Journal of Industrial Engineering & Management Research
Vol. 5 No. 4
http://www.jiemar.org
e-ISSN : 2722-8878

The Effect Of Company Size, Financial Distress, And Accounting Conservatism On Tax Avoidance

(Empirical Study on Property & Real Estate Sector Companies On The Indonesia Stock Exchange 2018-2022)

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Abstract - This study was conducted to analyze the effect of company size, financial distress and accounting conservatism on tax avoidance. The research was conducted on property and real estate companies listed on the Indonesia Stock Exchange in 2018-2022. The technique used is panel data regression. The sample selection was carried out using purposive sampling method from secondary data in the form of financial statements and found as many as 13 sample companies with 5 years of observation, so that the total sample in this study was 65 company year data. Hypothesis testing is done using the Eviews 12 application. Based on the results of Eviews 12 testing, it is found that simultaneously company size, financial distress and accounting conservatism have a significant effect on tax avoidance. While partially, only accounting conservatism has a significant effect on tax avoidance. while company size and financial distress variables have no significant effect on tax avoidance.

Keywords : ***Company Size, Financial Distress, Accounting Conservatism, Tax Avoidance***.

I. Introduction

In Law Number 16 of 2009 concerning General Provisions and Tax Procedures in Article 1 paragraph 1, Tax is a mandatory contribution to the state that must be allowed by individuals or legal entities. This tax is mandatory in accordance with laws and regulations, without providing direct compensation to the payer, and is used for the benefit of the state for the welfare of the community. The success of a country's development depends on the amount of income obtained, with the tax sector being the main contributor to state revenue. As one of the main sources of state revenue, taxes have an important role in supporting various government activities and improving public welfare. Therefore, the government is trying hard to ensure that the community carries out their tax payment obligations. With the taxes received, the government can allocate funds for state development in various sectors, especially in education and the economy, to ensure the smooth running of national economic activities (Marlinda et al., 2020).

Tax avoidance is a legal method to reduce the tax burden without violating applicable tax regulations, namely by exploiting loopholes in tax regulations. These loopholes provide opportunities for taxpayers to save on tax payments, avoid certain tax obligations, or escape administrative tax sanctions. Tax avoidance is an effort made by individuals or companies to reduce the amount of their tax obligations in a legal manner (Jusman & Nosita, 2020).

Journal of Industrial Engineering & Management Research
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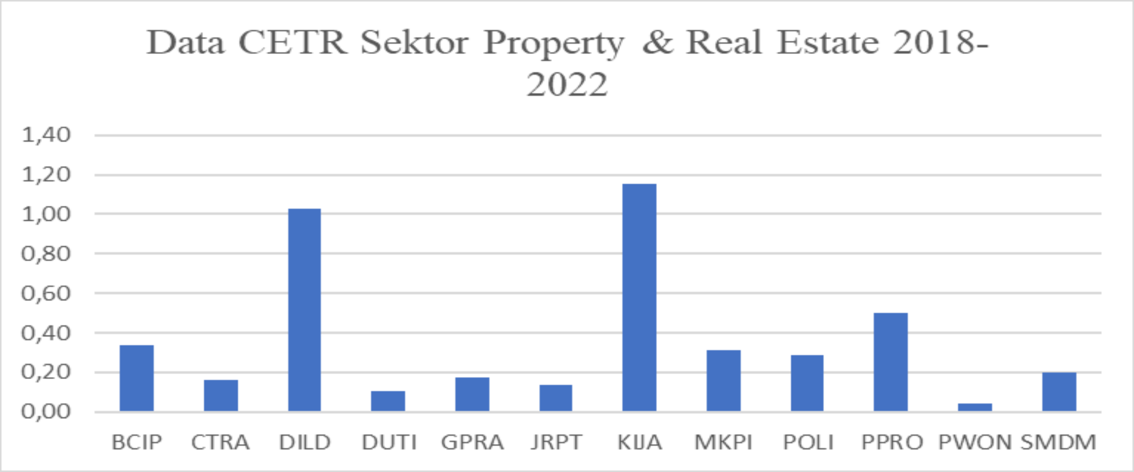


Picture 1.1
CETR Data *Property* & *Real Estate* Sector

Based on the image above, there is one company that carries out tax avoidance with the highest ratio of 1.16%, namely PT Kawasan Industri Jababeka Tbk with the code KIJA is a property company headquartered in Jakarta and Bekasi Regency. The company with the KIJA code is engaged in property & real state. The main business of the company with the KIJA code is developing industrial-based real estate, supported and enhanced by infrastructure and city management services. In contrast, PT. Metropolitan Kentjana Tbk with the code PWON carries out tax avoidance with the lowest ratio of 0.04%. PT Pakuwon Jati Tbk is a company engaged in property & real estate headquartered in Surabaya. This company is the parent company of the Pakuwon Group.

II. LITERATUR REVIEW

The Agency Theory

Agency theory is a theory that explains the contractual relationship between an owner (principal) who employs another person (agent) to provide a service and delegates decision-making authority to the agent. Shareholders who are principals provide business decision-making to managers who are representatives (agents) of the shareholders. Shareholders provide resources for management to run the company, in return management is required to provide a service to shareholders in accordance with the interests of the shareholders. Management is also given authority by shareholders in making decisions to manage the company (Jensen M & Meckling (1976) on Marlinda *et al.*, (2020)).

The relationship between agency theory and tax avoidance is that something bad happens when the management system in the company does not work. This can result in a conflict or agency problem that can lead to losses for the parties involved in the company. A company's management in terms of tax avoidance is an important thing in order to be able to act to manipulate the company's profits so that the tax burden that must be paid by the company will be reduced, but this can affect the assessment elements of investors in assessing the company will be reduced (Wulandari & Pratiwi, 2023).

Tax Avoidance

Tax avoidance is a tax avoidance scheme for the purpose of minimizing the tax burden by exploiting loopholes in a country's tax provisions that do not violate the law (Panjalusman et al., 2018). Some efforts made in an effort to reduce taxes are to take advantage of permitted exemptions and deductions or to postpone taxes that are not regulated in applicable tax regulations. For the state, tax avoidance can cause losses because it can reduce or even eliminate state revenues from taxes that should be collected by the state due to the transfer of profits (Roslita and Safitri, 2022).

$$CETR = \frac{Payment\ of\ taxes}{Profit\ before\ tax}$$

Tax Avoidance is a tax avoidance scheme for the purpose of minimizing the tax burden by exploiting loopholes in the country's tax provisions. In this study, it was measured using the Cash Effective Tax Rate (CETR). Measurements using Cash ETR can answer the problems and limitations of measuring tax avoidance based on the GAAP ETR model. The smaller the Cash ETR value indicates that the greater the tax avoidance carried out, and vice versa (Aulia & Mahpudin, 2020)

Company Size

Company size is a scale used as a means of classifying companies into large or small companies that can be measured using the total net sales that can be generated by the company, the total assets owned by the company, and the average level of sales of the company's stock market value (Suwito & Herawaty, 2005 in Hidayat & Maulidiyah, 2022). According to Syuhada et al., (2020) company size is a scale or value that can classify a company into a large or small category according to various methods such as the company's total assets, stock market value, average sales level and number of sales. This can be a loophole for companies to avoid taxes. Company size also determines the level of investor trust in the company. The larger the size of a company, the more it becomes the center of attention of the government and will create a tendency for company managers to be compliant or aggressive (tax avoidance) in taxation.

$$Size = Ln\ (Total\ Assets)$$

Ln = Logaritma natural
Total assets = the sum of current assets and non-current assets

The larger a company, the greater the total assets it has. In an effort to minimize the tax burden, companies carry out tax planning to reduce taxable income (Aulia & Mahpudin, 2020).

Financial Distress

Financial Distress is a financial or liquidity difficulty that may be the beginning of bankruptcy. One important aspect of analyzing a company's financial statements is to predict the continuity or survival of the company. Predicting continuity is very important for management and company owners to anticipate the possibility of bankruptcy. By looking at the condition of the company, whether it is in financial distress or not, the risk of bankruptcy can be avoided. In addition, by analyzing the level of financial health, it will also be possible to assess the company's ability to meet its short-term obligations, capital structure, etc. and predict how much risk of bankruptcy it might experience (Nuryeni & Hidayati 2021).

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 1E$$

Description:
A = Current assets-current liabilities / total assets
B = Retained earnings / Total assets
C = Profit before tax / Total assets
D = Number of shares x Price per share / total debt
E = Sales / Total assets

The condition when a company's operating cash flow is insufficient to meet current liabilities (such as trade credit or interest expenses) is called financial distress (Cita & Supadmi, 2019).

Accounting Conservatism

Accounting conservatism is also defined as a precautionary principle where profits will not be recognized before credible evidence is obtained, while losses must be recognized immediately without having to obtain credible evidence. Conservatism can be measured using accruals. If the accrual value is positive, then the

Journal of Industrial Engineering & Management Research
Vol. 5 No. 4
http://www.jiemar.org
e-ISSN : 2722-8878

profit is classified as conservative, because the profit is less than the cash flow obtained by the company in a certain period (Pratiwi *et al*., 2021).

$$KA = \text{net profit} - AKO - Depresiasi\ Total\ Asset$$

KA : Accounting Conservatism
AKO : Operational Cash Flow

Conservatism as early recognition for costs and losses and delayed recognition for revenues and gains Sari *et al*., (2022) .

III. RESEARCH METHODS

The type of research used in this study is quantitative descriptive. Quantitative descriptive research can be interpreted as a research method based on the philosophy of positivism, used to research a particular population or sample, data collection using research instruments, data analysis is quantitative/statistical, with the aim of testing the established hypothesis (Sugiyono, 2017).

The research location is at Property and Real Estate companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022 through the official website www.idx.co.id and the official website of each company that is the research sample.

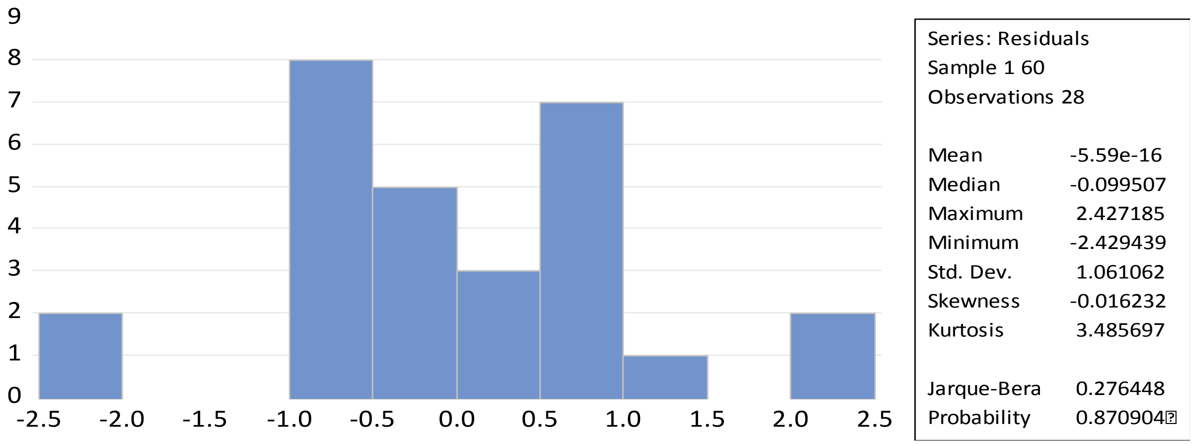
Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics that are applied by researchers to be studied and then conclusions are drawn (Sugiyono, 2017:80). The population used is the sub-sector of service companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) in the 2018-2022 period with a population of 87 companies.

The data used in this study is secondary data, in the financial reports of Property and Real Estate sub-sector companies listed on the IDX for the period 2018 - 2022. Secondary data is a collection of previously existing information and is used as a complement to research data needs. Secondary data is generally in the form of evidence, records or historical reports that have been compiled in archives (published document data). The data collection method in this study is the documentation method. By collecting data and information in the form of financial reports on Property and Real Estate sub-sector companies listed on the Indonesia Stock Exchange in 2018 – 2022.

The data analysis technique in this study uses statistical calculations (Sugiyono, 2017:147). The data analysis technique used uses statistical calculations with the E-Views 12 and Microsoft Word 2021 computer programs. The data analysis method in this study uses panel data regression analysis.

IV. RESEARCH RESULTS

Normality Test Results



Source: Data processed by Eviews 12

From the previous figure 4.1, it is proven that the profitability value of 0.870904 > 0.05, so it can be concluded that the residual has a normal distribution value.

Results of Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
UP	0.000510	105.3600	1.700313
FD	4.34E-11	1.845100	1.692943
KA	4.01E-26	1.037459	1.007083

Source: Data processed by Eviews 12

Based on the previous table 4.11, it proves that the correlation value of each variable centered VIF value <10 and >0.01, which means that no multicollinearity problems were found in this research data (Ghozali, 2018).

Results of Heteroscedasticity Test

Heteroskedasticity Test: Glejser

F-statistic	1.732215	Prob. F(3,24)	0.1871
Obs*R-squared	4.983656	Prob. Chi-Square(3)	0.1730
Scaled explained SS	4.507784	Prob. Chi-Square(3)	0.2116

Source: Data processed by Eviews 12

Based on the heteroscedasticity test value in table 4.12 above, it proves that the Obs*R-squared value is 0.1730. Where the value of 0.1730 > 0.05 indicates that there is no heteroscedasticity.

Results of Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.027413	Prob. F(2,54)	0.1416
Obs*R-squared	4.190686	Prob. Chi-Square(2)	0.1230

Source: Data processed by Eviews 12

Based on the autocorrelation test value in table 4.13 above, it proves that the Chi-Square Prob. value is 0.1230. Where the value of 0.1230 > 0.05 indicates that there is no autocorrelation problem.

Results of Determination Coefficient Test (Adjusted R^2)

R-squared	0.241109
Adjusted R-squared	0.200455

Source: Data processed by Eviews 12

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Vol. 5 No. 4
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e-ISSN : 2722-8878

The value of the Adjusted R^2 determination coefficient is 0.200455. This value means that all independent variables, namely company size, financial distress, and accounting conservatism, simultaneously affect the tax avoidance variable by 20%, the remaining 80% is influenced by other variables not explained in this study.

Simultaneous Test Results (F)

F-statistic	5.930645
Prob(F-statistic)	0.001380

Source: Data processed by Eviews 12

Based on the results of table, it shows that the F-statistic is 5.930645 while the probability is 0.001380 which is lower than alpha <0.05. This means that the variables of Company Size, Financial Distress and Accounting Conservatism simultaneously affect the tax avoidance variable. Based on this study, the first hypothesis H1 is declared accepted.

Partial Test Results (T)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.220392	0.686804	-0.320895	0.7495
UP	0.019754	0.023916	0.825957	0.4123
FD	-5.04E-07	8.97E-06	-0.056157	0.9554
KA	-8.22E-13	2.00E-13	-4.112241	0.0001

Source: Data processed by Eviews 12

prove the results of the t-test if the company size (X1) gets a prob value of 0.4123> 0.05, it means that H2 is rejected, which means that it is statistically proven not to affect tax avoidance. The financial distress prob value (X2) of 0.9554> 0.05 means that H3 is rejected, which means that it does not affect tax avoidance statistically. The company size prob value of 0.0001 <0.05 proves that H4 is accepted, which means that it statistically affects tax avoidance.

CONCLUSION

The purpose of this study is to evaluate the effect of Company Size, Financial Distress and Accounting Conservatism on Tax Avoidance in property and real estate companies listed on the Indonesia Stock Exchange (IDX) using a sample of 13 companies in a 5-year period from 2018 to 2022 and obtained a sample size of 65 samples. From the results of the study, the following conclusions can be obtained:

1. Company Size, Financial Distress and Accounting Conservatism have a simultaneous effect on Tax Avoidance.
2. Company Size does not have a partial effect on Tax Avoidance.
3. Financial Distress does not have a partial effect on Tax Avoidance.
4. Accounting Conservatism has a partial effect on Tax Avoidance.

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