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FINANCIAL FACTORS INFLUENCE ON TAX AGGRESSIVENESS (Study on Indonesian Consumption Sectors 2018-2020)

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ABSTRACT

Taxes, viewed from the government's point of view, are the largest source of revenue. Such a significant contribution to the state makes the government pays more attention and create more effort to optimize tax revenue. However, from the company's viewpoint, tax payments are considered as costs and affect them by reducing their profits. Therefore, the differences in perspective between the government and the corporations will result in companies neglecting to pay taxes. This study analyzes the effect of profitability, company size, and capital intensity on tax aggressiveness listed on the Indonesian Stock Exchange in 2018-2020.

This research uses multiple linear regression analysis with quantitative methods and uses purposive sampling as a sampling method. The research data used are in the form of financial statements of manufacturing companies in the consumption sector that have undergone an audit and publication process.

The result of this study indicates that profitability harms tax aggressiveness, company size affects tax aggressiveness, capital intensity has no effect on tax aggressiveness, and profitability, company size, and capital intensity have a simultaneous effect on tax aggressiveness.

Keywords: Profitability, Company Size, Capital Intensity, Tax Aggressiveness.

INTRODUCTION

The covid-19 pandemic that happens all around the world impacts people's lifestyles. Not only do habits and lifestyles change, but the global economic sector is also negatively affected, including Indonesia. The negative impact on the economic sector is due to a decline in Indonesian people's purchasing power, which impacts the decline in income companies, both large companies, small companies, and micro businesses. The world bank estimates that the global economy will experience a decline of up to 4,3% in 2020. The economic decline can impact the decline in the state's revenue, especially in the manufacturing sector.

Covid-19 has significantly impacted tax payment due dates, deadlines, and filing procedures in many countries. In response to the pandemic, governments around the world have extended filing and payment deadlines, making it easier for businesses and individuals to meet their tax obligations. Additionally, several tax relief measures have been implemented to help taxpayers adversely affected by the pandemic.

Taxes, from the government's point of view, are the highest source of state income. The government uses tax revenue to fund national development, which aims for public advancement and prosperity. Like from people to people slogan. Taxes contribution that is high for the state makes government pay more attention and strive to optimize tax revenue. The steps that government uses to optimize taxes revenue is to increase the service.

Taxes when viewed from companies’ point of view, paying taxes is considered a cost and affects the income that companies received. It contradicts the company's vision and mission to get as much profit as possible with the risk of losses as small as possible. The difference in perspectives between the government and the companies will result in the companies needing to pay their taxes. Companies' disobedience to pay taxes can result in a decrease in state tax revenue.

In our January State Income Expenditure Budget/SIEB edition report regarding caleidoscope 2020 issued by the Republic of Indonesia's Ministry of Finance, tax revenue in 2020 reached 89% of the SIEB's target. Although the tax revenue is relatively high, the practice in the field of tax avoidance in Indonesia is still high. A study by the Tax Justice Network found an estimated loss of 4,86 billion dollars, or equivalent to Rp 69,1 trillion every year (Wildan, 2020).

In Indonesia, tax collecting needs to be more streamlined. There are many obstacles, whether from the community's passivity or activity done to avoid taxes. Tax aggressiveness is a profit manipulation action through tax planning to minimize tax expense burden (Mustofa et al., 2021). Tax aggressiveness can be done by the companies using two methods that is tax avoidance and tax evasion. Companies commonly use tax avoidance because it is legal, meaning they did not break the law. Tax evasion is conducted because of the need for knowledge about taxes, tax services, and tax penalties. Tax aggressiveness can be counted using Effective Tax Rate (ETR). Effective Tax Rate, is the application of the effectiveness of a company in managing its tax burden by comparing the tax burden with total net income. ETR is used because, in tax avoidance, it is sourced from income tax and other tax burdens classified as being borne by the company. If it shows below 25%, the ratio results will indicate that the object is doing tax evasion.

Taxpayers commonly use tax avoidance to take advantage of legal loopholes and regulations. Not only that, tax authorities still need a stronger authority to investigate taxpayers, so tax authorities often lose in tax court of tax avoidance. In the case of the alleged transfer of power that impacted value-added tax payment obligation, Directorate General of Taxes or DGT sued PT. Multi Sarana Avindo. However, the lawsuit filed by DGT in 2007, 2009, and 2010 always lost in court because of the not-proven lawsuit (Annur, 2021). Directorate General of Taxes, is an institution under the Indonesian Ministry of Finance that has the authority to formulate and implement policies for technical standardization in the field of taxation.

Financial factors and tax aggressiveness should be considered to ensure that businesses meet their financial goals. It is essential because taxes can significantly impact a business's overall profitability. Tax aggressiveness can help to reduce a business's total tax bill but could also lead to an increase in audit risk. Additionally, businesses should consider financial factors such as cash flow, budgeting, and investment decisions to help maximize their bottom line.

The research that examines the influence of capital intensity, profitability and company size on tax aggressiveness has been done by previous researchers. However, there are differences in the result. Research that has been done (Utomo & Fitria, 2021) shows that capital intensity has a negative influence on tax aggressiveness. Companies with high capital intensity tend to do tax aggressiveness. Meanwhile, research that has been done by Mutia et al. (2021) proves that capital intensity does not influence tax aggressiveness. Research that has been done Murkana & Putra (2020) concludes that profitability influences tax aggressiveness. While other researchers Irianto et al. (2017) conclude that profitability does not influence tax aggressiveness.

Furthermore, Mutia et al. (2021) conclude that company size influences tax aggressiveness. However, research by Dewi & Cynthia (2018) and Magfira & Murtanto (2021) states that company size does not influence tax aggressiveness. Therefore because of the various results of the previous research, new research needs to be carried out using the latest data to clarify whether financial factors influence tax aggressiveness.

This research aims to know if capital intensity, profitability, and company size have influenced tax aggressiveness either partially or simultaneously. The benefit of this research is the impact of company size on tax aggressiveness. Besides that, this research is expected to provide views and directions in policymaking so the potential of tax revenue can be maximized.

This research uses manufacturing companies in the consumption sector because the consumption sector produces basic needs products that are needed by the community, with high demand in the consumption sector impacting the ability to generate optimal profits. Because the more profits the company gets, the more taxes it must pay.

Capital intensity is a ratio that can describe the amount invested in the company as fixed assets. A fixed asset is a tangible asset that a company uses to carry out its operational activities for the supply of goods or services with more than one year of useful life. Commonly fixed assets' value will continue to decrease based on tangible asset groups regulated in chapter 11, verse 6 of income tax law. Fixed asset depreciation can be used as a company's gross income reduction, while the company uses it to minimize tax expenses owed. Not even rare companies invest idle funds to make more fixed assets.

Therefore, capital intensity can increase company performance because the company can enjoy cost savings. Research that has been done by Utomo & Fitria (2021) entitled “Firm Size Moderates the Effect of Capital Intensity and Profitability on Tax Aggressiveness” (Sandra & Anwar, 2018). Also, Nejad & Hoseinzade (2021) entitled “The Effect of Corporate Social Responsibility and Capital Intensity on Tax Avoidance" shows that capital intensity impacts tax aggressiveness. Companies with higher capital intensity percentages tend to minimize tax payments. Based on explained exposure, it can be formulated that capital intensity impacted tax aggressiveness. The Effect of Corporate Social Responsibility and Capital Intensity on Tax Avoidance.

H_1: Capital intensity has an impact on tax aggressiveness.

One of the tax imposition basis is profitability. Companies that earn high profits will have higher tax obligations owed. It also goes the other way; companies that experience loss are not obligated to pay corporate tax and get a tax compensation that can be used for five years. Tax payment is rated as a cost and can decrease the company's profit. It is different from company goals in that it earns as much profit as it can with as little loss as it can, so it can push the company to do tax aggressiveness.

Research that has been done Erlina (2021) entitled “The Influence of Liquidity, Profitability, Company Size, Independent Commissioner on Tax Aggressiveness with Capital Intensity as Moderating Variable” (Mustofa et al., 2021). Moreover, the article "The Effect of Profitability on Tax Aggressiveness with Capital Intensity as Moderation Variable" concludes that profitability impacted tax aggressiveness. The research uses the Return on Assets ratio as a profitability indicator. A higher return on assets ratio then identifies that company profitability is high. With a high return on assets ratio, the company will have a higher opportunity in tax planning to streamline the tax that the company owes. Based on the explained exposure, can be formulated that profitability impacted tax aggressiveness.

H_2: Profitability has an impact on tax aggressiveness.

Company size is a scale that clarifies companies to micro categories, small, medium, or big, based on net worth and total sales within one year. Company size can show the company's ability to resolve the trouble in business activities. Companies that belong to the big group can control the market and have more wide information access so that policies taken can be more effective. In the research that has been done Irianto et al. (2017) entitled “Effect of Liquidity, Leverage, Company Size, and Independent Commissioner on Tax Aggressiveness." Furthermore, Ningrum et al. (2021), entitled “Effect of Company Size, Leverage on Tax Aggressiveness," concludes that company size will be directly proportional to the tax amount paid. It can push the company to do tax aggressiveness to optimize tax owed.

H_3: Company size has an impact on tax aggressiveness.

Research that has been one by Utomo & Fitria (2021) shows “That capital intensity, profitability, and company size simultaneously impacted tax aggressiveness“. It is in line with research done by Anindyka et al. (2018) that state leverage, capital intensity, and inventory intensity simultaneously impacted tax aggressiveness. Companies with high capital intensity have high propositions among net fixed assets and total assets. The higher the capital intensity, the higher the company tax aggressiveness tendency. Total assets are owned as capital for the company to operate business activity to earn as much profit as possible. Besides that, total assets can be used to measure company size. A company with high capital intensity can earn high profits from existing fixed assets and be categorized as significant. It can push companies to do tax aggressiveness.

H_4: Capital intensity, profitability, and company size simultaneously impact tax aggressiveness.

RESEARCH METHODS

This research is quantitative. The researcher uses a quantitative approach because the goal is to find out the effect of a treatment, which is then tested for its hypothesis. The object used is Capital Intensity, Profitability, and Company Size. The subject used is the Financial Report of Manufacturing Companies' customer goods industry sector listed in the Indonesian Stock Exchange in 2018-2020. This research uses manufacturing companies in the consumption sector because the consumption sector produces basic needs products that are needed by the community, with high demand in the consumption sector impacting the ability to generate optimal profits. Because the more profits the company gets, the more taxes it must pay. The independent variable is Capital Intensity, Profitability, and Company Size, while the dependent variable is Tax Aggressiveness.

$$\text{Tax Aggressiveness} = \frac{\text{Income Tax Expense}}{\text{Earning Before Tax}}$$

$$\text{Profitability} = \frac{\text{Earning After Tax}}{\text{Assets Total}}$$

$$\text{Capital Intensity} = \frac{\text{Net Fixed Assets Total}}{\text{Assets Total}}$$

$$\text{Company Size} = \text{Ln (Assets Total)}$$

The population used in this research is all of the Manufacturing Companies' customer goods industry sector listed in the Indonesian Stock Exchange in 2018-2020. There are 80 samples used. The sample selection sample used is nonprobability sampling. The criterias established in this research are manufacturing companies engaged in customer goods industry sector listed in the Indonesian Stock Exchange for three consecutive years of 2018-2020; manufacturing company's customer goods industry sector which published a complete annual financial report for 2018-2020 on the Indonesian Stock Exchange's website (www.idx.com) or the company's official website; financial reports are published in rupiah; Manufacturing companies are the customer goods sector that gained earnings before tax in 2018-2020; Manufacturing companies are customer goods sectors with ETR within 0-1; Have data regarding the variables that are used in this research.

RESULTS AND DISCUSSION

The following table presents the results of descriptive statistical analysis :

Table 1. Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Capital Intensity	80	.00	.76	.33040	.16284
Profitability	80	.01	.36	.01024	.07257
Company Size	80	25.95	32.73	29.11250	1.59897
Tax Aggressiveness	80	.16	.33	.24430	.03091
Valid N (listwise)	80				

Source: Data processed

The descriptive statistical analysis above shows that 80 samples are used in this research. Capital Intensity shows 0,00 minimum value, 0,76 maximum value, and 0,3304 means. Where 33,04% of total assets companies are from total net fixed assets. The standard deviation of capital intensity is 0,16284. Profitability shows a 0,01 minimum value, 0,36 maximum value, and 0,1024 means. All assets that the companies have produce 10,24% of earnings after tax. The standard deviation of profitability is 0,07257. Company size shows a 25,95 minimum value, 32,73 maximum value, and 29,1125 means. The standard deviation of company size is 1,59897. Tax aggressiveness shows a 0,16 minimum value, 0,33 maximum value, and 0,2443 means. It shows the company's mean pay taxes of 0,2443 from earnings before tax. The standard deviation of tax aggressiveness is 0,3091.

Normality Test

The normality test is done by one sample Kolmogorov-Smirnov test. As tabel 2 shows, the residual value is at 0,076, and the probability significance of unstandardized is 0,200. The financial report presented as the sample has been distributed generally because it has a probability significance value higher than 0,05. It can be concluded that this research's data have met the normality measurement requirements, and further testing can be carried out.

Table 2. Result of Normality Test with Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		80
Normal Parameters'[b]	Mean	.0000000
	Std. Deviation	.02866472
Most Extreme Differences	Absolute	.076
	Positive	.076
	Negative	-.061
Test Statistic		.076
Asymp. Sig. (2-tailed)		.200[c,d]

Table 2. (continuation)

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: Data processed

Multicollinearity Test

The following table presents the results of multicollinearity test:

Table 3. Result of Multicollinearity Test

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.090	.061		1.484	.142		
	Capital Intensity	-.006	.020	-.030	- .277	.783	.989	1.011
	Profitability	-.127	.047	-.298	-2.722	.008	.945	1.058
	Company Size	.006	.002	.301	2.758	.007	.953	1.049
a. Dependent Variable: Tax Aggressiveness								

Source: Data processed

The result of the Multicollinearity test in table 3 shows that no independent variables have tolerance values below 0,10, so there is no multicollinearity. It shows that financial reports used as samples have no multicollinearity between independent variables, so further testing can be done.

Heteroscedasticity Test

The following table presents the results of heteroscedasticity test using Glesjer Test:

Table 4. Result of Heteroscedasticity Test with Glesjer Test

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.003	.038		-.076	.939
	Capital Intensity	.018	.013	.153	1.375	.173
	Profitability	-.053	.029	-.204	-1.794	.077
	Company Size	.001	.001	.071	.623	.535
a. Dependent Variable: Abs_Res						

Source: Data processed

As seen in table 4, it can be concluded that from three independent variables, no variables influence dependent variables statistically significantly. It happens because the significant value in capital intensity variable, profitability, and company size is higher than the tolerance value at 0,05. Based on the Glesjer test, this research has passed the heteroscedasticity test so that further testing can be carried out.

Autocorrelation Test

The following table presents the results of autocorrelation test using Ruus Test:

Table 5. Autocoleration Test Result with Runs Test

Runs Test	
	Unstandardized Residual
Test Value	.00203
Cases < Test Value	40
Cases >= Test Value	40
Total Cases	80
Number of Runs	33
Z	-1.800
Asymp. Sig. (2-tailed)	.072
a. Median	

Source: Data processed

Autocolaration result test with run test method shows 0,00203 test value with 0,072 probability significant at 0,05. With this, it can be concluded that there is no autocorrelation in the regression equation.

T Significance Test

The following table presents the results of T Significance Test:

Table 6. Result of T Significance Test

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.090	.061		1.484	.142
	Capital Intensity	-.006	.020	-.030	-.277	.783
	Profitability	-.127	.047	-.298	-2.722	.008
	Company Size	.006	.002	.301	2.758	.007
a. Dependent Variable: Tax Aggressiveness						

Source: Data processed

Based on the result of the test above, then the results of the equation are obtained as follows:

$Y = 0{,}090 – 0{,}006X_1 – 0{,}127X_2 + 0{,}006X_3 + e$

Descriptions:

Y = Tax Aggressiveness

X_1 = Capital Intensity

X_2 = Profitability

X_3 = company Size

e = Error

The results of the hypothesis test above are Capital Intensity has a negative t-count value of -0,227 with a profitability significance of 0,783. With profitability significance 0, 783 > 0,05 can be concluded that the first hypothesis, "H_1 = Capital Intensity influence Tax Aggressiveness," is not supported. Profitability has a negative B value, which means that if the profitability rises by 1, it will lower the tax aggressiveness by 0,127 and vice versa. Profitability has a negative t-count value of -2 722 with a profitability significance of 0,008. With profitability significance 0,008 < 0,05, the second hypothesis, "H_2 = Profitability influence Tax Aggressiveness," is supported where profitability negatively influences Tax Aggressiveness. Company Size has a positive B value, which means that if the company size raise by 1, tax aggressiveness will also rise by 0,006. Company Size has a positive t-count value of 2,758 with a profitability significance of 0,007. With profitability significance 0,007 < 0,05, the third hypothesis, "H_3 = Company Size influence Tax Aggressiveness," is supported where Company Size positively influences Tax Aggressiveness.

F Significance Test

The following table presents the results of F Significance Test:

Table 7. Result of F Significance Test

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	.011	3	.004	4.117	.009[b]
	Residual	.065	76	.001		
	Total	.075	79			

a. Dependent Variable: Tax Aggressiveness

b. Predictors: (Constant), Company Size, Capital Intensity, Profitability

Source: Data processed

Based on the result above, the F count value shows 4,117 with a significance value of 0,009. Where significant value 0,009 < 0,05, it can be concluded that there is a significant simultaneous influence between capital intensity, profitability, and company size with tax aggressiveness.

Coeficient Determination Test

The following table presents the results of Coeficient Determination Test:

Table 8. Result of The Coefficient Determination Test

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. The error in the Estimate**
1	.374[a]	.140	.106	.02923
a. Predictors: (Constant), Company Size, Capital Intensity, Profitability				
b. Dependent Variable: Tax Aggressiveness				

Source: Data processed

Based on the result above shows, the R square regression result is 0,140 or 14%. So 14% of tax-aggressive manufacturing companies' customer goods industry sector in 2018-2020 were influenced by capital intensity, profitability, and company size. In contrast, 86% of acts of tax aggressiveness are influenced by other variables that the author did not research in this research.

The following will present the results of research data processing that has been carried out:

The Effect of Capital Intensity on Tax Aggressiveness

The result concludes that capital intensity does not impact tax aggressiveness. It is evidenced by a profitability significance of 0,783, higher than the significant point of 0,05. This research aligns with the previous research Prasetyo & Wulandari (2021) that capital intensity does not have any impact on tax aggressiveness. This research differs from agency theory, which shows that agents invest fixed assets using the company's unused funds to gain maximum income. Depreciation expenses can be used to minimize tax payments, so company increasingly taking action in tax aggressiveness.

Capital intensity measures a company's tendency to use capital rather than labor to produce products. In other words, it is the ratio between the value of capital and the value of the company's labor. Tax aggressiveness is the degree to which a company is involved in finding ways to pay lower taxes using all variable means. Because capital intensity has nothing to do with the level of tax expenditures issued by companies, the capital intensity does not affect tax aggressiveness because capital intensity does not affect tax expenditure.

The Effect of Profitability on Tax Aggressiveness

The result concludes that profitability has an influence and significant direct effect on tax aggressiveness, evidenced by profitability significant 0,008, which is smaller than the significance point 0,05 and has t count value -2,722. It means that increasing profitability by one will decrease tax aggressiveness by 2,722. These results align with previous research that profitability can significantly decrease tax aggressiveness. (Sidik & Suhono, 2020).

The results reveal that when profitability is high, it impacts decreasing tax aggressiveness. Increasing income makes companies decrease tax aggressiveness because they have more resources and a high risk of audit risk. Companies have to be careful, company managers have to make sure that strategy used is legal, and they also have to consider the tax risk taken with the tax strategy chosen. It means that with higher profitability, the company will feel more compelled to reduce tax aggressiveness to reduce audit risk and use more legal strategies.

The Effect of Company Size on Tax Aggressiveness

The result concludes that company size has a positive and significant direct effect on tax aggressiveness. The evidence shows a 0,007 profitability significance that is smaller than the 0,05 significance point and has a 2,758 t count value. It means that increasing the company size by one will impact the tax aggressiveness by 2,758. These results align with the previous research Irianto et al. (2017) that company size can significantly increase tax aggressiveness.

These results reveal that company size has a positive impact on tax aggressiveness. The bigger company will probably use the aggressive tax planning strategy because they have more resources to control their tax efficiently. With much access to tax consultants and other professionals, the company can invest its time and resource to find an effective tax planning strategy. The smaller company may have a different chance to do this act.

The Effect of Capital Intensity, Profitability, and Company Size on Tax Aggressiveness

The result concludes that capital intensity, profitability, and company size simultaneously positively impact tax aggressiveness. It is proven by 0,009 profitability significance that is smaller than 0,05 and 4,117 f count value, proving it has a positive impact. These results align with the previous research (Utomo & Fitria, 2021).

It means a company with high capital intensity has a high proposition among net fixed and total assets. The higher the capital intensity, the higher the company tax aggressiveness tendency. Total assets are owned as capital for the company to operate business activity to earn as much profit as possible. Besides that, total assets can be used to measure company size. A company with high capital intensity can earn high profits from existing fixed assets and be categorized as significant. It can push a company to do tax aggressiveness.

CONCLUSION

Based on the results of empirical data testing, capital intensity is proxied using CAPINT. Regression result shows that capital intensity does not influence tax aggressiveness. The size of capital intensity cannot be the determinant of the size of the tax aggressiveness done by the company. Capital intensity does not influence tax aggressiveness because the average rate of manufacturing companies' customer goods industry sector listed in the Indonesian Stock Exchange in 2018-2020 only has a less than 50% capital intensity ratio. It results in no significant depreciation expense in reducing the effective tax rate. Not only that, the companies cannot use depreciation expense owned to reduce the companies' net profit. Profitability is proxied using return on asset (ROA). The regression result shows that profitability influenced tax aggressiveness negatively. The size of a company's profitability can influence the size of tax aggressiveness that the company does. The higher profitability is, the lower tax aggressiveness action taken by the company. It happens because the company will retain its finance and assets rather than let go of its lower profitability to pay taxes.

Company size is proxied using SIZE. The regression result shows that company size influenced tax aggressiveness positively. The higher the company size, the higher the tax aggressiveness action taken by the company. A company that is grouped into big companies can control the market and have complete information access so all policies can be done effectively. An example is tax aggressiveness. Big companies commonly have high assets and revenue to produce stable gains. Besides that, companies commonly have more complex transactions that operate across countries. Transactions that are done become a gap for companies to do tax aggressiveness. Test results with multiple linear regression prove that capital intensity, profitability, and company size simultaneously influenced tax aggressiveness.

This research has important implications for management in making decisions about tax aggressiveness. The results of this study prove that profitability and company size has an impact on tax aggressiveness. So that management can be more careful in making decisions to achieve the company's financial goals. Managers must consider the potential risks associated with aggressive tax policies, such as taking the risk of a tax audit or a tax penalty. In addition, managers must also ensure that the tax strategy taken is in accordance with the applicable tax codes of ethics, practices, and laws.

This study could be better and has many limitations. While conducting this research, some limitations might affect the research results. The variables in this research only affect tax aggressiveness by 14%, and the rest is outside of the rest variables studied. For the next, researchers are suggested to add more suspected variables that can influence the act of tax aggressiveness, such as leverage, income management, corporate social responsibility, inventory intensity, and liquidity, using other measurement models and other research objects. The government is recommended to create stricter rules to minimize tax aggressiveness and maximize the country's tax revenue

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