THE EFFECT OF LEVERAGE AND LIQUIDITY ON TAX AVOIDANCE WITH INVENTORY INTENSITY AS MODERATING VARIABLE

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Abstract

With inventory intensity serving as a moderating variable, this study intends to investigate the impact of leverage and liquidity on tax avoidance in manufacturing companies in the basic and chemical industries sector that are listed on the Indonesia Stock Exchange (IDX) between 2019 and 2022. In this study, the purposive sampling approach was employed. This study makes use of secondary data that was gathered from firm financial statements over the given time period using documentation procedures. This research employs a quantitative approach with SPSS version 27 processing for moderated regression analysis. The findings indicate that tax avoidance is influenced concurrently by leverage, liquidity, and inventory intensity. Partially, leverage does not affect the tax avoidance, liquidity has positive effect on tax avoidance, inventory intensity has negative effect on tax avoidance and inventory intensity does not moderate the influence of leverage and liquidity on tax avoidance in basic and chemical industries companies listed on the IDX during the period studied.

Abstrak

Dengan inventory intensity sebagai variabel moderasi, penelitian ini bermaksud untuk menginvestigasi dampak leverage dan likuiditas terhadap penghindaran pajak pada perusahaan manufaktur sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2019 hingga 2022. Dalam penelitian ini, pendekatan purposive sampling digunakan. Penelitian ini menggunakan data sekunder yang dikumpulkan dari laporan keuangan perusahaan selama periode waktu tertentu dengan menggunakan prosedur dokumentasi. Penelitian ini menggunakan pendekatan kuantitatif dengan pengolahan SPSS versi 27 untuk analisis regresi moderasi. Hasil penelitian menunjukkan bahwa tax avoidance secara simultan dipengaruhi oleh leverage, liquidity, dan inventory intensity. Secara parsial, leverage tidak berpengaruh terhadap penghindaran pajak, likuiditas berpengaruh positif terhadap penghindaran pajak, intensitas persediaan berpengaruh negatif terhadap penghindaran pajak dan intensitas persediaan tidak memoderasi pengaruh leverage dan likuiditas terhadap penghindaran pajak pada perusahaan industri dasar dan kimia yang terdaftar di BEI selama periode yang diteliti.

Keywords: *leverage, liquidity, inventory intensity, tax avoidance, tax, basic and chemical sector companies.*

BAB I

INTRODUCTION

1.1 Research Background

Taxes are levies imposed by the government on certain income, wealth, or transactions within a country. Taxes have a major role in revenue collection for the government to finance various public programs and services such as infrastructure, education, health, and security. Taxes are the main source of state revenue in Indonesia. According to data from the Ministry of Finance of the Republic of Indonesia, most government revenue comes from taxes. Taxes can be used as a tool to regulate economic activity in Indonesia. Tax policy can be used to encourage investment, regulate income distribution, and control inflation.

The tax sector has a very large role for the state, therefore the government seeks to increase and optimize revenue from the tax sector, but for companies, taxes are a burden that will reduce net income so that companies always want to pay as little tax as possible (Astuti & Aryani, 2017). Because of these differences in interests, efforts to optimize tax revenue experience obstacles, one of which is the existence of tax avoidance activities (Swingly & Sukartha, 2015), although in tax law, tax avoidance is not prohibited even though it often gets a bad spotlight from the tax office because it is considered to have a negative connotation (Sari & Indrawan, 2022).

Many cases can exemplify the occurrence of tax avoidance practices in Indonesia. For example, PT RNI, an affiliated health services company in Singapore, in 2016 was identified as practicing tax avoidance in many variations of ways, namely recognizing affiliated debts as capital, reporting substantial losses in the company's financial statements, and reporting the company's turnover to remain below 4.8 billion rupiah per year with the aim of utilizing Government Regulation 46/2013 on Income Tax specifically for MSMEs, in order to obtain a final income tax rate facility of 1%. Another example, in 2019, the coal company, PT Adaro Energy Tbk, conducted tax avoidance with a transfer pricing scheme through its subsidiary in Singapore, Coaltrade services International Pte Ltd. PT Adaro Energy Tbk allegedly carried out transfer pricing practices to avoid domestic tax obligations so as to provide higher income for the company's shareholders. Indications of transfer pricing abuse committed by the company were identified in the financial statements containing non arm's length price transactions conducted between PT Adaro Energy Tbk and Coaltrade services International Pte Ltd, which showed transfer price discrepancies when compared to global coal market prices.

According to the Tax Justice Network report, Indonesia is expected to face losses of US$ 4.86 billion per year or equivalent to IDR 68.7 trillion (IDR 14,149 per US dollar) due to tax evasion. In the title entitled The State of Tax Justice 2020: Tax Justice in the time of COVID-19, Tax Justice News reported that in a total of IDR 68.7 trillion, the loss was caused by corporate taxpayers who committed tax evasion in Indonesia. The amount of losses caused reached US$ 4.78 billion or equivalent to IDR 67.6 trillion. Meanwhile, the rest comes from individual taxpayers with an amount of US$ 78.83 million or equivalent to IDR 1.1 trillion.

Tax avoidance by companies is usually influenced by financial ratios (Pasaribu & Mulyani, 2019). Leverage is a ratio that shows the amount of debt a company has to finance its operating activities (Darmawan and Sukartha, 2014). In connection with leverage, the results of research conducted by (Siregar, 2016), (Suyanto & Supramono, 2012) say that leverage has a significant positive effect on tax avoidance, while according to the results of research (Pasaribu & Mulyani, 2019) say that leverage has no effect on tax avoidance.

Another factor that affects companies doing tax avoidance is the liquidity ratio. Liquidity is a ratio used to measure the company's ability to meet its short-term obligations (Van & Wachowicz, 2012), short-term obligations will be able to be fulfilled if the company's liquidity ratio is in a high state (Suyanto & Supramono, 2012). From the results of research Pasaribu & Mulyani, (2019) Liquidity has a negative effect on tax avoidance, while according to research Febrilyantri, (2022) Liquidity has no effect on tax avoidance.

Companies with high leverage, high capital intensity, and low inventory intensity tend to do tax avoidance in larger amounts. It can be concluded that inventory intensity can affect the effect of leverage on tax avoidance. High inventory intensity can prevent companies from doing tax avoidance. This is because companies with high inventory intensity have higher inventory holding costs. High inventory holding costs can make it difficult for companies to carry out tax avoidance which requires costs.

Companies with high liquidity can send signals to investors that the company has good performance. This is because companies with high liquidity usually have strong cash flow. Strong cash flow indicates that the company has the ability to pay its obligations. However, the effect of liquidity on tax avoidance can be reduced by inventory intensity. Companies with high inventory intensity tend to do tax avoidance in smaller amounts compared to companies with low inventory intensity. This is because high inventory intensity can reduce the leverage ratio. A low leverage ratio can reduce tax avoidance.

A level of inventory or Inventory Intensity Ratio can also reduce the amount of tax paid by the company. This is due to the emergence of expenses for the company as a result of the existence of inventory (Herjanto, 2007). According to research conducted by Pasaribu & Mulyani, (2019) shows that liquidity and inventory intensity have a negative effect on tax avoidance and inventory intensity strengthens the effect of liquidity on tax avoidance, but inventory intensity does not moderate the effect of leverage on tax avoidance.

The industrial sector is one of the most important sectors in the Indonesian economy. The industrial sector is the largest contributor to Indonesia's Gross Domestic Product (GDP), which is around 50%. The manufacturing sector is the most dominant industrial sector in Indonesia. The manufacturing industry recorded a growth of 5.01% throughout 2022, higher than the previous year's 3.67%. With the realization of this growth, the role of the manufacturing industry in boosting national economic performance is quite large. In this case, it will certainly affect the ratio or financial condition of manufacturing companies, with this growth, the company will increasingly emphasize tax avoidance due to the growth of the company's financial ratios that go up so that it will increase profits or sales followed by an increase in tax burden that must be paid. This study takes a time span from 2019 to 2022 which focuses on manufacturing companies in the basic and chemical industry subsectors.

Based on the explanation above regarding tax avoidance with various results and conclusions, as well as the results of previous studies that are still inconsistent, it attracts the author's attention to raise the topic of tax avoidance, therefore research with the title **"THE EFFECT OF LEVERAGE AND LIQUIDITY ON TAX AVOIDANCE WITH INVENTORY INTENSITY AS MODERATING VARIABLE"** needs to be done.

1.2 Research Problem

1. How does leverage affect tax avoidance?
2. How does liquidity affect tax avoidance?
3. How does inventory intensity affect tax avoidance?
4. How does the effect of interaction of inventory intensity with leverage on tax avoidance?
5. How does the effect of interaction of inventory intensity with liquidity on tax avoidance?

1.3 Research Objective and Benefits

1.3.1 Research Objective

1. To determine and analyze the effect of leverage on tax avoidance
2. To determine and analyze the effect of liquidity on tax avoidance
3. To determine and analyze the effect of inventory intensity on tax avoidance
4. To determine and analyze the effect of inventory intensity on the relationship between leverage and tax avoidance

5. To determine and analyze the effect of inventory intensity on the relationship between liquidity and tax avoidance

1.3.2 Research Benefits

The benefits of this reasearch are as follows:

1. Practically

   (a) Directorate General of Taxes

   This research is expected to assist the Directorate General of Taxes in understanding the motives and strategies used by taxpayers in avoiding taxes, thus enabling the Directorate General of Taxes to design more effective strategies in preventing and detecting tax evasion.

   (b) Wajib Pajak

   The results of the study are expected to increase taxpayer awareness of the importance of tax compliance and help taxpayers understand legal and ethical tax strategies to minimize taxpayer tax burdens.

2. Theoretically

   (a) Scientific Development

   This research is expected to help academics and researchers to understand the phenomenon of tax avoidance more deeply and contribute to the development of science in the fields of economics, accounting, law, and other social sciences.

(b) Education Development

The results of this study are expected to be used to improve taxation education materials at various levels of education, ranging from elementary school to college.

CHAPTER V

CONCLUSION AND SUGGESTIONS

5.1 Conclusion

The research conducted aims to determine leverage, liquidity, inventory intensity on tax avoidance. The independent variable is leverage measured by Debt to equity ratio, liquidity measured by current ratio, inventory intensity variable measured by comparing between total inventory and total assets, and the dependent variable is tax avoidance measured by cash effective tax rate. Based on the test results conducted, it can be concluded as follows:

1. Based on the results of the Simultaneous Test (F) with a significant value of 0.001 <0.05, leverage, liquidity and inventory intensity simultaneously affect tax avoidance in manufacturing companies in the basic industry sector listed on the Indonesia Stock Exchange 2019-2022.
2. Based on the t test (partial), the leverage variable has no significant effect on tax avoidance in manufacturing companies in the basic industry sector listed on the Indonesia Stock Exchange 2019-2022.
3. Based on the t test (partial), the liquidity variable does not have a significant effect on tax avoidance in manufacturing companies in the basic industry sector listed on the Indonesia Stock Exchange 2019-2022.
4. Based on the t test (partial), the inventory intensity variable has a significant effect on tax avoidance in basic industry sector

manufacturing companies listed on the Indonesia Stock Exchange 2019-2022.

5. Based on the t test (partial), the inventory intensity variable does not have a significant effect or cannot moderate the leverage variable on tax avoidance in manufacturing companies in the basic industry sector listed on the Indonesia Stock Exchange 2019-2022.
6. Based on the t test (partial), the inventory intensity variable has a significant effect or can strengthen the liquidity variable on tax avoidance in basic industry sector manufacturing companies listed on the Indonesia Stock Exchange 2019-2022.

5.2 Research Limitations

Based on the results of research and discussion in this study there are still limitations, namely:

1. This research is limited to four years (2019-2022), which means that the results of this study may be different if it is conducted in a different period.
2. Population and Samples in this study are only limited to manufacturing companies in the basic and chemical industry sectors listed on the IDX so that it cannot be applied to all companies on the IDX.
3. The independent variables used in this study are limited to two variables including leverage and liquidity.

5.3 Suggestion

Based on the results of the research and discussion in this study, there are still limitations, so there are suggestions given as follows:

1. For further researchers, they can add a research period by paying attention to the sample criteria to determine the number of samples so that it can describe the level of tax avoidance in a longer period of time.
2. For further researchers, it is better to analyze various company sectors other than manufacturing in the basic and chemical industry sub-sectors, so as to produce more varied research results.
3. For future researchers, they can add independent variables in research such as capital intensity and company profitability.

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