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The Effect of Profitability, and Liquidity on Tax Avoidance with thin Capitalization as a Moderating Variable (Empirical Study on Consumer Goods Companies Listed on the IDX in 2019-2022)

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ABSTRACT

The purpose of this study was to determine to determine the effect of profitability, liquidity on tax avoidance with thin capitalization as a moderating variable. The population of this study is a Consumer Goods Company listed on the IDX (2019-2022) totaling 41 companies. Data collection is done by purposive sampling. The data analysis method used in this research is Moderated Regression Analysis (MRA) with the help of the Eviews program. Based on the test results above, it can be concluded that profitability has no effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Liqudity has a negative effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Thin capitalization cannot moderate the effect of profitability on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Thin capitalization can moderate the effect of liquidity on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022.

INTRODUCTION

Taxes are an important element of Indonesia's development. Law No. 28 Year 2007 which contains the General Provisions & Procedures for Taxation contains mandatory taxes on a country borne by legal entities or individuals, mandated by law without direct reward and used for the benefit of the state. Based on the 2022 State Budget, state revenue for 2022 is targeted to reach IDR 2,377.50 trillion, where the largest contribution of state budget funds comes from taxes. Figure 1 below shows the development of Indonesia's tax revenue from 2019-2022.

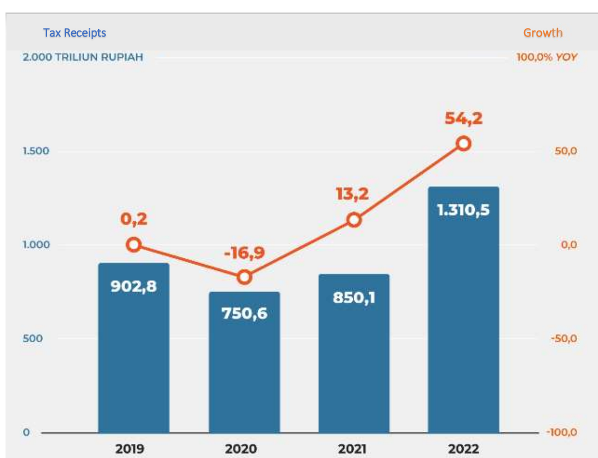

Figure 1 Development of Tax Revenue in 2019-2022

From the data Indonesia's tax revenue data from 2019 to 2022 shows significant fluctuations. In 2019, tax revenue reached IDR 902.8 trillion with minimal growth of 0.2%. However, in 2020 there was a drastic decline of 16.9%, with revenue falling to IDR 750.6 trillion, which was affected by the impact of the COVID-19 pandemic on the economy. The recovery began in 2021 with an increase in tax revenue of IDR 850.1 trillion, growing 13.2% as economic activity began to recover. The positive trend continued in 2022, where tax revenue jumped sharply to IDR 1310.5 trillion, recording a significant growth of 54.2%, driven by various economic recovery policies and improvements in tax compliance.

According to the Ministry of Finance's analysis, revenue performance in 2020 was indeed hit by the Covid-19 pandemic. However, in 2021 economic activity has begun to recover compared to the previous year so that tax revenue has also been hoisted. The Ministry of Finance said that the achievement of tax revenue in 2021 was influenced by several main factors. First, the increasing compliance of taxpayers (WP) which is one of the prerequisites for optimizing tax revenue. The trend of Indonesia's tax revenue from year to year was also reviewed by Darussalam et al. (2022) entitled Design of the Indonesian Taxation System A Review of Basic Concepts and International Experience. The three DDTC professionals assessed that one of the aspects that caused tax revenue performance from 2005-2019 to never reach the target was low tax compliance. The low tax compliance is suspected to stem from the lack of information owned by the authorities, both for mapping potential, testing compliance, and tax collection efforts. In fact, the role of information availability is vital in the implementation of the self-assessment system (Candra, 2022).

According to Gultom (2021) taxes in the eyes of the state are a source of revenue to finance government administration, while taxes for companies as taxpayers are a burden that will reduce net income. Companies try to pay as little tax as possible because paying taxes means reducing the company's economic capacity. This difference in interest causes taxpayers to tend to reduce the amount of tax payments, both legally and illegally. Efforts to reduce tax payments legally are called tax avoidance, while efforts to reduce tax payments illegally are called tax evasion. In this context, tax avoidance is one of the important issues in the business world, especially for companies operating in industrial sectors with high tax burdens. This practice is carried out by companies to minimize the tax burden legally through aggressive tax planning. Several factors that can affect tax avoidance are profitability, and liquidity.

According to Kasmir (2019: 196) the profitability ratio is a ratio to assess the company's ability to seek profit. High profits provide an indication of the company's good prospects, so that it can trigger investors to increase their investment in the company. The company's profitability illustrates whether or not the company's management is effective in managing the company so that it can achieve the targets expected by the company owner. Napitulu et al. (2020) A high ROA reflects the company's profit which is also high. The higher the profit, the higher the tax burden that must be borne. This triggers the company to carry out tax avoidance, because the high tax burden will reduce the company's income. The results of previous research conducted by Prasetya & Muid (2022) found that profitability has a positive effect on tax avoidance. Different results were shown by Mulyati et al. (2019); Cahyono et al. (2016) who found that profitability has no effect on tax avoidance.

The next factor is liquidity, according to Gultom (2021) liquidity problems relate to the problem of the company's ability to meet its financial obligations that must be met immediately. The company's liquidity shows the ability to pay short-term financial obligations on time. Devi & Arinta (2021) explain that high liquidity indicates that the company has a high enough potential to pay off all its obligations including the tax burden according to the rules or tax compliance. Thus, high liquidity leads to low tax avoidance practices carried out by companies. The results of previous research by Norisa et al. (2022) found that liqudity has a negative effect on tax avoidance. Different results were shown by Fatimah et al. (2020); which found that liqudity has no effect on tax avoidance.

In this study there is a moderating variable, namely thin capitalization, According to Jumailah, (2020), thin capitalization is a condition in which the company has a capital structure consisting more of debt than equity. Thin capitalization is often used by multinational companies as a strategy to minimize tax burdens, especially through interest payments on debt that can be deducted from taxable income. Companies with a capital structure dominated by debt tend to have high interest expenses, thereby reducing taxable income and reducing the amount of tax that must be paid. Based on research conducted by Salwah & Herianti, (2019); Jumailah, (2020); Widodo et al. (2020) that thin capitalization has a positive effect on tax avoidance. different results are shown by Wati & Utomo (2020); Olivia & Dwimulyani (2019) mention that thin capitalization has no significant effect on tax avoidance.

Based on the background that has been stated, the purpose of this study is to determine the effect of profitability, liquidity on tax avoidance moderated by thin capitalization. This research is expected to assist company management in designing optimal financial strategies to minimize tax burdens without violating regulations. Investors can also use this information to identify companies that may be involved in tax avoidance practices and assess the associated risks. Meanwhile, tax regulators can use the results of this study as material to tighten rules related to thin capitalization and other tax avoidance strategies. Based on this description, the researcher intends to conduct a study entitled "The Effect of Profitability, and liquidty on tax avoidance with thin capitalization as a moderating variable (Empirical Study of Consumer Goods Companies Listed on the IDX in 2019-2022)".

LITERATURE REVIEW

Tax Avoidance

Mardiasmo (2019: 13) states that tax avoidance is an effort to reduce the tax burden by not violating the law. Tax avoidance is often associated with tax planning because it uses legal means to reduce its tax obligations. Tax avoidance is generally done through complex transaction schemes that have been systematically designed. Tax avoidance involves utilizing loopholes or ambiguities in the tax law that allow taxpayers to reduce their tax burden. This may involve the selection of certain business structures, investments, or financial transactions that are legal from a taxation point of view. Although the aim is to reduce the tax payable, tax avoidance must also be transparent and honest. According to Jumailah (2020) Tax avoidance is a scheme made by companies that aims to minimize the tax burden without violating tax regulations. The proxy used in measuring tax avoidance in this study uses the Cash Effective Tax Rate (CETR). The lower the CETR value indicates that the company is practicing tax avoidance. The formula used in calculating CETR according to Subagiastra et al. (2019), namely:

$$\mathrm{CETR} = \frac{\mathrm{Tax\ Payment}}{\mathrm{Profit\ before\ Tax}}$$

Profitability

According to Kasmir (2019: 196) the profitability ratio is a ratio to assess the company's ability to seek profit. High profits provide an indication of the company's good prospects, so that it can trigger investors to increase their investment in the company. Profitability can be measured, one of which is the Return on Asset (ROA) ratio. ROA is a ratio that measures return on assets by comparing net income with total assets. The greater the ROA, the greater the level of profit that can be achieved by the company and the more effective and efficient the company's performance from managing the company's assets (Olivia & Dwimulyani, 2019). The formula for calculating ROA decreased by Brigham & Houston (2010):

$$\mathrm{ROA} = \frac{\mathrm{Net\ Profit}}{Total\ Asset}$$

Liquidity

According to Brigham & Houston (2020), liquidity is a liquid asset that can be quickly converted or liquidated into cash at the current market price. A high liquidity value reflects the company's high ability to meet its short-term obligations. According to Gultom (2021), the definition of liquidity is the company's short-term liquidity ability by looking at the size of current assets against current liabilities. Companies with low liquidity will cause companies to delay or avoid paying taxes in order to maintain the company's operational cash flow. In this study, liquidity is measured using the Current Asset (CR) current ratio. The current ratio formula according to Brigham and Houston (2010) is as follows:

$$CR = \frac{Current\ assets}{Current\ Debt}$$

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Thin Capitalization

Thin Capitalization is an operational financing decision that prioritizes debt over capital. Companies can use interest expense as an income tax deduction, while dividends cannot reduce income tax. Such a reduction causes a macro effect in the form of reduced potential state revenue from taxes (Salwah & Herianti, 2019). Thin Capitalization is a condition where the company's capital structure uses more funds from debt than from capital. This variable is measured using the Debt to Equity Ratio (DER), which is the ratio of total debt to total capital. Thin Capitalization measurement (Wati & Utomo, 2020) can be done with the following formula.

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

From the description above, the framework used in this study can be described as follows:

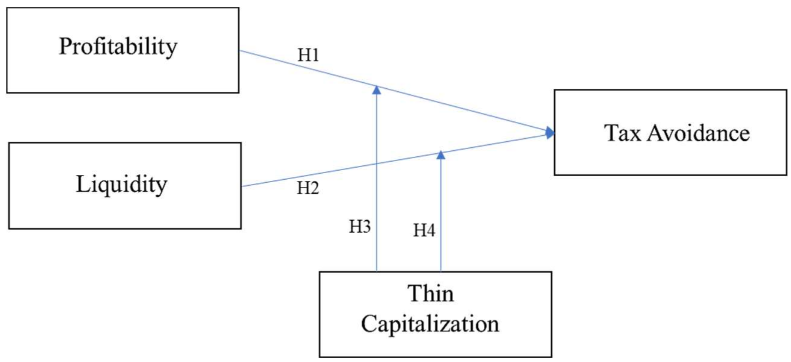

Figure 2 Research Framework

With reference to the framework above, the hypotheses proposed in this study are:

H1: Profitability has a negative effect on tax avoidance
H2: Liquidity has a negative effect on tax avoidance
H3: Thin capitalization can moderate the effect of profitability on tax avoidance
H4: Thin capitalization can moderate the effect of liquidity on tax avoidance

RESEARCH METHODS

This research was conducted with the aim of explaining quantitatively the tendency of population attitudes by examining samples from the population. This study consists of two independent variables, one dependent variable, one moderating variable. In this study, the independent variables are profitability and liquidity, the dependent variable in this study is tax avoidance, the moderating variable is thin capitalization. The population of this study is a Consumer Goods Company listed on the IDX (2019-2022) totaling 41 companies. Data collection is done by purposive sampling. The sample in this study is a consumer goods company that meets the following criteria:

1. Companies that have complete financial statement data during the period 2019-2022 tax year.
2. The company did not experience losses during the period 2019-2022 tax year.

The research data is included in the type of secondary data in the form of financial reports and annual reports during the period 2019-2022. Data is obtained from the website of each company. The data analysis method used in this research is Moderated Regression Analysis (MRA) with the help of the Eviews program. MRA is a special application of linear multiple regression where the regression equation contains the interaction or multiplication of two or more independent variables. However, before the analysis is carried out, a classic assumption test will be carried out, namely the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

RESULTS AND DISCUSSION

The research object in this study is a consumer goods company listed on the IDX in the period 2019 - 2022. The following is a table of research sampling details:

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Table 1 Sampling Criteria

Sample Criteria	Number of Companies
Consumer goods sector companies listed on the IDX from 2019 to 2022	41
Companies that experienced losses during the 2019-2022 tax year period	(12)
Number of research samples	29
Number of research observations 2019-2022	116

Source: Researcher Processed Data (2024)

Normality Test

The data will have a normal distribution if the probability value (p-value) is greater than the 5% significant level. The results of the normality test in this study can be seen in the following figure:

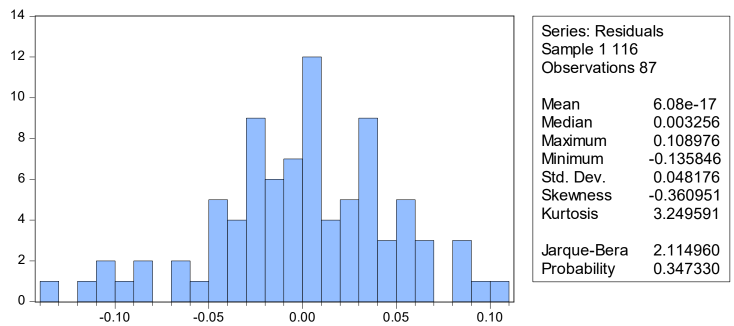

Figure 3 Model 1 Normality Test Results
Source: Results of Data Processing with Eviews 10

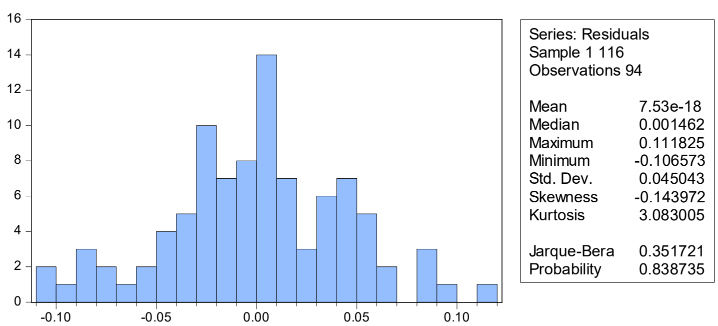

Figure 4 Model 2 Normality Test Results
Source: Results of Data Processing with Eviews 10

Based on the picture above, it shows that the probability value of model 1 and model 2 is 0.347330 and 0.838735 which is greater than the significant level of 0.05, so it can be concluded that the data in this study is normally distributed.

Multicollinearity Test

The results of multicollinearity testing in this study can be seen in the following table.

Table 2 Multicollinearity Test Results

Variables	VIF
Model 1	
PROFT	1.013222
LIQ	1.013222
Size	1.791963
Model 2	
PROFT	2.394478
LIQ	1.520970

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Variables	VIF
TC	5.381072
PROFT_TC	2.599693
LIQ_TC	5.592955

Source: Data Processing Results with Eviews 10

Based on the multicollinearity test results in the table above, it shows that the VIF value of the variables in model 1 and model 2 shows less than 10. Thus it can be concluded that all variables are free from multicollinearity problems because the VIF value <10.

Heteroscedasticity Test

The submission of heteroscedasticity is done with the white test. if the significant number is 0.05. At the 95% confidence level, heteroscedasticity occurs. The results of heteroscedasticity testing in this study can be seen in the following table:

Table 3 Heteroscedasticity Test Results

Model	Prob. Obs*R-squared
Model 1	0.0000
Model 2	0.0165

Source: Data Processing Results with Eviews 10

Based on the heteroscedasticity test, it shows that the Prob. Obs * R-Squared in model 1 and model 2 is 0.0000 and 0.0165 < 0.05. These results provide a conclusion that the variables experience heteroscedasticity problems because the Prob value. Obs*R-Squared value is < 0.05.

Autocorrelation Test

According to Santoso (2015) the basis for decision making with the Durbin Watson test is if the Durbin-Watson number is below -2, it means there is positive autocorrelation. Then if the Durbin-Watson number is between -2 to +2, it means there is no autocorrelation. And if the Durbin-Watson number is above +2, it means there is negative autocorrelation. The results of the autocorrelation test can be presented in the following table:

Table 4 Autocorrelation Test Results

Model	Durbin-Watson stat
Model 1	1.001411
Model 2	1.161042

Source: Data Processing Results with Eviews 10

The results of the autocorrelation test on model 1 and model 2 obtained Durbin-Watson values of 1.001411 and 1.161042 which are between -2 and + 2. So it is concluded that the data in the model in the research variables does not experience autocorrelation.

Regression Analysis

In this study, regression testing was carried out using Moderated Regression Analysis (MRA). The test results can be seen in the table below.

Table 5 Regression Test Results Model 1

Variable	Coefficient	t-Statistic	Prob. One tailed
C	0.262024	18.74571	0.0000
PROFT	-0.026883	-0.419248	0.3381
LIQ	-0.006331	-3.427222	0.0005

Source: Data Processing Results with Eviews 10

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Table 6 Regression Test Results Model 2

Variable	Coefficient	t-Statistic	Prob. One tailed
C	0.259932	17.70556	0.0000
PROFT	0.073659	0.814685	0.2088
LIQ	-0.009243	-4.403487	0.0000
TC	-0.016679	-4.186875	0.0001
PROFT_TC	-0.025934	-0.740126	0.2306
LIQ_TC	0.006955	1.961456	0.0265

Source: Data Processing Results with Eviews 10

Based on the test output above, the regression equation can be made as follows:

TA = 0.262024 - 0.026883 PROFT - 0.006331 LIQ + Ɛ

TA = 0.259932 + 0.073659 PROFT - 0.009243 LIQ - 0.016679 TC - 0.025934 PROFIT_TC + 0.006955 LIQ_TC + Ɛ

Hypothesis Test

Determination Analysis (R2)

Determination analysis is used to determine the percentage contribution of the influence of the independent variables together on the dependent variable. The results of testing the coefficient of determination in this study can be seen in the following table.

Table 7 Determination Analysis Results

Model	Variable Relationship	Adjusted R-Squared
Model 1	Profitability, liquidity on tax avoidance	0.101796
Model 2	Profitability, liquidity on tax avoidance moderated by thin capitalization	0.286200

Source: Data Processing Results with Eviews 10

Based on the results of testing the coefficient of determination in model 1, the Adjusted R-Square value is 0.101796 or 10.17%. This means that the Profitability and liquidity variables together have an influence on tax avoidance of 10.17%. While the remaining 89.83% is influenced by other variables outside the research model that are not used in this study. Then in model 2, the Adjusted R-Square value is 0.286200 or 28.62%. This means that the Profitability and liquidity variables together have an influence on tax avoidance with moderated thin capitalization variables of 28.62%. While the remaining 71.48% is influenced by other variables outside the research model that are not used in this study.

Test t

Hypothesis testing in research using partial hypothesis testing (t test). The t statistical test basically shows how far the influence of one explanatory / independent variable individually in explaining the variation in the dependent variable (Ghozali, 2018: 143). The criteria used to see the effect of these variables by looking at the sig value (p-value) in the Coefficient table. If the sig. value is smaller than the alpha value (5%), it can be said that there is an influence between the independent variable and the dependent variable partially.

H1: Profitability and tax avoidance

It is known that the coefficient beta value with a negative relationship direction is -0.026883 with a prob value of 0.6761> 0.05. Thus, the first hypothesis is rejected. This means that profitability has no effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022.

H2: Liquidity and tax avoidance

It is known that the coefficient beta value with a negative relationship direction is -0.006331 with a prob value of 0.0009 <0.05. Thus, the second hypothesis is accepted. This means that liqudity has a negative effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022.

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H3: Thin capitalization moderates profitability and tax avoidance

It is known that the coefficient beta value with a negative relationship direction is -0.025934 with a prob value of 0.2306> 0.05. Thus, the third hypothesis is rejected. This means that thin capitalization cannot moderate the effect of profitability on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022.

H4: Thin capitalization moderates liquidity and tax avoidance

It is known that the coefficient beta value with a positive relationship direction is 0.006955 with a prob value of 0.0265 <0.05. Thus, the fourth hypothesis is accepted. This means that thin capitalization can moderate the effect of liquidity on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022.

Discussion

The results of testing the first hypothesis show that profitability has no effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. These results indicate that the higher the level of company profitability, does not necessarily affect the level of tax avoidance carried out. In this context, the company assumes that tax avoidance is a risky activity, so managers will not take risks in minimizing their investment risk. Conversely, a company that has a high ROA indicates that the company is able to cover or fulfill its tax burden and is able to comply with applicable tax provisions (Mulyati et al, 2019). The results of this study are in line with research conducted by Mulyati et al. (2019); Cahyono et al. (2016) which found that profitability has no effect on tax avoidance.

The results of testing the second hypothesis show that liqudity has a negative effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. These results indicate that the higher the liquidity, the lower the level of tax avoidance by the company. In this context, a high liquidity ratio indicates that the company has strong cash flow. In addition, the company also has no obstacles to carry out its tax obligations. This result is in line with research conducted by Norisa et al. (2022) which found that liqudity has a negative effect on tax avoidance. The same result is shown by Tampubolon (2021) that liquidity has an influence on tax avoidance.

The results of testing the third hypothesis show that thin capitalization cannot moderate the effect of profitability on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. These results indicate that the existence of thin capitalization cannot weaken or strengthen the relationship between profitability and tax avoidance. This is because companies in this sector tend to have a stable capital structure, where the use of debt is not a key factor in tax avoidance strategies. The results of this study support Olivia & Dwimulyani (2019) finding that thin capitalization has no effect on tax avoidance. The same results shown by Rahmah & Sovita (2023) found that capitalization has no effect on tax avoidance.

The results of testing the fourth hypothesis show that thin capitalization can moderate the effect of liquidity on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. These results indicate that the existence of thin capitalization or strengthens the relationship between liquidity and tax avoidance. In this context, thin capitalization allows companies to use their liquidity in an effort to reduce the tax burden. The results of this study support the research of Waluyo & Doktoralina (2018) found that multi-national companies and the use of tax havens have a positive influence on tax avoidance through thin capitalization. The same results were shown by Jumailah (2020) that thin capitalization was found to have a positive influence on tax avoidance.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the test results above, it can be concluded that profitability has no effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Liqudity has a negative effect on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Thin capitalization cannot moderate the effect of profitability on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Thin capitalization can moderate the effect of liquidity on tax avoidance in Consumer Goods Companies Listed on the IDX in 2019-2022. Based on the results of testing the coefficient of determination in model 1, the Adjusted R-Square value is 0.101796 or 10.17%. This means that the variables Profitability and liquidity together have an influence on tax avoidance of 10.17%. While the remaining 89.83% is influenced by other variables outside the research model that

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are not used in this study. Then in model 2, the Adjusted R-Square value is 0.286200 or 28.62%. This means that the Profitability and liquidity variables together have an influence on tax avoidance with moderated thin capitalization variables of 28.62%. While the remaining 71.48% is influenced by other variables outside the research model that are not used in this study.

Suggestions

Based on the conclusions of this study, companies in the consumer goods sector need to pay attention to liquidity in their tax management strategy, considering the results show that liquidity has a negative effect on tax avoidance. Companies are advised to maintain a balance of liquidity to optimize tax efficiency without violating applicable regulations. In addition, companies need to understand that thin capitalization can moderate the effect of liquidity on tax avoidance, so that funding strategies must be planned properly to minimize potential tax risks. This study shows that profitability has no significant effect on tax avoidance, so future researchers are advised to explore other variables that may be more relevant in the context of tax avoidance, such as leverage, company size, or earnings management. In addition, the research can be expanded by including macroeconomic variables or tax policies that may affect tax avoidance in other sectors or at different time periods.

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