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THE EFFECT OF PROFITABILITY, LEVERAGE, AND LIQUIDITY ON TAX AVOIDANCE

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Abstract
Tax avoidance is a business practice that uses accounting techniques that comply with tax rules by exploiting legal loopholes to reduce their total tax liability. The purpose of this study is to gather empirical evidence on the relationship between tax avoidance and accounting profitability, leverage, and liquidity. Using a sample of banking organizations registered in the IDX for the years 2018-2022, the study was carried out statistically. A linear multiple analysis is utilized in the analytical method. Partial research findings show that profitability factors affect while leverage and liquidity have no effect on tax avoidance, but simultaneously profitability, leverage, and liquidity affect tax avoidance.

Keywords: Profitability, Leverage, Liquidity, Tax Avoidance

1. Introduction

One source of state funding is taxes that are used as national development budgets and state routine expenditures. Tax itself is "a mandatory contribution to the state owed by an individual or entity that is coercive based on the Law (Prasetya & Muid, 2022)on the Law, with no direct reciprocity and used for state purposes for the greatest prosperity of the people", based on the contents of Law No. 28 of 2007 concerning general provisions and tax procedures. The growth rate of this tax collection, can help measure the economic growth of a country. When an individual or a business makes tax payments, state revenue will increase and indirectly help the government fulfill its work program. The government has succeeded in increasing the realization of tax revenue, from data from the Central Statistics Agency for 2018-2022.

Table 1. Tax Revenue Achievement 2018-2022 (trillion)

Tahun	Target	Realisasi	Pencapaian (%)
2018	Rp 1.424,00	Rp 1.315,51	92,38
2019	Rp 1.557,56	Rp 1.332,68	85,56
2020	Rp 1.198,82	Rp 1.069,98	89,25
2021	Rp 1.229,60	Rp 1.227,50	99,83
2022	Rp 1.485,00	Rp 1.716,80	115,6

Source: Information processed from the Central Bureau of Statistics for 2018-2022

According to CNN Indonesia's online news report, there are still tax avoidance measures in the banking sector. The phenomenon of tax avoidance carried out by Bank Panin through bribery mode is a proof of tax avoidance tactics in this country. After direct inspection, Bank Panin was found to have underpaid taxes of 1.3 trillion rupiah in2016. It was mentioned that Bank Panin had a tax potential of Rp 81 billion before. However, unpaid taxes of Rp 900 billion were found during a general ledger inspection, interest calculation and allowance for write-off of productive assets (PPAP). Bank Panin attempted to lower the tax by appointing a confidant to negotiate a commitment reduction of Rp 300 billion. To avoid paying taxes, Bank Panin then not only asked for its tax

burden to be reduced, but also promised to pay tax bribes of IDR 25 billion (CNN Indonesia, 2021).

For the state, avoiding taxes is an unexpected matter because it is considered detrimental but for other parties it is allowed, the problem of Nugraheni & Mustikawati (2021)tax avoidance is a fairly complex and unique problem. In fact, tax avoidance also affects the reaction of investors. (Tarmidi, 2019)Tax is a burden for companies that can reduce profits, even though getting maximum profit is one of the goals of investors to optimize the welfare of shareholders or investors. According to shareholders, they always look forward to a lot of profits and an increase in the value of the company, so investors want to reduce the (Irawati & Sari, 2019)Nugroho & Agustia (2017)total tax paid. This avoidance is an individual or company's step in reducing the amount of tax legally without violating legal provisions (Triyanti et al., 2020).

Companies are encouraged to pay less tax, both legally and illegally because of differences in interests. Declaring tax avoidance to be a problem because such actions may cause or encourage other fraudulent activities in the company when tax avoidance occurs. To minimize the tax burden, the company adjusts its income statement so that it affects the reported net income. The utilization of this way is permitted by law because it takes advantage of the opportunities that fall between tax regulations. Tax avoidance is an accounting method that companies use by taking advantage of gray gaps in the law, but still legally complying with tax regulations. In this study, the company's ability to pay taxes is influenced by several factors such as profitability, (Tohir, 2020) Ariff et al. (2014) (Yuniarsih, 2018) (Pohan, 2016) leverage, and liquidity.

The capacity of the enterprise to make a profit is called profitability. When profits are high, companies will charge more taxes(Aminah et al., 2017) . Leverage is another factor in tax avoidance, which can be interpreted as the capacity of a business to achieve both short-term and long-term liabilities. The company will issue high interest when the company's debt is getting higher. This will certainly encourage companies to save costs including costs for social information disclosure. Companies that are in a state of difficulty are believed to be not complying with tax regulations to maintain cash flow, and liquidity levels allegedly trigger companies to take tax (Sormin, 2020)(Haninun & Nurdiawansyah, 2014) evasion steps.

Based on research related to indicators that can affect tax avoidance produces various findings. According to, Aminah et al. (2017) tax avoidance has no effect on profitability. Susanti (2018) Disclosing profitability affects tax avoidance significantly. Research Triyanti et al. (2020) says leverage affects tax avoidance. While research indicates liquidity Novita & Herliansyah (2019)and tax avoidance have no significant effect, finding liquidity has a significant effect on tax avoidance. Devi & Arinta (2021)There are different findings according to previous studies that encourage researchers to re-conduct research on the determinants of tax avoidance. This study aims to collect information related to the correlation between profitability, leverage, and liquidity of tax avoidance.

2. Theoretical Background

2.1 Agency Theory

Agency theory is defined as a contractual bond by a person or organization (principals) that employs groups or individuals (agents) to carry out all activities on behalf of management as decision makers. Agency theory applies when another party is hired to perform a service and is given decision-making authority in its execution. The relationship between tax avoidance and agency theory is the difference in desire between tax authorities ((Jensen & Meckling, 1976)(Saputra & Asyik, 2017)principals) and companies (agents). The company's management prioritizes increasing profits by reducing tax burden. Meanwhile, the tax fiscus wants state revenues to also increase with companies paying taxes according to what is owed.(John & Sherly, 2022).

2.2 Compliance Theory

Compliance theory can be interpreted as a theory that discusses conditions where someone obeys certain orders or rules the existence of taxpayer non-compliance with applicable rules is the cause of tax avoidance. Thus, this compliance theory plays a role in efforts to urge individuals or organizations to increasingly comply with applicable rules. If taxpayers are conscious and compliant then tax avoidance tends to decrease, and when that happens (Primasari, 2019).the government will also receive more tax money(John & Sherly, 2022).

2.3 Profitability

Profitability is a measure of how well an organization makes a profit (Tarmizi et al., 2018). This type of profitability indicator serves to see how well a business is able to make a profit by calculating all its assets after deducting the cost of capital is Return On Assets (ROA (Saputra & Asyik, 2017)). Businesses will operate better when a greater ROA value is reached. When the management of assets is getting better, the profit obtained will also be higher. This will encourage tax avoidance because when profits increase, the higher the tax payment.(Prasetya & Muid, 2022).

2.4 Leverage

Leverage is literally a tool that is used to assess how profitable an organization is. Leverage shows how the accounts receivable and assets of the organization relate to each other. The (Andalenta & Ismawati, 2022)Debt to Equity Ratio (DER) is a leverage gauge in this study. This DER ratio is used because it exposes the balance between the company's debt and capital. The company's ability to utilize assets or capital to increase profits for company owners by increasing the level of leverage means that the level of profit uncertainty will also increase, and profits will also increase at the same time (Susanti, 2018).

2.5 Liquidity

Liquidity ratios are needed to analyze financial statements because they describe business efforts in paying off short-term debts that must be met immediately(Novita & Herliansyah, 2019). In this study, Current Ratio (CR) is an indicator of liquidity measurement. When organizations have high short-term debt, it can increasingly lead organizations to engage in tax avoidance tactics. (Norisa et al., 2022) Companies that have difficulty paying debts in the short term can be interpreted as having low liquidity and encourage companies not to comply with tax regulations because the organization

focuses more on maintaining cash flow from high tax payments.(Novianto & Yusuf, 2021).

2.6 Tax Avoidance

Traditionally, corporate tax avoidance was thought to represent the transfer of wealth from the state to the company thereby increasing the value of the company. A way of reducing tax expenditures that remains in tax law decisions and can be specifically authorized by tax planning is called tax avoidance. (Chen et al., 2014)(Pasaribu & Mulyani, 2019)Lim (2011) Stating that tax avoidance is a way to save taxes generated based on legal tax laws and regulations and is used to minimize high taxes. The purpose of avoiding taxes carried out by taxpayers is to maximize their income (Ardillah & Halim, 2022). The use of the Cash Effective Tax Rate (CETR) model as an indicator of tax avoidance in this study.

2.7 Frame of Mind

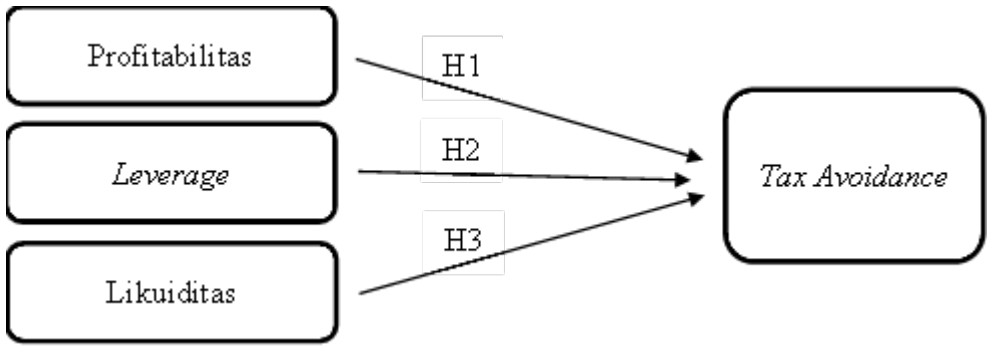

Figure 1. Frame of Mind

Judging from the conceptual framework above, there are three independent variables, namely Profitability (X1), Leverage (X2), Liquidity (X3). These variables describe the accounting process in a company, and further testing will be carried out to see how these variables affect the dependent variable in this study, namely Tax Avoidance (Y).

2.8 Hypothesis

2.8.1 The Effect of Profitability on Tax Avoidance

The profit that an organization earns from assets, sales volume, and share capital over a certain period of time is referred to as profitability. Agency theory is also related to profit which explains that managers can control the amount of profit that exists for their own benefit. Research states that high corporate profits will increasingly disclose their tax obligations. (Ernawati et al., 2019) Utami (2013)The income tax rate of a business entity increases as profits increase, which can lead to tax avoidance from the organization to offset the overall higher tax burden and prevent a reduction in management performance bonuses (Dewinta & Setiawan, 2016). Previous research by Saputra & Fun (2017) did not find any correlation of profitability to tax avoidance, then profitability has a significant positive influence on tax avoidance according to the research. Andalenta & Ismawati (2022).

H1: Profitability affects tax avoidance positively

2.8.2 The Effect of Leverage on Tax Avoidance

Leverage is the amount an organization owes to fund its assets. A business is less likely to engage in tax avoidance if it funds most of its assets with debt. With a company having

a large amount of debt, it is at risk of losing working capital, so it has a good effective tax rate. When interest rates get higher, the company's profits from the debt are also higher. (Swingly & Sukartha, 2015)(Mulyati et al., 2019)Leverage does not affect tax avoidance according to research but has a negative influence according to. Pasaribu & Mulyani (2019) Andalenta & Ismawati (2022).

H2: Leverage negatively affects tax avoidance

2.8.3 The Effect of Liquidity on Tax Avoidance

Liquidity is an organization's effort to meet short-term liabilities as seen by the comparison of current assets to current liabilities. A company's liquidity ratio is high indicating the financial health of a company. But when companies have low liquidity, they tend to try to maintain cash flow, which can lead to tax avoidance. Liquidity research on tax avoidance that (Irton et al., 2022) has been carried out there states the positive effect of liquidity on tax avoidance, in contrast to the study, where it is said Ary Novianto & Sugianto Yusuf (2021)that there is no Cahyanti et al. (2017)impact of liquidity on tax avoidance.

H3: Liquidity affects tax avoidance positively

3. Methods

The population of this study is Banking Business Entities that have been regularly listed on the Indonesia Stock Exchange (IDX) between the period 2018-2022. Purposive sampling is a strategy to select samples based on predetermined conditions.

Table 2. Sample Selection Results

Kriteria	Jumlah	Tidak Memenuhi
Perusahaan Perbankan yang terdaftar di BEI periode 2020-2022	42	
Perusahaan Perbankan yang mempublikasikan data keuangan lengkap di BEI periode 2020-2022	22	(20)
Perusahaan Perbankan yang ada di Lampung dan memiliki data laporan keuangan lengkap di BEI tahun 2020-2022	16	(6)
Jumlah Sampel × Jumlah Tahun penelitian (5)	80	
Data Outlier	(33)	
Total sampel selama periode penelitian 2018-2022	**47**	

Source: Data processed by researchers (2023)

This research utilizes quantitative techniques. Quantitative methods are methods of collecting data and then processed using statistical work formulas and taken from variables that have been operationalized. The annual reporting of Banking Business Entities listed on the Indonesia Stock Exchange for the period 2018-2022 (www.idx.co.id) is secondary data in this study.

3.1 Dependent Variables

3.1.1 Tax Avoidance

CETR (cash effective tax rate) is a measurement of Tax avoidance that divides tax liabilities into pre-tax profits and can be expressed by the following formula (Waluyo, 2017) :

$$\text{CETR} = \frac{\text{Beban Pajak}}{\text{Laba Sebelum Pajak}}$$

3.2 Independent Variables

3.2.1 Profitability

Return On Asset or ROA is the first independent variable in this study. According to Praditasari & Setiawan (2017) , ROA is a measure of net profit obtained on all assets that have been used by the company. The company's asset management will be better if the ROA value is higher, because it indicates a higher level of profit for the company.

$$\text{ROA} = \frac{\text{Laba Setelah Pajak}}{\text{Total aset}}$$

3.2.2 Leverage

The Debt To Equity Ratio (DER), which is useful as a measurement tool for calculating leverage, is the second independent variable. The leverage ratio is used to evaluate how effectively long-term debt can finance business assets. Leverage is how businesses get funding from external lenders. This particular loan is a long-term debt. Current costs will be reduced by long-term interest costs(Anastasia & Situmorang, 2021).

$$\text{DER} = \frac{\text{Total Hutang}}{\text{Modal}}$$

3.2.3 Liquidity

Liquidity measured by Current Ratio (CR) is the third independent variable in this study. The more short-term debt a company has, the more likely it is to use tax avoidance strategies. This ratio is calculated by dividing the company's current debt by its current assets (Novita & Herliansyah, 2019).

$$\text{CR} = \frac{\text{Aset Lancar}}{\text{Utang Lancar}}$$

3.3 Regression Analysis

Before conducting data research and multiple linear regression equation models, it is necessary to apply data analysis using classical assumption testing. Below is a model of multiple linear regression equations:

Y = a + b1X1 + B2X2 + b3X3 + et

Information

a : Constant

X1: Profitability (ROA)

X2: Leverage (DER)

X3: Liquidity (CR)

Y : Tax Avoidance (CETR)

et : error tern

4. Results and Discussion

4.1 Descriptive Analysis Results

Descriptive statistical analysis attempts to define information using the minimum, maximum, average, and standard deviation of a dataset. (Ghozali, 2018)Shown in the table of descriptive statistical analysis results as follows:

Table 3. Descriptive Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Sdt. Deviation
Profitabilitas	47	-.01	.03	.0149	.00997
Leverage	47	3.16	7.58	5.2353	.87503
Likuiditas	47	.95	1.37	1.1570	.11178
Tax Avoidance	47	-.33	-.17	-.2326	.03937
Valid N (listwise)	47				

Source: SPSS Processed Data, 2023

A total of 47 banking business entities listed on the Indonesia Stock Exchange provided data for each variable between 2018 and 2022 as follows:

1) Profitability values: -0.01 minimum value, 0.03 maximum value, 0.0149 mean value (mean), and 0.00997 standard deviation value.
2) Leverage values: 3.16 minimum value, 7.58 maximum value, 5.2353 mean value, and 0.87503 standard deviation.
3) Liquidity Values: 0.95 minimum value, 1.37 maximum value,
4) the mean, and 0.11178 standard deviations.
5) Tax Avoidance values: -0.33 minimum value, -0.17 maximum,
6) -0.2326 the mean, and 0.0 3937 standard deviations.

4.2 Classical Assumption Test Results

4.2.1 Normality Testing

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		47
Normal Parameters	Mean	.0000000
	Std. Deviation	.03507028
Most Extreme Differences	Absolute	.091
	Positive	.091
	Negative	-.091
Test Statistic		.091
Asymp. Sig. (2-tailed)		.200

Source: SPSS Processed Data, 2023

To ensure that the research variables have normal or abnormal n spreaders, normality testing is needed. Significant values greater than 0.050 indicate a normal distribution of data. Asymp numbers. Sig (2-tailed) of 0.200 (0.200 > 0.050) is the result of normality test findings using the Kolmogorov-Smirnov Test in line with the table above. This shows the normal distribution of the study's residual data.

4.2.2 Multicollinearity Test

Table 5. Multicollinearity Test Results

Coefficients[a]							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.251	.083		-3.042	.004		
Profitabilitas	1.853	.581	.441	3.188	.003	.979	1.021
Leverage	.002	.007	.049	.325	.747	.820	1.220
Likuiditas	-.018	.052	-.052	-.344	.733	.834	1.199

Source: SPSS Processed Data, 2023

Multicollinearity test in this study to show that independent variables in regression models have a linear relationship with one another. When the tolerance number > 0.010 and the VIF number < 10, then multicollinearity is said not to occur. Table 5 shows the result of a tolerance value higher than 0.010 (tolerance > 0.010) and a variable VIF value of Profitability, Leverage, Liquidity below 10 (VIF < 10). It is considered that there is no multicollinearity in variables.

4.2.3 Autocorrelation Test

Table 6. Autocorrelation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.439[a]	.193	.137	.03627	1.735

Source: SPSS Processed Data, 2023

Autocorrelation tests are carried out to test whether there is a correlation between linear regression models and previous periods. The findings of the autocorrelation test in table 6 state that the Durbin-Watson test value is 1.735 which means greater than the dU value of 1.6692 in significance level 0.05 and smaller than the value of 4-dU (2.3308) and indicates no positive or negative autocorrelation.

4.2.4 Heteroscedasticity Test

Table 7. Heteroscedasticity Test Results

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.569	.000		2.561	.014
Profitabilitas	-9.938	4.968	-.305	-2.001	.052
Leverage	-2.924	.000	-.169	-1.049	.300
Likuiditas	-4.087	.000	-.307	-1.892	.065

Source: SPSS Processed Data, 2023

The heteroscedasticity in table 7 using the white test shows that the significance of the independent variable is higher than 0.05 (>5%). So it can be stated that there is no heteroscedasticity disorder for regression variations in this study.

4.3 Multiple Regression Analysis Test Results
Table 8. Multiple Analysis Test Results

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.251	.083		-3.042	.004
Profitabilitas	1.853	.581	.441	3.188	.003
Leverage	.002	.007	.049	.325	.747
Likuiditas	-.018	.052	-.052	-.344	.733

Source: SPSS Processed Data, 2023

Multiple regression in this study was processed with data processing software, namely SPSS. To determine the strength and direction of correlation between 2 or more variables X and variable Y, multiple regression analysis is used(Ghozali, 2018) . The regression equation created using the results of multiple analysis in table 8 is:

Tax Avoidance = (-0.251) + (1.853) X1 + (0.002) X2 + (-0.018) X3

4.4 Hypothesis Test Results
4.4.1 F Test or Model Feasibility
Table 9. F Test Results

ANOVA[a]					
Model	Sum of Square	df	Mean Square	F	Sig.
1 Regression	.014	3	.005	3.426	.025[b]
Residual	.057	43	.001		
Total	.070	46			

Source: SPSS Processed Data, 2023

One method used to measure the feasibility of a regression model in a study is the F test. A model is considered feasible if the data matches the regression equation. The F test value of ANOVA indicates the feasibility of the model. Table 9 (Ghozali, 2018)shows the statistical test F resulting in an F count of 3.426 at a significance of 0.025 which indicates a profitability significance value of < 0.05. Thus, it can be said that profitability, leverage, and liquidity together affect Tax Avoidance. Therefore, the regression model of this study is suitable for testing hypotheses.

4.4.2 Test Coefficient of Determination
Table 10. Coefficient of Determination Test Results

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.439[a]	.193	.137	.03627

Source: SPSS Processed Data, 2023

The coefficient of determination test (R2) issued to assess the ability of the model to explain the dependent bell variance. The coefficient of determination has a value of zero to one. A low R2 number describes the proficiency of the independent variables when describing the finite dependent variable. The result of the coefficient of determination is 0.137 based on Table 10. This shows that independent variables, namely profitability, leverage, and liquidity, can describe 13.7% of the dependent variable, namely tax avoidance, while the remaining 86.3% is described by other variables outside this study.

4.5 Statistical T Test

Table 11. T Test Results

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.251	.083		-3.042	.004
Profitabilitas	1.853	.581	.441	3.188	.003
Leverage	.002	.007	.049	.325	.747
Likuiditas	-.018	.052	-.052	-.344	.733

Source: SPSS Processed Data, 2023

Statistical tests according Ghazali (2018), implement in order to understand the extent of the ability of each independent variable to explain the variation of the dependent variable individually. A hypothesis is considered correct if the significance figure is lower than 0.05. The exam findings shown from the table above result in the conclusion:

a. Effect of Profitability on Tax Avoidance
   Sig value. The profitability in the previous table is 0.003, meaning that the value is lower (<) than the probability value of 0.05. This supports that profitability has a significant positive effect on tax avoidance. This condition means that the organization will be more willing to make tax avoidance if more profit is generated. A higher ROA indicates that the business is generating more profits, which can reduce the company's profits due to the high tax burden. Differences in interests also arise between organizations and stakeholders who want to withdraw tax dependents to the maximum, in addition to reducing tax dependents by taking steps to tax avoidance practices, it was concluded that H1 was accepted.
b. The Effect of Leverage on Tax Avoidance
   Leverage has an impact of 0.747 on tax avoidance, as shown in the table above. Because the significance number (>) is higher than the probability number of 0.05, it can be concluded if there is no large impact between leverage and tax avoidance. This is if the company has a large leverage ratio, which increases the interest cost and the amount of money the company uses from its liabilities. Because a high leverage ratio is expected to increase investor profits rather than have an impact on corporate profits, the company assumes that a high ratio does not support tax avoidance, therefore there is no correlation between leverage and tax avoidance in this study. Because high interest can cause a decrease in profit before tax as well as smaller tax liabilities for business entities, the fairy describes if H2 is rejected
c. Effect of Liquidity on Tax Avoidance
   T table previously showed that there is a large correlation between liquidity and tax avoidance, where the value of sig. is 0.733. A higher sig. number (>) than a probability

of 0.05shows if there is no relationship between tax avoidance and liquidity. Business entities with large liquidity ratios show that their cash flow is stable because they maintain their liquidity levels. They also tend to be in good financial shape. It was found that the aggressiveness of corporate taxes decreased along with the increase in corporate liquidity, so it was concluded that H3 was rejected.

5. Conclusion

The exam findings and data analysis of Banking Business Entities listed on the Indonesia Stock Exchange for the period 2018-2022show that profitability as measured by ROA positively significantly affects tax avoidance. There is no significant influence on other variables, namely leverage assessed through DER and liquidity assessed through CR. However, profitability, leverage, and liquidity simultaneously affect tax avoidance at 13.7%, then the remaining 86.3% is described by other variables outside the scope of this study.

This study only uses 3 variables, namely profitability, leverage, and liquidity. The next researcher is expected to include other variables and develop sample scope criteria. The low adjusted R square shows that the independent variables in this study have little impact on tax avoidance. To provide superior information, other variables such as size, sales growth, fiscal loss compensation and so on need to be added for further research. The government is advised to tighten supervision of businesses reporting their tax obligations, especially if they report losses in 2 consecutive years. This has triggered companies to take advantage of regulatory loopholes to reduce the tax burden. It is also necessary to increase the awareness of companies in paying their taxes.

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