financed by debt, the higher the interest expense corporations need to cover; this is what the firms utilizes as a deduction for the firm's taxable income, to decrease its tax burden. When the company has a high interest expense, it will decrease income and cause the Taxable Income (PKP) to be lower, and the tax burden will also be lower.

Audit Committee

The Audit Committee is a committee represented by and dedicated to the Board of Commissioners to assist the Board in accomplishing its duties and tasks (POJK No. 29/POJK.05/2020). In this research, researchers used a dummy indicator, where if the company has an audit committee of at least 3 people, it will be coded 1, and if it has an audit committee of less than 3, it will be coded 0

(Nugraheni & Pratomo, 2018). This is in line with the statement of POJK No. 29/POJK.05/2020, which states that the Audit Committee consists of at least three members from Independent Commissioners and External Parties.

More audit committee members in a corporation can help decrease the fraudulent acts perpetrated by the company. Therefore, the government can work with the company's audit committee to prevent possible fraud committed by firms, such as tax avoidance.

Financial Distress

Financial distress is defined as an early clue before the company goes bankrupt (Siburian & Siagian, 2021). In this research, the Altman model Z-Score formula is used, where the Z-Score value is divided into three groups, namely the Z value > 2,99, which indicates that the company is doing well. 1,80 < Z-scores < 2,99 indicate that the company is in a gray zone. Conversely, a Z-score < 1,80 indicates a high probability of bankruptcy for the company. In this research, financial distress is measured using the Altman Z-Score Model.

$$Z = 1,2(X1) + 1,4(X2) + 3,3(X3) + 0,6(X4) + 1,0(X5)$$

Notes:

X1: Working Capital/Total Assets

X2: Retained Earnings/Total Assets

X3: Earning before Interest and Tax/Total Assets

X4: Market Value of Equity/Total Liabilities

X5: Total Sales/Total Assets

Financial distress affects tax avoidance because corporation experiencing financial distress are often more concerned with paying their financial obligations (debt) and increasing liquidity than paying taxes, increasing the opportunity for companies to avoid taxes. Corporations experiencing financial difficulties want low tax payments as a way to overcome difficult financial situations. Therefore, the firms practice tax avoidance.

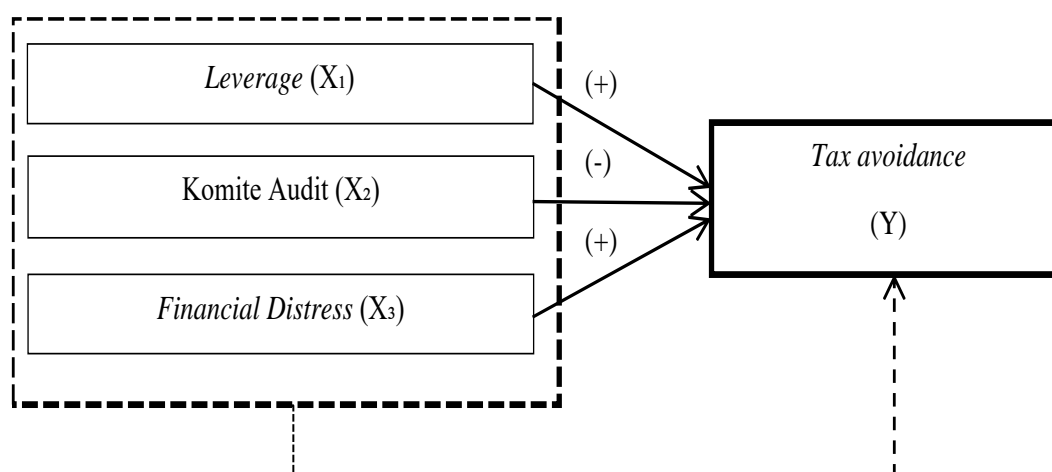


Figure 1. Conceptual Framework

METHODS

This research utilizes a quantitative approach and the analysis of panel data regression to test the impact of leverage, audit committees, and financial distress to the tax avoidance simultaneously and partially. The population of this research consists of Consumer Firms that were listed on the IDX from 2018 until 2022. The number of samples in this

research consisted of 14 firms over 5 years. The technique used to select the sample is purposive sampling. The final results obtained were 70 observations of Consumer Firms were Listed on the IDX from 2018 until 2022.

RESULTS AND DISCUSSION

Analysis of Panel Data Regression

Table 1. Panel Data Regression Model Significance Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-757.7248	923.0443	-0.820898	0.4154
LEV	0.020988	0.148575	0.141259	0.8882
KA	757.9718	923.0448	0.821165	0.4152
FD	-0.002736	0.001214	-2.254266	0.0283

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.379301	Mean dependent var	0.231157
Adjusted R-squared	0.191920	S.D. dependent var	0.091787
S.E. of regression	0.082510	Akaike info criterion	-1.944278
Sum squared resid	0.360821	Schwarz criterion	-1.398215
Log likelihood	85.04972	Hannan-Quinn criter.	-1.727375
F-statistic	2.024221	Durbin-Watson stat	2.436750
Prob(F-statistic)	0.028323		

The outcomes of assessing the common effect test model's significance could be represented as follows according on table 2:

$$TA = -757,7248 + 0,020988 LEV + 757,9718 KA - 0,002736 FD + \varepsilon$$

Notes:

TA : *Tax avoidance (CETR)*

α : Konstanta

β_1 - β_3 : Koefisien Regresi

LEV : *Leverage*

KA : *Komite audit*

FD : *Financial distress*

Hypotesis Testing

Determination coefficient test (R2)

According to the data, it is known that the adapted R-square value is 0,191920, which equaled 19.19%. This clarifies that the independent variables, specifically leverage, audit committee, and financial distress, only affect tax avoidance by 19.19%, and the remaining 80.81% is influenced by factors outside the research.

Simultaneous Test (F Test)

According on Table 2, the prob (F-statistic) value is 0,028323, which indicates that the prob (F-statistic) value in this research is smaller than the significance level of 0,05. This means that the independent variables in this research, namely leverage, audit committee, and financial distress, jointly affect the independent variables, namely leverage, audit committee, and financial distress.

Partial Test (T Test)

1. The probability value of leverage is 0,8882, which exceeds 0,05, implying that H01 is allowed and H1 is denied, indicating that partial leverage has no impact to the tax avoidance.
2. The audit committee's probability value is 0,4152, which is in excess of 0,05, implying that H02 is accepted and H2 is rejected, indicating that the audit committee has no significant impact on tax avoidance.
3. Financial distress has a probability value of 0,0283, which is below 0,05; accordingly, H03 is denied and H3 is allowed. The financial distress indicates a partially

positive significantly impact to the tax avoidance.

a. Leverage Impact to The Tax Avoidance

Leverage partially has no significant impact to the tax avoidance. This contradicts the researcher's premise, which states the leverage variable has a positive impact to the tax avoidance. Leverage has no impact to the tax avoidance variable because the corporations does not use debt to decrease the tax burden but instead aims to meet the company's needs by improving operations and increasing revenue, which will also affect the tax burden so that the firm keeps on complying with current tax regulations.

b. Audit Committee Impact to The Tax Avoidance

Audit committee partially has no significant impact to the tax avoidance. This is not in line with the researcher's assumption, namely that the audit committee has a negative impact to the tax avoidance. The large or small number of audit committees in the company does not impact or prevent to the company from taking tax avoidance actions because the audit committee in the company carries out its main duties and responsibilities and fulfills the mandatory requirements of the POJK, not only to handle or examine tax avoidance actions.

c. Financial Distress Impact to The Tax Avoidance

Financial distress has a significant positive impact to tax avoidance, which seems comparable with the researcher's hypothesis. Companies in financial crisis are more concerned with completing their financial obligations (debt) and increasing liquidity than with paying taxes, which increases the potential for companies to avoid paying taxes. Companies in financial difficulty prefer least tax payments as an approach to solving their financial troubles.

CONCLUSION

According to the test results, it shows that leverage, audit committees, and financial distress simultaneously affect tax avoidance. Partially, leverage and audit committees have no impact to the tax avoidance, while financial distress has a positive impact to the tax avoidance.

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