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# Effects of Incentives, Profitability, Leverage and Company Size on Tax Avoidance in Plantation Sub-Sector Companies Registered on the Indonesia Stock Exchange

Indra Tanjung[1], Isfenti Sadalia[2], Amlys Syahputra Silalahi[3]
[1]*(Universitas Sumatera Utara, Indonesia)*
[2]*(Universitas Sumatera Utara, Indonesia)*
[3]*(Universitas Sumatera Utara, Indonesia)*
*Corresponding Author: Indra Tanjung*

**Abstract:** *Tax avoidance is a strategy to do tax avoidance legally by not violating the provisions of taxation regulations. This study aims to examine the effect of incentives, profitability, leverage, and firm size on tax avoidance. The population of this study is all plantation sub-sector companies listed on the Indonesian stock exchange during the period 2013-2017. Sampling in this study was carried out by census method, in which the entire target population was sampled. The data analysis technique uses the classic assumption test, namely the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Hypothesis testing uses panel data regression analysis. The results of the study concluded that incentives have a significant effect on tax avoidance, profitability has a significant effect on tax avoidance, leverage has no significant effect on tax avoidance, firm size has a significant effect on tax avoidance.*

**Keywords:** *Incentives, Profitability, Leverage, Company Size, Tax Avoidance*

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## I. Introduction

Indonesia as a country that has great potential in the field of plantations has become one of the largest plantation producing countries in the world. Many private companies engaged in plantations in Indonesia. The plantation industry is the strength and support of the national economy. Revenues from this plantation sub-sector have exceeded the oil and gas sector. Plantation provides a very important role for the economic fundamentals of the Indonesian people. So that whatever happens to this industry, it will certainly have an impact on the national economy.

Because of the large business cycle of the plantation sub-sector, the policies taken by each company will also have an impact on the national economy. For example, each company will try to maximize the profits it produces. Various business efficiency is carried out so that the value of the company continues to increase. This is in accordance with the philosophy that the purpose of establishing a company is basically to be able to generate the maximum profit from the business process carried out. The resulting profit is the final result of the difference between income and all costs charged. The greater the profit generated, the more the company is considered productive, and this is one indicator of management performance assessment in the presence of shareholders.

The profit desired by each company is of course profit after tax. Because the net profit of a company is basically profit after being deducted by tax costs. So that in this case, the tax burden is one of the important points that must be a concern by management so as not to erode the profits that have been generated. However, on the other hand, tax savings certainly have the potential to reduce state revenues, and will affect the realization of the Revenue and Expenditure Budget State. Disturbed tax receipts, can cause the planned development process to stagnate. This of course has implications for existing tax policies. From the state side, tax collection is a form of sovereignty of a country (Kurniawan, 2015). This situation shows the importance of the role of taxes from the plantation sub-sector.

To anticipate that the tax burden be kept to a minimum, but still in the correct tax regulation, companies generally carry out tax management. Pohan (2013) in his book states that tax management is an effort to implement management functions so that the effectiveness and efficiency of tax rights and obligations can be achieved. So tax management is an integral part of the company's strategic planning that should have begun before a business starts. One of the real forms of tax management is tax avoidance. Tax avoidance is an effort to streamline the tax burden by avoiding taxation by directing it to transactions that are not taxable.

Implementation ofitax avoidance in various companies (including plantation sub-sector companies) has been so intense. Because the owner of the company considers that the cost of taxes is a cost that must be a special concern of the company. It is not uncommon for companies to experience large losses due to negligence in managing their taxes. In addition, the condition that forces companies to conduct tax avoidance is the increasing number of tax rules that tend to create new objects to be taxed.

The Directorate General of Taxes today constantly reforms tax regulations to increase state revenues from the tax sector. Various new regulations were passed to be implemented to boost tax revenues. Various types of transactions that were not previously taxable objects, then based on the latest rules are designated as tax objects. For example, we can see this in the Regulation of the Minister of Finance No. 244 / PMK.03 / 2008 concerning Other Types of Services As Referred to in Article 23 paragraph (1) Letter C Number 2 of Act No. 7 of 1983 concerning Income Tax as amended several times, the latest by Law No. 36 of 2008, that internet services, port services and land transportation / expedition services are not objects of Income Tax 23. However in the latest rules that replace PMK No. 244 / PMK.03 / 2008, namely PMK No. 141 / PMK.03 / 2015 stated that internet services, port services and land transportation / expedition services are objects of Income Tax 23.

With the conditions as illustrated above, it certainly becomes a necessity for companies to constantly improve the knowledge of their employees in terms of taxation. This is intended so that the company's profits are not eroded due to taxation sanctions resulting from errors both administratively and technically in the implementation of the taxation. Today, many companies are trying to reduce operating costs but fail to reduce their tax costs. Of course this is an obstacle to optimizing corporate profits as desired by management. This is where the importance of tax avoidance is needed to be able to reduce tax costs legally (without violating the applicable rules).

As a large-scale company that has a clear goal in optimizing its profits, the plantation sub-sector companies listed on the Indonesia Stock Exchange have provided incentives to their employees. The greater the tax savings can be made, the greater the incentives provided by the company. Of course this is intended to be able to provide more motivation for the parties concerned so that the resulting profits are not eroded by the tax costs that should not have happened.

Investors who will invest their funds in companies that have been listed on the Indonesia Stock Exchange, always use this ratio as an assessment of the company's financial performance. Achievement of sales targets in a period is not the only measure of good performance in the company. It can be said that the only purpose of a company's assets is to generate income and of course also generate profits or profits for the company itself. This ROA ratio can help management and investors to see how well a company is able to convert its investment to assets into profits or profits. The higher the net profit generated by the company (pre-tax profit), the more management will be required to carry out tax avoidance in order to reduce the tax costs that must be paid.

The complexity of the tax avoidance design in a company can also be influenced by the firm size. Firm size is basically grouping companies into several groups, including large, medium and small companies. Company scale is a measure used to reflect the size of the company based on the company's total assets or net sales (Suwito and Herawaty, 2005). So the size of the company is a scale that can classify the size of the company, and this can be done in several ways, namely through the assessment of total assets and net sales. The greater the total assets indicate the greater the size of the company. The larger the size of the company, the more transactions will be carried out. So it allows companies to take advantage of existing gaps to carry out tax avoidance actions from each transaction.

**Benefits of Research**

The problems that will be described in this study are real problems that often occur in the field. Therefore, some of the benefits of this study can be described, as follows:

**1. Theoretical benefits**

Theoretically, this study will describe how much influence incentives, profitability, leverage, and firm size have on tax avoidance for a company.

**2. Academic Benefits**

This research was conducted in order to be a link for subsequent research related to the core material of tax avoidance.

**3. Practical Benefits**

This research presents useful information for investors to be able to make decisions appropriately in the investment process, because tax avoidance will greatly affect the issuer's financial performance. So that it can be said that this study will also be useful for practitioners such as Taxpayers, trainers, Tax Consultants, students and other general circles who want to know more about the ins and outs of tax avoidance.

# II. Theoretical Review

## 2.1 Tax Avoidance

Today tax savings are legally a basic requirement for every company that wants to realize good corporate governance. Because the complexity of a company's business transactions is very likely to cause negligence in applying the correct tax obligations. This certainly has implications for the tax costs that must be borne by the company which in turn causes the resulting profit is not optimal. Efforts to minimize taxes that do not violate the law are generally called tax avoidance. Tax avoidance is an effort to streamline the tax burden by avoiding taxation by directing it on transactions that are not tax objects (Pohan, 2013).

The tax management functions consist of:

**1. Tax Avoidance**

The main purpose of tax avoidance is to find various gaps that can be taken to divert transactions that are tax objects into transactions that are not tax objects, so that companies can pay taxes in a minimal amount.

**2. Tax Administration / Tax Compliance.**

Tax administration / tax compliance includes businesses to fulfill tax administration obligations by way of calculating taxes correctly, according to taxation provisions, compliance in paying and reporting on time according to the payment deadline and predetermined tax reporting.

**3. Tax Audit**

The audit tax includes strategies in handling tax audits, responding to the results of tax audits and strategies in submitting objection letters or appeal letters.

**4. Other Tax Matters**

Problems that include other functions related to taxation, such as communicating the provisions of the system and tax procedures to parties or other parts of the company, such as the issuance of Tax Invoice, income tax deduction and so on.

## 2.2 Incentive

Tax avoidance strategies always try to save tax legally. Managers will tend to act if the tax management benefits them too. So that agency problems will arise because of the asymmetrical information held by management as agents and shareholders as owners / principals. To overcome the differences in interests, the principal can issue a number of costs for management (agency cost). These costs can be in the form of incentives given to managers. An effective incentive system will attract qualified workers or employees, make them satisfied at work, and encourage them to be productive.

## 2.3 Profitability

In various literature, profitability is often described by the ratio of return on assets. According to Subramanyam and Wild (2010), return on assets is a profitability ratio that shows the percentage of profits (net income) obtained by the company in relation to the overall resource or average number of assets. Return on assets (ROA) is an indicator that reflects financial performance company, the higher the ROA value, the better the performance of the company. ROA is related to company net income and imposition of income tax for Corporate Taxpayers. Analysis of ROA measures the ability of a company to generate profits by using the total assets owned by the company after adjusting for the costs to fund the asset.

## 2.4 Leverage

The use of corporate financing sources, both those which are short-term sources of financing and long-term sources of financing, will cause an effect that is usually referred to as leverage. According to Fahmi (2012) leverage ratio is measuring how much the company is financed with debt. This ratio can see the extent to which the company is financed by external debt with the company's ability described by capital. The leverage ratio describes the sources of operating funds used by companies. The leverage ratio also shows the risks faced by the company. The addition of the amount of debt will result in the emergence of interest that must be paid by the company. This component of interest expense will reduce profits before being taxed, so that the tax burden that must be paid by the company will be reduced. Leverage is calculated by total debt divided by total equity.

## 2.5 Company Size

Company size as a scale or value, can be used to classify a company into large or small categories. Company scale is a measure used to reflect the size of the company based on the company's total assets or net sales (Suwito and Herawaty, 2005). The greater the total assets indicate the greater the size of the company. The larger the size of the company, the more transactions will be carried out.

**2.6 Research Hypothesis**

According to Sugiyono (2016), the hypothesis is a temporary answer to the research problem formulation, where the research problem formulation has been expressed in the form of question sentences. It is said temporarily because the answers given are based on relevant theory, not based on empirical facts obtained through collection data. Based on literature review, problem formulation and conceptual framework, the research hypothesis is as follows:

1. Negative influential incentives aftertax avoidance.
2. Profitability has a negative effect on tax avoidance.
3. Leverage has a negative effect on tax avoidance.
4. Company size has a negative effect on tax avoidance.
5. Incentives, profitability, leverage, and company size have a negative effect on tax avoidances simultaneously.

## III. Materials and Method

**3.1 Types of Research**

This research is carried out through a scientific approach using theoretical structures to construct one or more hypotheses that require quantitative testing. This study examines the effect of incentives, profitability, leverage, and firm size on tax avoidance. This type of research is causal research with a quantitative approach. Cause and effect research is a study conducted to investigate causal relationships by observing the consequences that occur and the possible factors (causes) that cause these effects. In this study there are independent variables (causes), namely variables that influence and the dependent variable (effect) is the variable that is affected.

**3.2 Location Research**

This research was conducted on plantation sub-sector companies listed on the Indonesia Stock Exchange (IDX).

**3.3 Analysis of Panel Data Regression**

Panel data regression model According to Gujarati (2004), in the regression model estimation method using panel data can be done through three approaches, including common effect model, fixed effect model, random effect model.

## IV. Results and Discussion

**4.1 Descriptive Statistics Analysis**

Based on the descriptive statistical data above shows that the amount of research data (observation) is as much as 70 observational data. Tax avoidance as the dependent variable is known to have a minimum value of -1.691565 and a maximum value of 16.04254. This shows that the value of the cash effective tax rate (CETR) as a proxy of tax avoidance in the sample of this study ranged from -1.691565 to 16.04254 with an average of 0.401786 and a standard deviation of 1.930140.

From the descriptive statistical analysis of the incentive variable, it can be seen that the minimum value is 0.030845 and the maximum value is 0.228593 with the mean (mean) 0.084873 and standard deviation of 0.050367. Analysis of descriptive statistics on profitability is shown by proxy on assets (ROA), where it can be seen that the minimum value of ROA is -0.4449263 and the maximum value is 0.244710. This shows that the value of ROA in this study sample ranged from -0.4449263 to 0.244710 with an average (mean) of 0.043630 and a standard deviation of 0.092195.

The descriptive statistical analysis of leverage is shown by the proxies to equity ratio (DER), where the minimum DER value is -30,63853 and the maximum value is 11,27390. This shows that the magnitude of the DER value in this study sample ranged from -30,63853 to 11,27390 with a mean (mean) of 1.051244 and a standard deviation of 4.176856. While the descriptive statistical analysis of company size can be seen that the minimum value company size of -2.133,611 and maximum value of 54,663,656. This shows that the value of the size of the company in the sample of this study ranged from -2.133.611 to 54,663,656 with an average (mean) of 3,288,370 and a standard deviation of 10,122,760.

**4.2 Results and Discussion**

**a. Effect of Incentives on Tax Avoidance**

From the results of hypothesis testing as described above, it is known that incentives have a significant effect on tax avoidance in plantation sub-sector companies listed on the Indonesia Stock Exchange. These results support Chee's research ethically who concluded that the incentives given to employees affect tax avoidance. This research can also illustrate that the compensation system that has been applied by companies of plantation sub-sectors listed on the Indonesia Stock Exchange is very motivating managers in making corporate tax decisions.

If the shareholder wants the manager to work in his duty as a good agent, then this compensation system needs to be maintained and even improved. Stock-based compensation will motivate managers to avoid tax avoidance (Puspita and Harto, 2014).

**b. Effect of Profitability on Tax Avoidance**

Based on the results of the hypothesis test above, it is known that return on assets has a significant effect on tax avoidance in plantation sub-sector companies listed on the Indonesia Stock Exchange. The results of this test support the research of Kurniasih and Sari (2013) which concluded that profitability has a significant effect on tax avoidance. The reason is because if the company's ability to generate profits increases, the company's operating profit will also increase and the value of the tax will also increase, therefore the tendency of companies to carry out tax avoidance will also increase.

If profits increase while tax avoidance decreases, this is because the company does not carry out efficiency measures in paying taxes. Tax avoidance is an effort to make tax payments efficient. So that if the company produces profits that tend to increase, then management will increase efforts to efficiency tax costs through tax avoidance. The results of this study conflict with the results of research (Rego and Wilson, 2012) which states that return on assets does not affect tax avoidance. Tax avoidance is risky activity, so managers will not take risks in minimizing the risk of their investment.

**c. Effect of Leverage on Tax Avoidance**

Testing the hypothesis above concludes that levers do not affect tax avoidance in plantation sub-sector companies listed on the Indonesia Stock Exchange. The results of this study support Sara's (2016) research which concludes that leverage does not affect tax avoidance. This can occur in the event that the debt received by the company is then used optimally to generate profits. So that in the end, the increase in loan interest expense can be covered by an increase in operating profit. Even the percentage increase in operating profit is higher than the percentage increase in interest expense on loans, and ultimately causes the amount of tax to be paid to increase.

The results of this study are also in contrast to Mulyani (2013) which states that the lever has a significant effect on tax avoidance where manufacturing companies utilize debt to minimize the tax burden of the company and even tend to be aggressive towards taxes by utilizing applicable tax regulations.

**d. Effect of Company Size on Tax Avoidance**

Based on the results of the hypothesis test above, it is known that the size of the company affects tax avoidance in plantation sub-sector companies listed on the Indonesia Stock Exchange. The results of this study support the research of Putri and Putra (2017) which concluded that firm size has a significant effect on tax avoidance. This can be interpreted that if the total assets of the company increases, the complexity of the business will also increase. The increase in the number of company assets can have implications for increasing corporate profits, where all assets owned will be empowered to produce optimal profits. So that the increase in profits will encourage management to save tax costs by doing tax avoidance.

The results of this study contradict the research (Indriani, 2005) in (Rachmawati and Triatmoko, 2007) which states that firm size does not affect tax avoidance. Companies are more stable and more able to produce profits and pay their obligations than companies with small total assets, so that the greater total assets show that the company has good prospects in a relatively long period of time, so it does not need to do tax avoidance.

## V. Conclusion and Suggestion

**Conclusion**

This study aims to see the effect of incentives, profitability, leverage and firm size on tax avoidance. The results of this study provide the following conclusions:

1. Incentives have a significant effect on companies' tax avoidance in the plantation sub-sector listed on the Indonesia Stock Exchange, so that H0 is denied the truth, Ha is accepted.
2. Profitability has a significant effect on the tax avoidance of the plantation sub-sector companies that are listed on the Indonesia Stock Exchange, so that H0 is denied the truth, Ha is accepted.
3. Leveraging does not affect tax avoidance of companies in the plantation sub-sector listed on the Indonesia Stock Exchange, so that H0 is accepted as truth, Ha is rejected.
4. The size of the company influences the tax avoidance of the plantation sub-sector companies listed on the Indonesia Stock Exchange, so that H0 is denied the truth, Ha is accepted.

**Suggestion**

In order for the limitations of this study to be refined in the future by future researchers, the researchers' suggestions include:

1. For the next researcher in the future to be able to replace the leveraged variable with another variable as one of the independent variables. It is intended that the selected predictor variables can be representations to explain the dependent variable in more detail.
2. This research is only limited to plantation sub-sector companies listed on the Indonesia Stock Exchange, it should also be done on all companies listed on the Indonesia Stock Exchange.

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