

Main Factors of Tax Avoidance in Indonesia Stock Exchange

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Abstract:- There are various factors that can influence the incidence of tax evasion thereby reducing the realization of government tax revenues. For this reason, this study aims to determine the main factors in tax evasion in Indonesian IDX companies. This method utilizes Systematic Literature Review (SLR), which is an analysis of journals in the last 10 years on topics relevant to the research title. The results of the study show that from the analysis there are several factors that become research variables and are known to have an influence on tax evasion in the company. The most dominant factors proven to be correlated and influential empirically are business strategy, profitability, leverage, and sales growth. Through these various factors, it can be seen what things cause companies to avoid taxes so that they can be used as a basis for policy making by the government.

Keywords:- Tax Avoidance, Business Strategy, Profitability, Leverage, Sales Growth.

I. INTRODUCTION

Tax is a major source of revenue for the government. A tax is a mandatory payment or charge collected by governments coercively from individual or business and does not give direct return. Tax is used for country expenditure and public welfare. The function of tax is as budget-air, to cover country expenditure as well as for regulator, to provide public facilities

(1). For a country, tax is a major revenue and beneficial for country expenditure and development. Taxes cover 85% of country expenditure

(2). Tax is a charge or contribution collected coercively by law for country expenditure.

The government encourages tax income intensively to support national development. However, there are some problems that make tax income ineffective. The problems are: tax payers are not aware to pay the tax; individual tax as well as legal entity tax. There are also some cases that corporate tax payers conduct tax avoidance and tax evasion.

One of tax object that become tax payer is a corporate. Corporate plays important roles for a country. Activities done by corporate are likely to affect economical structure of a country. In other words, corporate contributes in tax income. It is a mandatory that corporate has to pay tax for the revenue. However, the fact is that tax income for this country decrease. (1).

According to the realization of tax income, one of the main causes is tax avoidance. There is conflict of interest between country and corporate. Corporate considers that the profit is not maximized and tax payment is likely to decrease the profit. The government hopes that corporate pays the tax to increase tax income. However, corporate considers tax as a burden that decreases the profit. The aim of corporate establishment is to maximize profit. Therefore, it is common that corporate conducts some efforts to minimized tax payment (1). It is related to tax payers such as corporate that lower tax payment to maximize the profit. As a result, corporate develop a strategy to lower tax through tax planning according to the regulation (3). It means that corporate figures out weakness in tax laws to lower tax without breaking tax regulations.

According to the data collected by The Ministry of National Development Planning, 750 of foreign investment companies conducted tax avoidance through loss report in 5 years, so they do not need to pay tax (4). The loss report is an action to avoid tax. They take advantage of the weakness in the policy to lower tax payment.

According to the research findings, tax avoidance is affected by business strategy, leverage, and corporate profitability, whereas sales growth does not affect tax avoidance (5). Other research showed that tax avoidance is affected by some factors, such as leverage, company size, institutional ownership, and profitability (4). Various factors encourage the researcher to analyze further to know which factor is the most dominant and most likely to get positive result in influence testing towards tax avoidance in a company.

Based on the background, the research will study further about the main factor of Tax Avoidance in Indonesia Stock Exchange. In this case, there are a lot of Indonesia Stock Exchange Companies that do tax avoidance which is affected by some factors of the company.

II. LITERATUR REVIEW

A. Tax Definition

Tax is a mandatory payment or charge collected by governments coercively based on laws for country expenditure. Tax is a main source of revenue. The definition of tax is a mandatory payment or charge collected by governments coercively from individual or business and does not give direct return. Tax is used for country expenditure and public welfare. The function of tax is as budget-air, to

cover country expenditure as well as for regulator, to provide public facilities (1).

Tax is a tool for public welfare. Therefore, as effort to create justice, people need to have obedience in paying tax. By this obedience to pay tax, tax can be beneficial as a fund for country development and expenditure. There are two tax nature and characteristics. They are coercive and tax payer awareness. The aim of coercive tax is to give sanction if tax payers do not pay tax. Sanction encourages tax payers to pay tax. Tax payer awareness means effort to maintain togetherness value and concern towards the community (2).

B. Tax Avoidance

Tax avoidance is an effort to lower tax that needs to be paid by the company by taking advantage of the weakness of tax laws legally (6). According to Pohan (2014), tax avoidance is an effort done by tax payers to avoid tax legally without breaking tax regulations. Tax avoidance takes advantage from grey area of laws that enables tax payers to lower the tax. The indicators of tax avoidance in Indonesia can be seen from low tax ratio (8). Although tax avoidance is legal, the government does not want it because it can affect tax income. Tax avoidance is legal and does not break tax regulation. Therefore, company management has a chance to lower the tax. Company management can manipulate profit and report negative information through tax planning (2).

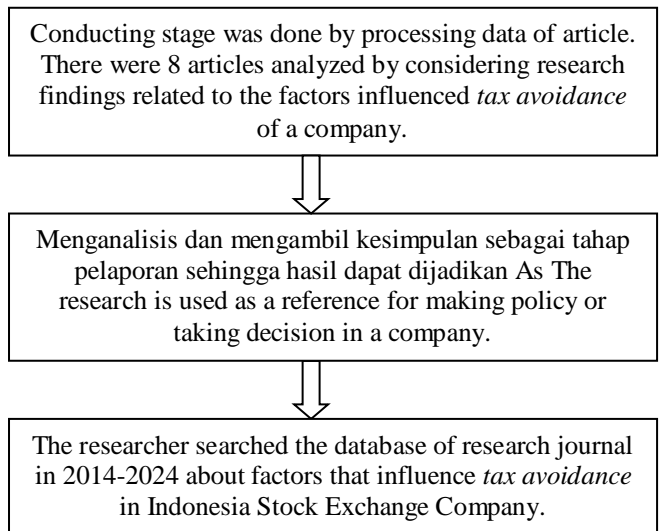
C. Factors of Tax Avoidance

There are some factors affected tax avoidance, such as leverage, company size, institutional ownership, and profitability (5).

III. RESEARCH METHODS

This research applied SLR method (Systematic Literature Review). Data collected from various literatures, accredited international journals as well as accredited national journals to study about the influence of asset management in managing fix assets. 10 journals were

collected from Google Scholar database. The keyword used influence of tax avoidance that limited on articles from the past 10 years, from 2014 - 2024 and articles about objects of Indonesian Stock Exchange Company. SLR method refers to certain methodology and development to collect and evaluate the research related to a certain topic (9). The aim of the research using SLR method is identify, study, evaluate, and interpret the research related to the topic of a certain phenomenon (10). “SLR is a research method to synthesize research findings, so the fact becomes more comprehensive and accurate as a reference for policy makers. There are 3 stages in compiling the research using SLR methods; they are planning stage, conducting stage, and reporting stage. Research using SLR methods started from planning, conducting, and reporting”.



IV. RESULT AND DISCUSSION

This research analyzed 8 journals to identify factors that influence tax avoidance in Indonesia Stock Exchange Company.

Table 1 research analyzed 8 journals

Author (Year)	Title	Research Findings
Lidia Wahyuni, Robby Fahada, Billy Atmaja (2017)	“The Effect of Business Strategy, Leverage, Profitability and Sales Growth on Tax Avoidance”	Tax avoidance is influenced by business strategy, leverage, and profitability, whereas sales growth does not influence tax avoidance.
Ulfa Jasmine (2017)	“The Impact of Leverage, Institutional Ownership, Company Size and Profitability towards Tax Avoidance (Study of Manufacture Company of Indonesia Stock Exchange Company)”	The result shows that leverage, institutional ownership, company size and profitability caused company to do tax avoidance.
Sri Ernawati, Grahita Chandrarin, Harianto Respati (2019)	“Analysis of the Effect of Profitability, Company Size and Leverage on Tax Avoidance (Study on Go Public Companies in Indonesia)”	Research finding shows that company did tax avoidance because of factor that is proven empirically; that is leverage. Whereas company size did not influence tax avoidance.
Nawang Kalbuana, Solihin, Saptono, Yohana Devia Rahma Yanti	“The Influence of Capital Intensity, Firm Size, and Leverage on Tax Avoidance on Companies Registered in Jakarta Islamic Index”	Research findings proved that capital intensity gave positive impact for tax avoidance, whereas leverage gave negative impact for tax avoidance, while company size did not affected tax avoidance.
Jost Kovermann, Patrick	“The impact of corporate governance on	Research finding shows that company strategy in

Velte (2019)	corporate tax avoidance—A literature review”	managing effectively enables <i>tax avoidance</i> . Company does not only has potency in encouraging effort to avoid tax to get more profit, but also limit <i>tax avoidance</i> in a certain level to minimize the risk compared to the advantage achieved.
Cicik Suciarti, Elly Suryani, Kurnia (2020)	“The Effect of Leverage, Capital Intensity and Deferred Tax Expense on Tax Avoidance”	Research finding proved empirically that factors such as leverage, capital intensity and concurrent tax expense affected <i>tax avoidance</i> . Partially, modal intensity affected <i>tax avoidance</i> negatively whereas concurrent tax and leverage did not affect <i>tax avoidance</i> significantly.
Maria Qibri Mahdiana, Muhammad Nuryatno Amin (2022)	“Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan Dan Sales Growth Terhadap Tax Avoidance”	Research finding shows that <i>tax avoidance</i> is affected by leverage and profitability, whereas company size and <i>sales growth</i> did not correlated to tax avoidance.
Anastasia Panjaitan, Azhar Maksum, Erwin Abubakar (2021)	“The Influence of Corporate Social Responsibility, Corporate Characteristics, Family Ownership, Profitabilitas and Corporate Governance on Tax Avoidance”	Research showed that CSR or Corporate Social Responsibility did not affect <i>tax avoidance</i> , including company characteristic and company management. Ownership gave negative impact towards <i>tax avoidance</i> while profitability gave positive impact towards <i>tax avoidance</i> .

➤ *Business Strategy*

According to research findings, business strategy is the main factor of tax in Indonesia Stock exchange Company (5). Good business strategy through tax planning enables company to maximized profit. Therefore, tax avoidance was done. In this case, company with good business strategy is likely to maximized tax planning such as tax avoidance to lower tax and maximized profit. This is also supported by further findings.

➤ *Profitability*

Profitability is a factor that affected tax avoidance (5). Profitability correlates with tax avoidance where middle or high level of tax payers reported lower ROA. ROA correlates with company expenditure to develop the business. Profitability assessed potential economical change in the future (11). This finding is also supported by research that analyzed sample of mining company of Indonesia Stock exchange Company in BEI 2009-2019. The result is that profitability gave positive impact towards tax avoidance in a company. Profitability becomes a parameter in assessing management performance for assets management through profit. Return of Asset as high profitability enabled company to get high profit which makes high tax. This case encourages company to conduct tax avoidance to avoid high tax (12).

➤ *Leverage*

Leverage affected tax avoidance. The higher leverage ratio is the higher company's debt which means higher interest. As a result, the interest can lower taxable income which means that payable tax can be lowered (5). Further findings stated that leverage gave empirical prove of its correlation with tax avoidance in Indonesia. The higher leverage is the higher possibility of company to avoid profit (2). Leverage gave negative impact towards tax avoidance of company in Jakarta Islamic Index (JII) (13). This factor contradicts with research finding which stated that partially, leverage does not affect tax avoidance. However, most of the analyzed journal stated that leverage correlates to tax

avoidance. Therefore, leverage is one of the factors affected tax avoidance (14).

➤ *Sales Growth*

Sales growth is a factor affected business strategy because sales needs support from assets or capital. If the sales grow, then assets need to be increased as well. Sales growth is a main factor in capital management (11). According to research finding, sales growth affected tax avoidance. The higher sales growth is the higher tax avoidance (5). If a company achieves high sales volume, sales growth is higher which cause higher profit. The higher the profit is the higher the tax. Therefore, it encourages company to conduct tax avoidance by implementing tax planning.

Some factors affected tax avoidance. In this case, poor awareness caused people likely to conduct tax avoidance (15). Moral is a main thing to determine tax payers to pay the tax honestly (16). Those factors contributed to a lot of cases of tax avoidance in Indonesia.

V. CONCLUSION AND SUGGESTION

According to the result, main factor affected tax avoidance by companies in Indonesia Stock exchange. Those factors are business strategy, profitability, leverage and sales growth. Hopefully, future research can use affected and affected factors as research variables and conducting quantitative research to get more accurate result. Hopefully, future research conduct longer research period and increase company sectors to get more data.

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