

# The Effect of Profitability, Leverage and Financial Distress on Tax Avoidance (Case Study of Food And Beverage Sector Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019-2023)

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#### Abstract

The purpose of this research is to ascertain how tax evasion is impacted by profitability, leverage, and financial hardship. Research of this kind is quantitative in nature. The manufacturing enterprises in the food and beverage sector that are listed on the Indonesia Stock Exchange between 2019 and 2023 comprise the study's population. Purposive sampling was the method of sampling that was applied. 110 firm data samples made up the study's sample size. Using the IBM SPSS 27 application, the following data analysis techniques were applied: multiple linear regression analysis, classical assumption testing, data normality testing, descriptive analysis, and hypothesis testing. Profitability and financial distress have a partial impact on tax avoidance, while leverage has no partial effect, according to the results of the T test hypothesis test. However, the F test hypothesis test produced significant results, yielding a significant value of 0.021, which <0.05. H0 is rejected and H4 is approved because (significance value <0.05 = 0.021 < 0.05) and (Fcount> Ftable = 3.392 > 2.69). This indicates that the dependent variable, tax avoidance, is simultaneously impacted by the independent variable (X), namely profitability, leverage, and financial distress.

Keyword: Financial Distress, Leverage, Profitability, Tax Avoidance

#### **INTRODUCTION**

Tax is the main source of state revenue so that it is prioritized in the state budget in funding the development of a nation. Therefore, in order for national development needs to be carried out without constraints on the lack of funds, taxpayers must be loyal in paying taxes as citizens. The provisions of tax collection state that: "taxes and other levies have a compelling character as a state interest that has been regulated by law" reads Amendment III Article 23A of the 1945 Constitution. In Wati's research (2020), Prof. Dr. H. Rochmat Soemitro SH (2020) emphasized that taxes are a transfer of people's wealth to the state treasury with the aim of supporting routine expenses.

The remaining funds are allocated to public savings, which serves as the main source of government investment funding. By paying taxes, we enable the government to undertake initiatives aimed at improving the welfare of the Indonesian people. The country's source of revenue is entirely dominated by the tax sector. The following information on the presentation of tax revenue to the state budget revenue for the last five years is outlined in.

Table 1 Target and Realization of Tax Revenue in 2019-2023 (*In Trillion Rupiah).						
Tahun	Pendapatan	Penerimaan	%	Target Pajak		
	Negara	Perpajakan				
2019	1.960,6	1.546,1	78,9%	1.786,4		
2020	1.647,7	1.285,1	77,9%	1.404,5		
2021	2.011,3	1.547,8	76,9%	1.444,5		

2022	2.635,8	2.034,5	77,1%	1.784,0	
2023	2.637,2	2.118,3	80,3%	1.869,6	
Source , www.hrs.co.id.and.https://sorrwsciels.homonics.co.id					

Source : www.bps.go.id and https://komwasjak.kemenkeu.go.id

In the table we can see that more state revenue is obtained from tax revenue and the rest is obtained from non-tax revenue. Taxes are the main source of funding for the country. Meanwhile, taxes are a burden on taxpayers who want to reduce net profits from why, taxpayers minimize tax obligations. Achieving the desired level of profit and liquidity is the company's main goal in minimizing taxes. To reduce tax costs, managers try to do several things. One of them is tax avoidance, which is when a business tries to reduce its tax burden legally without violating any tax laws. A tax evasion case that occurred in Indonesia is that the Coca-Cola Company, a carbonated beverage producer, was involved in a tax evasion case. The dispute between The Coca-Cola Company and the US tax agency, Internal Revenue Service (IRS), was covered by DDTCNews (2019) and published on the news.ddtc.co.id page on May 7, 2019. Following underpayment notices totaling \$3.3 billion between 2007 and 2009, the case began in September 2015 and eventually reached the US Tax Court. According to the IRS, Coca-Cola owes \$9.4 billion in taxes over three years, according to the complaint filed on April 10, 2019, under case number Coca-Cola Co. v. Commissioner, T.C., No. 31183-15. This note indicates that overseas subsidiaries that have trademarks, formulas, or other intellectual assets licensed to the parent company also referred to as supply points only receive payments equal to their regular business operating income. The Critical Path Method (CPM), which is based on the requirements of Section 482 (T.D. 8552) of the US Code, provides the basis for the IRS analysis. The Internal Revenue Service (IRS) links the company's marketing strategy, including the execution of global endorsements, campaigns, and sponsorships, with Coca-Cola's specialist methodology for valuing the company's products. In contrast, the IRS analysis that looked at the revenues of other independent bottling companies using the fair price methodology was wrong. This was due to an overly high and irregular ratio of intangible assets to tangible assets at Coca-Cola's supply locations compared to the independent comparison. (Source: DDTC News Editor May 07, 2019). The explanation above can be concluded that tax avoidance is a unique and complex phenomenon because even though it does not violate tax rules, this is not expected because it can reduce tax collection (Fauzan et al. 2019). What is meant by "complex and unique" is a tax avoidance method that utilizes legal loopholes in tax rules that harm the state by reducing foreign income. Tax avoidance can be caused by various circumstances, namely profitability, leverage and financial distress. The ability of a company to achieve profit on asset management is also called ROA measured by its profitability. An indication of a company's financial performance is ROA. Mahdiana and Amin (2020) emphasize that the profitability and net profit of a company both increase along with the higher return on assets (ROA). In contrast to (Cahya Dewanti Sujana, 2019) which states that profitability has a bad impact, their research ensures that profitability has a big impact on tax avoidance. Based on Mahdiana and Amin's research (2020), leverage has a significant good impact on tax avoidance because many companies use debt interest expense to finance their operational activities. Therefore, interest expense from debt is deductible and can be deducted from taxable income. On the other hand, leverage is a reviewer that reflects the amount of debt used to finance a company for exposing its operational activities (Cahya Dewanti and Sujana 2019). The financial state that falls before bankruptcy is known as financial distress. A company may try to reduce costs when experiencing financial difficulties, and tax costs are one of the costs. Under these conditions, businesses may engage in tax avoidance (Swandewi and Noviari, 2020). According to their findings, financial difficulties affect tax evasion significantly and favorably. Financial distress according to the study (Khairani, 2019) has nothing to do with tax avoidance. Given the background information provided above, the research questions that can be expressed are: Do financial distress, profitability, and leverage partially and simultaneously affect tax avoidance? The following conceptual framework is presented in this study to help better understand the phenomenon under study and show the relationship between the variables under study:



**Figure 1. Conceptual Framework** Source: Data processed by researchers, 2024

## METHODS

The research methodology used is associative quantitative research which intends to test hypotheses and identify correlations or influences between two or more variables. The research population is the food and beverage industry munafaktur company registered in (IDX) from 2019 to 2023. In the study, a non-probability sampling technique called purposeful sampling was applied. According to Sugiyono (2022), the purposive sampling approach is a technique that establishes sample criteria based on its own signals, which are anticipated to be connected by the population's previously discovered signs. Researchers created a sample of 22 companies using data from 110 annual reports and a 5-year observation period. The study used annual financial records and annual reports acquired from the www.idx.co.id website as secondary data gathering techniques. Multiple linear regression analysis and descriptive analysis tests were performed using SPSS version 27 for data analysis.

#### **RESULTS AND DISCUSSION**

#### RESULTS

Prior to doing the multiple linear regression analysis test, the normality of the secondary data will be examined to determine whether the independent and dependent variables in the regression model are spinning naturally. The Asymp is the outcome of the Kolmogorov-Smirnov data normalcy test. The regression equation model's reasonable distribution is supported by the Sig. (2tailed)c of 0.065 > 0.05. The next test is a descriptive statistical test, and the findings are as follows: In the course of the five-year trial, which ran from 2019 to 2023, 110 samples were used. In the final computation findings, the Tax Avoidance variable has a mean value (average score) of 0.4215, a standard deviation of 0.62999, and minimum and maximum scores ranging from 0.01 to 3.46. The profitability variable's computation yielded a mean (mean score) of 0.0915 and a standard deviation of 0.05349. The variable score has a minimum of 0.00 and a maximum of 0.22. According to the computation findings, the Leverage variable's mean (average score) is 0.7295, its standard deviation is 0.68071, and its lowest and highest scores are, respectively, 0.10 and 4.94. (5) The Financial Distress variable has an average value of 3.3263, a standard deviation of 1.57505, and a range of lowest and maximum values from 0.79 to 9.09. To produce an accurate equation model from the findings of the regression analysis, a classical assumption test must be conducted to detect any potential signs of deviation from the classical assumptions. The clasic assumption tests carried out in the study include: multicollinearity test to find whether there is a link between the independent variables in the regression. The multicollinearity test in a welldesigned regression model must meet the following requirements: Leverage (X2) = 0.595 > 0.1, Financial Distress (X3) = 0.500 > 0.1, and Tolerance value of Profitability variable (X1) = 0.638 > 0.000

0.1 is an outcome. Leverage (X2) = 1.681 < 10, Financial Distress (X3) = 2.001 < 10, and Profitability (X1) = 1.569 < 10 for the VIF value of the variable. Thus the statement "no multicollinearity" can be understood. Analysis of the residuals of an observation and other data in the regression model is done statistically using the autocorrelation test to see if there is a variable correlation. To fulfill the Durbin Watson test (DW test) requirement that DW lies between dU and (4-dU), the regression design must not show autocorrelation. In the autocorrelation test, a Durbin Watson score of 2.053 was achieved. However, when looking at the DW of the three independent variables (K) = 3 and 110 data points, the DW score lies between dU < DW < 4 - dU = 1.7455 <2.053 < 2.2545. This finding indicates that there is no autocorrelation. The significance level is set at 0.05. The leverage variable has a value of 0.429 > 0.05, the financial distress variable has a value of 0.129> 0.05, and the profitability variable has a significance score of 0.121> 0.05, aligned through the findings of the heteroscedasticity test conducted using the heteroscedasticity test. Glejser test. Therefore, this finding rules out the occurrence of heteroscedasticity. The statistical analysis method used in his research is multiple linear regression design to use is a multiple linear regression design for data that completes the normality criteria and is free of other allegations (Dwiyanti and Jati, 2019).

Coefficients <sup>a</sup>							
				Standardized			
		Unstandardize	d Coefficients	Coefficients			
Model		В	Std. Error	Beta	t	Sig.	
1	(Constant)	.421	.049		8.618	.000	
	Profitabilitas	.879	.286	.354	3.074	.003	
	Leverage	.014	.023	.070	.587	.558	
	Financial Distress	.027	.011	.320	2.458	.016	

Table 2. Multiple Linear Regression Analysis Test Results

Source: Data processed by researchers using the IBM 27 SPSS application

The regression equation based on the previous table below can be used to display the results of the multiple linear regression test and illustrate the link between the independent variables and the dependent variable:  $\alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e = Y$ . With profitability (X1), leverage (X2), and financial distress (X3) as the three independent variables, the constant (a) result is 0.421. After that Tax Avoidance (Y) as the dependent variable is worth 0.421. The dependent variable Tax Avoidance (Y) will increase by 0.879 if the Profitability variable (X1) is increased, according to the regression coefficient value of 0.879. The dependent variable Tax Avoidance (Y) will increase by 0.014 when the Leverage variable (X2) is increased, according to the regression coefficient value of 0.014. The dependent variable Tax Avoidance (Y) will increase by 0.027 when the Financial Distress (X3) variable is increased, according to the regression coefficient score of 0.027. By using SPSS version 27 above, the t test resulted in an estimated t score of 3.074 and a t table of 1.98260 through a significance level of 0.003 for the profitability variable (X1). Through the level of significance 0.003 < 0.05 that the estimated t score of 3.074 > 1.98260 exceeds the t table. Through this it can be concluded that Profitability (X1) has an effect on Tax Avoidance (Y), rejecting H0 and accepting H1. Through a significant threshold of 0.558 that variable 0, Leverage (X2) produces a t score of 0.587 and a t table of 1.98260. Leverage (X2) has no effect on Tax Avoidance (Y) which means H0 is approved and H2 is rejected. This conclusion is obtained because the estimated t value is smaller than the t table, namely 0.587 < 1.98260 through a significance threshold of 0.558> 0.05. An estimated t score of 2.458 and a t table of 1.98260 were generated for the Financial Distress (X3) variable, with a significance level of 0.016. Financial Distress (X3) affects Tax Avoidance (Y) which means H0 is rejected and H3 is accepted. This conclusion is taken because the t score is excessively large at the t table, namely 2.458> 1.98260 through a significance level of 0.016 < 0.05. One way to analyze data to determine how the independent variables affect the rise and fall of the dependent variable simultaneously is to test the coefficient of determination.

 Table 3. Test Results of the Coefficient of Determination (R2)

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.806ª	.650	.640	.03187		

Source: Data processed by researchers using the IBM 27 SPSS application

Based on the coefficient of determination test, the R-Square score is 0.65. This means that the impact of the independent variables simultaneously on the dependent variable is 65% but the remaining 35% is influenced by other factors not examined in the study. The F test reflects whether there is a simultaneous impact between the independent variable and the dependent variable used. F test conjectures can be listed including:

H0: all independent variables have no impact on the dependent variable.

H1: all independent variables have an impact on the dependent variable.

In order to test these allegations, the F statistic is used through the benchmark for quoting the provisions including:

1) If the significance score is > 0.05 and the Fcount < Ftable, that H0 is accepted.

2) If the significance score is <0.05 and the Fcount> Ftable, that H0 is rejected.

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.200	3	.067	3.392	.021 <sup>b</sup>
	Residual	2.084	106	.020		
	Total	2.284	109			

 Table 4. F Test Results (Simultaneous Test)

*a.* Dependen Variabel: *Tax Avoidance* 

b. Predictors: (Constant), Financial Distress, Profitabilitas, Leverage

Source: Data processed by researchers using the IBM 27 SPSS application

In line through the findings of the F test assessment in table 4 through using SPSS version 27, an estimated F score of 3.93 was achieved. Until the estimated f score exceeds the magnitude of the F table, namely: 2,69. The significant score achieved is the amount of 0.021, so the significance score is excessively minimal at 0.05. Because (significance score < 0.05 = 0.021 < 0.05) and (score Ftaksir > Ftabel = 3.392 > 2.69) that H0 is rejected and H4 is accepted.

### DISCUSSION

#### The effect of Profitability on Tax Avoidance

The profitability variable (X1) produces an estimated t score of 3.074 and t table 1.98260 through a significance level of 0.003 based on the t test using SPSS version 27 in table 4.13. H0 is rejected and H1 is approved because the estimated t score exceeds the t table, namely 3.074> 1.98260 through a significance threshold of 0.003 <0.05. Therefore, it can be said that in the hypothetical food and beverage companies listed on the IDX in 2019-2023, profitability has a partial influence on tax avoidance. His research strengthens the research findings of Mahdiana and Amin (2020) which show that tax avoidance has a good and significant impact on profitability. Likewise, research conducted on Sulaeman (2021) confirmed that tax avoidance has a significant good impact on profitability. Thus, we can conclude that profitability as a benchmark for assessing a company's capital management. A high-quality business will send a positive signal to potential investors, encouraging them to make their investments and grow business scores. However, companies with large profits also have to pay more taxes. As a result, businesses try to reduce their tax obligations by utilizing loopholes in relevant tax laws or by practicing tax avoidance.

#### The effect of leverage on Tax Avoidance

Leverage (X2) produces a calculated t score of 0.587 and a t table of 1.98260 through a significance level of 0.558 based on the t test using SPSS version 27 in table 4.13. It can be concluded that Leverage (X2) has no impact on Tax Avoidance (Y) because the estimated t score is 0.587 < 1.98260 with a significance threshold of 0.558 > 0.05 smaller than the t table. This means that H0 is accepted and H2 is rejected. Therefore, it can be said that for munafaktur companies in the food and beverage subsectors listed on the IDX from 2019 to 2023, leverage has no effect at all on tax avoidance. Based on research by A. Y. Sari and Kinasih (2021), leverage has little impact on tax avoidance. A significance level of 0.062 > 0.05 was achieved in his research. The statement shows that tax avoidance decreases as leverage increases. Therefore, H2 which states that leverage has an impact on tax avoidance cannot be accepted or is not supported by evidence. The ratio called leverage is used to calculate how much debt a business takes on to fund its activities, both short-term and long-term. Transactions involving tax avoidance are not affected

by the leverage variable. This is because tax avoidance methods are not affected by increasing debt. The increase in corporate debt has caused this difficulty, therefore management will be careful when deciding how to disclose financial information about its business. To reduce the tax burden, managers must be more selective and take greater risks when implementing tax avoidance actions. The corporation will experience considerable losses if its debt burden is excessive. The study further established that leverage has nothing to do with tax avoidance as a company's interest expense increases with the amount of debt it utilizes. in order to have deductible interest expenses a company can lower its taxable income and require less tax to be paid. Since this plan complies with all current tax laws, it is one of the options available to businesses.

#### The effect of financial distress on Tax Avoidance

Table 4.13 The Financial Distress (X3) variable produces a t score of 2.458 and a t table of 1.98260 through a significance level of 0.016, based on the t test carried out using SPSS version 27. The significant threshold value of 0.016 < 0.05 indicates that the t score of 2.458 > 1.98260 is greater than the t table. This means that H0 is rejected and H3 is accepted, this shows that Financial Distress (X3) has an impact on Tax Avoidance (Y). Thus, it can be said that for munafaktur companies in the food and beverage subsectors listed on the IDX from 2019 to 2023, financial distress has a partial impact on tax avoidance. Financial distress has a positive and considerable impact on tax avoidance according to Swandewi and Amin's (2020) research which is in line with this study. According to his research, financial distress has an impact on tax avoidance. When financial conditions get worse before bankruptcy occurs, it is called financial distress. A business will try to reduce costs when it is experiencing a financial crisis, and tax is one of the costs. In this situation, businesses can engage in tax avoidance. In addition to lowering taxes, tax avoidance schemes will provide additional cash to companies in financial distress to meet and pay off debts to investors, creditors, and other related parties, thus ensuring their survival. The research findings are stable through legitimacy theory, which suggests that businesses will always try to gain legitimacy in order to continue to exist. When businesses experience financial difficulties. they try to gain legitimacy or recognition by carrying out their responsibilities and avoiding taxes. Investors will use stable profitability as a criterion to evaluate the company's capital management practices, according to signaling theory. A high-quality company would send a good sign to potential investors, thus increasing the value of the organization. However, a company's tax burden will increase when its profits are large. To reduce their tax obligations, businesses attempt to utilize loopholes in relevant tax laws or implement tax avoidance.

#### The effect of Profitability, Leverage and Financial Distress on Tax Avoidance

A significant score of 0.021 which is less than 0.05 is shown by the results of the F statistical test data analysis which also shows an F value of 3.392. The R-squared value of 0.65 is in accordance with the research findings of the coefficient of determination. In other words, the amount of 65% of the dependent variable is influenced by the independent variable simultaneously and the remaining 35% is influenced by variables not included in this study. With the rejection of H0 and the acceptance of H4, it can be concluded that. To ensure that for munafaktur companies in the food and beverage subsectors listed on the IDX in 2019-2023, the variables of Profitability, Leverage, and Financial Distress affect Tax Avoidance simultaneously (simultaneously).

#### CONCLUSION

Based on the research that has been done with regression analysis and discussion of the results, the following conclusions can be drawn: Profitability affects Tax Avoidance in food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2023. Leverage has no effect on Tax Avoidance in food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2023. Financial Distress affects Tax Avoidance in food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2023. Profitability, Leverage and Financial Distress simultaneously affect Tax Avoidance in food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2019-2023.

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