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The Impact of Profitability and Liquidity on Tax Avoidance (Study of Properties & Real Estate Companies Listed on the IDX 2019-2022)

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ABSTRACT

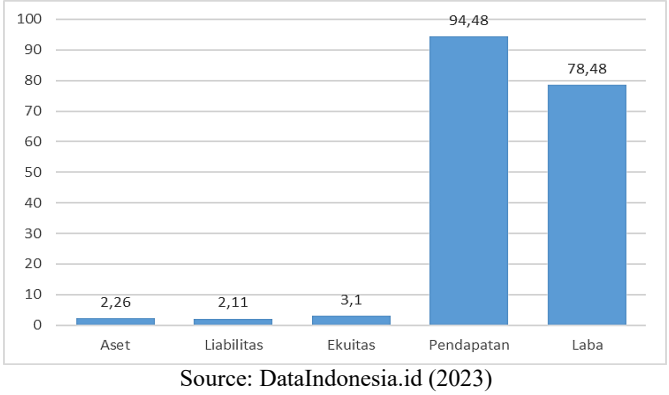
Examining the impact of profitability and liquidity on tax evasion is the aim of this study, which focuses on 20 real estate and property companies listed between 2019 and 2022 on the Indonesia Stock Exchange (IDX). Purposive sampling was used to obtain the data, and SPSS software was used to help with the analysis, which involved multiple regression procedures. The results show that among property and real estate companies listed on the IDX between 2019 and 2022, tax evasion is highly influenced by profitability. Liquidity has also been proven to affect tax avoidance in the same industry and time frame.

INTRODUCTION

Since taxes are the main source of funding for the state, boosting state income depends heavily on taxpayer compliance (Kurniawan & Daito, 2021). Government activities like infrastructure development, education, and other initiatives to enhance public welfare are funded in part by tax income. Since taxes are one way that the Indonesian economy supports the government, the country's tax revenue realization in 2022 rose in tandem with its expanding economy.

With all main sectors experiencing positive growth supported by the economic recovery, rising commodity prices, and a combination of policies including fuel compensation, the HPP Law, and the phase-out of fiscal incentives, sectoral revenues accounted for the majority of Indonesia's tax revenue growth. The industries with the largest contributions were manufacturing and processing (28.7%), financial services and insurance (10.6%), transportation and commerce (10.4%), mining (22.8%), information and communication (14.6%), commerce (23.8%), and the construction and real estate sector (6.19%).

The following is the average growth in performance of property and real estate issuers.



Source: DataIndonesia.id (2023)

Figure 1. Average Growth Performance of the Property and Real Estate Sector

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Figure 1 shows that the total assets of property and real estate issuers increased by an average of 2.6%. This increase occurred in line with an average increase in equity of 3.10% and an average increase in liabilities of 2.11%. Furthermore, revenue surged 94.48% on average across all property and real estate issuers. This also drove a 78.48% year-on-year (yoy) jump in net profit throughout 2022. Although the average figure was positive, some property and real estate issuers still recorded a decline in revenue and net losses during 2022.

Inflation and possible interest rate increases are just two of the many issues facing the property and real estate industry. As is known, both factors significantly impact purchasing power and can impact demand in the property and real estate sector. Furthermore, the expiration of the Government-Borne Value Added Tax (PPN DTP) incentive in September 2022 could weigh on the performance of property issuers. This incentive, however, is believed to have successfully boosted property demand in the country.

Awaliah's investigation from 2022 revealed that a number of real estate firms, including PT Bumi Serpong Damai Tbk and PT Metropolitan Land Tbk, were very active in evading taxes. Therefore, based on the ETR value, it can be said that the property and real estate sector engages in the most tax avoidance. This is supported by the minimum ETR statistical data, which indicates that for five years in a row, the property and real estate sector has had the lowest ETR value, meaning that the tax burden paid is the lowest. This can be used as a benchmark for the sector that engaged in the most tax avoidance activities over the course of the five-year study period.

The increasing contribution of the property and real estate sector to the growth of state income is unaffected by the rise in average profits from this sector, according to the study findings. Even while the growth in the industry's contribution to state revenue growth is unaffected by the increase in average profits, some issuers or businesses in the property and real estate sector may be engaging in tax evasion.

Widyasari (2019) found that a number of factors, such as liquidity and profitability, influence businesses' tax evasion. The study by Eguavoen et al. (2022) provides evidence of the relationship between tax avoidance and profitability. The study indicated that tax avoidance was significantly positively impacted by profitability. Similar findings were shown by Faradilla and Bhilawa (2022), who discovered that tax evasion was significantly positively impacted by profitability. But according to studies by Sari (2021), tax evasion is not significantly impacted by profitability. A study by Anyaduba and Ogbiede (2022) showed how liquidity affects tax evasion. Stephen et al. (2022) demonstrated similar findings, indicating a strong positive correlation between liquidity and tax evasion. Olaniyi and Okerekoti's (2022) study, however, demonstrated that liquidity has a negligible detrimental impact on tax evasion. Fatimah et al. (2021) in their research proved that liquidity has no effect on tax avoidance.

This study examines the financial reports of property and real estate companies listed on the Indonesia Stock Exchange (IDX) as the research subjects. The author chose these companies because they have bright prospects for the future. Given Indonesia's significant population growth, the increasing need for housing presents a positive prospect for property and real estate companies listed on the IDX. This, in turn, can increase revenue and profits for the property and real estate sector. However, despite consistently increasing revenues and profits, this has not significantly impacted state revenues from the property and real estate sector. This is because companies in the property and real estate sector are the sector most likely to engage in tax avoidance.

LITERATURE REVIEW

Agency Theory

The relationship between principal and agent is explained by agency theory. There are two types of agency problems: those between shareholders and bondholders, and those between the company's owners (principals) and management (agents). Only when the financial decision-maker (agent) takes judgments with the goal of assisting the company owners does the normative objective of financial decision-making—which emphasizes that decisions are made to increase the wealth of company owners—apply (Manik & Darmansyah, 2022). One way to look at agency theory is as the firm acting as the agent and the government acting as the principal. The two have different interests: businesses frequently take steps to maximize profits by cutting costs, including tax burdens, while the government mandates that businesses satisfy their tax commitments.

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Profitability

Because businesses with higher earnings can pay more taxes, Yauris' (2019) research indicates that profitability is a driver of tax burden. Companies that make less money, on the other hand, pay less in taxes or even taxes if they lose money. Losses have the potential to lower the amount of tax due the following year under a tax compensation system. This ratio illustrates a company's ability to generate profits, the profit ratio is generally taken from the income statement (Murhadi & Werner R, 2013). Return on assets (ROA) is calculated by comparing net profit available to general shareholders to total assets (Eugene F. Bringham, 2010). Measurement of the profitability ratio uses the Return on Assets (ROA) formula, which measures a company's ability to generate net profit from total assets owned by the company, with the following formula (Safitri & Muid, 2020):

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

Liquidity

Liquidity is a company's ability to meet all financial obligations that can be immediately liquidated or that are due (Anggraeni & Oktaviani, 2021). This ratio shows the relationship between cash and other current assets with other current liabilities. Furthermore, Rismala et al. (2022) stated that the liquidity ratio is a ratio that indicates a company's ability to pay maturing short-term debt with its current assets. A company's liquidity level, or its capacity to satisfy short-term obligations with its current assets, can be gauged using the current ratio. While a high current ratio denotes excess current assets, which negatively affects business performance, a low current ratio suggests danger. Current assets generally generate lower returns than fixed assets. This study applies the Current Ratio (CR) as a liquidity ratio measurement according to Erayanti (2019), with the following formula:

$$Current\ Ratio\ (CR) = \frac{Current\ Assets}{Current\ Liabilities}$$

Tax Avoidance

Tax Avoidance is a method of reducing taxes by transferring resources that should belong to the state to shareholders, who can benefit from the company's after-tax value (Manik & Darmansyah, 2022). Avoidance refers to the legal reduction of the tax burden (within the scope of the law without deviating from regulations), which can raise doubts about the validity of tax avoidance prevention measures (Gunadi, 2020). The following formula is used to determine tax avoidance (Faradilla & Bhilawa, 2022):

$$ETR = \frac{Income\ Tax\ Burden}{Profit\ before\ tax}$$

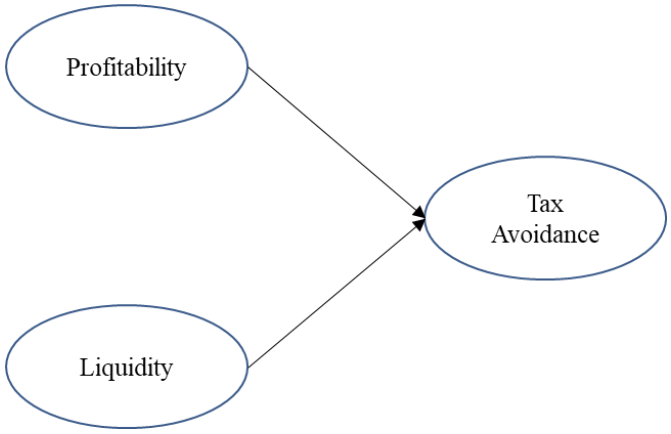

Figure 2 Research Framework

Referring to the framework of thought above, the hypothesis proposed in this study is:
H1 : Profitability affects tax avoidance.

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H2 : Liquidity influences tax avoidance.

RESEARCH METHODS

The purpose of this study was to analyze a sample of the population in order to quantitatively explain its attitudinal tendencies. There were two independent factors and one dependent variable in this study. Tax evasion was the dependent variable in this study, whereas profitability and liquidity were the independent variables. The population was made up of real estate and property firms that were listed between 2019 and 2022 on the Indonesia Stock Exchange (IDX). Data collection was conducted using purposive sampling. The sample met the following criteria:

1. Properties & Real Estate Companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2022.
2. Properties & Real Estate Companies that do not consistently present annual financial reports for the period 2019-2022 (IPO above 2019)
3. Properties & Real Estate Companies consistently present annual financial reports for the period December 31, 2019-2022
4. Properties & Real Estate Companies that experienced losses before tax during the period 2019-2022

The research data is secondary data, consisting of financial reports and annual reports for the period 2019-2022. The data analysis method used in this study was multiple regression with the help of SPSS. However, prior to this, classical assumption tests were conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation.

RESULTS AND DISCUSSION

Normality Test

Data normality testing in this study was conducted using the Kolmogorov and Smirnov tests. The results of the normality test can be seen in Table 1 below.

Table 1. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,40203445
Most Extreme Differences	Absolute	,246
	Positive	,246
	Negative	-,203
Test Statistic		,246
Asymp. Sig. (2-tailed)		,200[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Results of Data Processing with SPSS

Based on the results of the normality test for model 1 in Table 1, the Asymp. Sig. (2-tailed) value is 0.200 > 0.05. Thus, it is concluded that the data in the regression model in this study is normally distributed and meets the normality assumption.

Multicollinearity Test

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

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Table 2. Multicollinearity Test Results

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	ROA	,995	1,005
	CR	,995	1,005
a. Dependent Variable: ETR			

Source: Results of Data Processing with SPSS

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

Heteroscedasticity Test

Heteroscedasticity was tested using the White test. If the significance level is 0.05, heteroscedasticity is present at a 95% confidence level. The results of the heteroscedasticity test in this study can be seen in the following table:

Table 3. Heteroscedasticity Test Results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	,380	,083		4,583	,000
	ROA	-1,587	1,040	-,194	-1,526	,133
	CR	-,034	,022	-,201	-1,579	,120
a. Dependent Variable: ABS_RES						

Source: Results of Data Processing with SPSS

Based on the heteroscedasticity test, the sig value is > 0.05. This result concludes that the variable does not experience heteroscedasticity because the sig value is > 0.05.

Autocorrelation Test

According to Santoso (2015), the basis for decision-making using the Durbin-Watson test is that if the Durbin-Watson number is below -2, it indicates positive autocorrelation. If the Durbin-Watson number is between -2 and +2, it indicates no autocorrelation. If the Durbin-Watson number is above +2, it indicates negative autocorrelation. The results of the autocorrelation test are presented in the following table:

Table 4. Autocorrelation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,376[a]	,141	,111	,40903	1,187
a. Predictors: (Constant), CR, ROA					
b. Dependent Variable: ETR					

Source: Results of Data Processing with SPSS

The Durbin-Watson value of 1.187, which falls between -2 and + 2, was calculated from the autocorrelation test results in the preceding table. Thus, it can be said that there is no autocorrelation in the data in the model for the research variables.

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Multiple Regression Test

This study applies the multiple regression analysis method. Sugiyono (2017) states that multiple regression is an extension of simple linear regression, which are two tools that can be used to determine the influence of one or more independent variables on the dependent variable.

Table 5. Multiple Regression Test Results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	,441	,104		4,258	,000
	ROA	3,291	1,301	-,311	2,530	,014
	CR	-,042	,027	-,190	-2,543	,018
a. Dependent Variable: ETR						

Source: Results of Data Processing with SPSS

Based on the results of the regression output that has been carried out in the research, a regression equation model can be created as follows:

$$ETR = 0{,}441 + 3{,}291\ ROA - 0{,}042\ CR + \varepsilon$$

Hypothesis Testing

t-test

The t-test is used in partial hypothesis testing. In essence, the t-test statistic illustrates the relative contribution of each independent or explanatory variable to the explanation of the variance in the dependent variable (Ghozali, 2018:143). The table that follows displays the t-test findings.

Table 6. Results of the t-Test

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	,441	,104		4,258	,000
	ROA	3,291	1,301	-,311	2,530	,014
	CR	-,042	,027	-,190	-2,543	,018
a. Dependent Variable: ETR						

Source: Results of Data Processing with SPSS

The results of the table above show that the profitability and liquidity variables have a sig value < 0.05, it can be concluded that they have an influence on tax avoidance.

Coefficient of Determination Test

The results of the coefficient of determination test in this study are as below:

Table 7 Results of the Determination Coefficient (R^2) Test

Adjusted R-squared
0.841 (84,1%)

Source: Results of Data Processing with SPSS

With an Adjusted R-squared value of 0.841, it is known that the profitability and liquidity factors account for 84.1% of the tax avoidance variable, with additional variables not included in the study accounting for the remaining 15.9%.

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Discussion

The results of the first hypothesis test indicate a positive beta coefficient of 3.291 with a sig value of 0.014 < 0.05. Thus, the first hypothesis is accepted. This means that profitability influences tax avoidance in Property & Real Estate Companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2022. Based on these findings, tax evasion is not influenced by profitability. Given that property companies only have an industry average ROA value of 4.2% annually, their capacity to create profits is often subpar, which could lead to this scenario. These findings are in line with those of Stephen et al.'s (2022) study, which demonstrated that tax evasion is unaffected by profitability. According to research by Safitri & Muid (2020), tax avoidance is negatively impacted by profitability, which supports these findings.

A probability value of 0.018 < 0.05 and a negative beta coefficient of -0.042 are shown by the results of the second hypothesis test. Thus, the second theory is approved. Accordingly, throughout the 2019–2022 timeframe, tax evasion in properties and real estate companies listed on the Indonesia Stock Exchange (IDX) is influenced by liquidity. These findings clarify that more liquidity leads to higher ETR, which in turn reduces tax avoidance. Liquidity is a factor that can influence tax avoidance because it reflects a company's ability to meet its short-term obligations. High liquidity reflects a company's ability to meet its short-term obligations, while low liquidity indicates the company is struggling to meet its short-term obligations. This liquidity difficulty can potentially lead to tax avoidance efforts because companies want to reduce tax expenses as a way to save money and maintain cash flow (Cahyani, 2010). These results align with research by Novianto & Yusuf (2021), which shows that liquidity negatively influences tax avoidance.

CONCLUSION AND SUGGESTIONS

Conclusion

The aforementioned test results indicate that, for the 2019–2022 timeframe, tax evasion in properties and real estate companies listed on the Indonesia Stock Exchange (IDX) is influenced by profitability. For the 2019–2022 timeframe, liquidity affects tax evasion in properties and real estate firms listed on the Indonesia Stock Exchange (IDX).

Suggestion

Based on the research results, it is recommended that companies improve their understanding of the tax regulations applicable in the countries in which they operate. By better understanding tax regulations, companies can identify legitimate tax avoidance opportunities and minimize the risk of non-compliance. It is important to work with experienced tax experts to obtain appropriate advice regarding tax avoidance.

In order to determine the main elements impacting tax avoidance, it is hoped that future researchers would be able to broaden the observations. The results of this study cannot be applied to other industries because it only looked at real estate and property businesses that were listed on the Indonesia Stock Exchange (IDX) between 2019 and 2022.

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