THE INFLUENCE OF SALES GROWTH, COMPANY SIZE AND FIXED ASSET INTENSITY ON TAX AVOIDANCE

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Abstract: In Indonesia, inconsistencies frequently arise between the planned tax revenue and budgeting and the actual realization, with tax avoidance being a notable contributing factor. Tax avoidance refers to a company's lawful attempts to decrease tax payments by exploiting legal loopholes. While it is within legal bounds, widespread utilization of this practice by numerous companies can adversely impact government tax revenues, leading to substantial losses for the country. The objective of this research is to examine and assess the impact of sales growth, company size, and fixed asset intensity on tax avoidance. The research employs a causal approach, utilizing secondary data. Documentation method was employed for data collection, sourced from the Indonesian Stock Exchange (www.idx.co.id). The study population consists of Property and Real Estate companies listed on the IDX from 2017 to 2022, totaling 97 companies. Purposive sampling was employed, resulting in a sample size of 66. Descriptive statistical analysis, panel data regression model estimation, classical assumption tests, and goodness of fit model tests were employed for data analysis using the Eviews 12 program. The findings reveal no significant influence of sales growth on tax avoidance, while company size and fixed asset intensity exhibit a noteworthy impact. Simultaneously, all tested independent variables exhibit a positive effect on tax avoidance. The coefficient of determination for the research model is 38.55%. Suggestions for future research include incorporating additional independent variables and, if feasible, intervening and moderating variables related to tax avoidance.

Keywords: Sales Growth, Company Size, Asset Intensity, Tax Avoidance

INTRODUCTION

The mismatch between tax revenue planning and budgeting and actual tax revenue in Indonesia is a problem often faced by many countries, not just Indonesia. The following is a graph of tax revenue realization and targets for the last 5 years from 2017-2021 (in trillion rupiah).

As per the data presented in Table 1, it is evident that the actual state revenue from the tax sector fell short of the target for four consecutive years, spanning from 2017 to 2020, only attaining the target in 2021. The inability to meet the tax revenue target in Indonesia is influenced by various factors, with tax avoidance being a significant contributor. This aligns with the statement from the Secretary-General of the Indonesian Forum for Budget Transparency (FITRA), who reported an annual tax avoidance figure of IDR 110 trillion.

Tabel 1 Target and Realization of Tax Revenue in Indonesia 2017-2021

Year	Realization	Target	Presentase
2017	1.151	1.283	89,71%
2018	1.315	1.424	92,35%
2019	1.332	1.577	84,46%
2020	1.285	1.404	91,52%
2021	1.547	1.444	107,13%

Source: Processed data, 2023

Tax avoidance involves legal efforts by companies to minimize their tax obligations to the government, adhering to applicable tax regulations. Nevertheless, if this strategy is widely adopted by numerous companies or individuals, it can lead to a decline in government tax revenues, resulting in financial losses for the country. To mitigate tax avoidance rates, the government monitors transactions involving special relationships, both domestically and internationally. These special relationships may include transactions between subsidiaries and parent companies or dealings with related parties abroad. Through vigilant oversight of such transactions, the government aims to prevent and reduce instances of tax avoidance, ensuring that companies adhere to tax regulations and fulfill their tax obligations as per the established rules (Devi et al., 2022).

Instances of tax avoidance within property and real estate firms, exemplified by companies like PT. Ciputra Development Tbk (CTRA), have drawn significant attention in Indonesia. The Panama Papers report uncovered a range of practices, including asset concealment and financial transactions, executed by companies globally, including those in Indonesia. In the case of CTRA, reports indicated the company's involvement in tax avoidance activities by concealing assets totaling U$S 1.48 million. The Panama Papers phenomenon underscores the substantial potential for tax avoidance, including within Indonesia, shedding light on the intricate nature of tax issues within the property sector.

Property and real estate companies may employ various legal yet intricate tax strategies, such as intricate corporate structures, the utilization of overseas affiliated entities, or meticulous tax planning approaches, to lawfully diminish their tax obligations. This practice often becomes a focal point for governmental attention, leading to adjustments in tax regulations, heightened financial transparency, and more stringent oversight.

It's crucial to recognize that lawful tax avoidance practices typically arise from meticulous tax planning and compliance with applicable regulations. However, if such practices involve legal infractions, like the illicit concealment of assets, they can lead to severe legal repercussions. Governments typically respond to such cases by intensifying efforts to address tax inconsistencies and violations. Several factors may drive companies to engage in tax avoidance, and one such factor is sales growth. Sales growth, indicative of past investment success, is viewed as an estimate of future growth (Wahyuni et al., 2023). It can be gauged by monitoring changes in a company's total revenue. Elevated income levels signify increasing profits, and substantial sales growth is perceived as an indicator of commendable performance (Prasetyo et al., 2023).

Frequently, robust sales growth is succeeded by increased profits, leading to a rise in the company's tax liability. In response to this heightened tax burden, companies may incline towards tax avoidance strategies to curtail their tax payments. This aligns with the findings of various studies, such as Uliandari et al. (2021), which assert that sales growth influences a company's inclination toward tax avoidance. Nevertheless, research outcomes can vary, with studies like those conducted by Wahyuni et al. (2023) and Ependi (2020) contending that sales growth does not exert a significant impact on tax avoidance practices.

Company size serves as a metric that classifies a company as either large or small based on its asset holdings. A company's magnitude is directly proportional to its operational scope, allowing larger enterprises to exploit inherent vulnerabilities for tax avoidance purposes. According to the research by Pertiwi and Desy (2023) and Ependi (2020), company size exhibits a positive correlation with tax avoidance, indicating that larger companies, possessing substantial assets, engage in more tax avoidance activities. This is attributed to the tendency of companies with significant total assets to seek profit maximization and, consequently, strive to minimize their tax obligations. However, Sembiring & Sa'adah (2021) argue that company size has no impact on tax avoidance.

The extent of a company's investment in fixed assets also influences its tax avoidance practices, particularly in terms of the tax advantages associated with depreciation charges. Depreciation entails recording the decline in the value of fixed assets over time. Companies with substantial fixed assets can include depreciation costs as deductions from their income in tax calculations. By claiming depreciation expenses, a company can decrease its taxable income, thereby reducing the amount of tax payable. The greater the investment in fixed assets, the higher the depreciation charges a company can leverage, providing a strategic means to lessen its tax burden. Research by Mustikasari et al. (2023), Pertiwi and Desy (2023), and Ependi (2020) underscores that asset intensity significantly influences tax avoidance, diverging from the findings of Permatasari et al. (2022) and Shafarani et al. (2022), which suggest a negative impact of asset intensity on tax avoidance. Conversely, the research results of Yulyanti et al. (2022) contend that asset intensity has no effect on tax avoidance.

Sales growth is a metric that gauges fluctuations in a company's sales over consecutive years. A heightened level of sales growth typically signifies an upswing in the company's profits. This profit surge can lead to an increase in the applicable tax rate for the company. Faced with escalating tax obligations resulting from burgeoning profits, companies may resort to employing strategies for tax avoidance. Tax avoidance constitutes a legal endeavor to diminish the amount of tax payable by the company. Companies experiencing robust sales growth often exhibit a proclivity for engaging in tax avoidance practices. This implies that elevated sales growth might prompt companies to adopt legal measures to alleviate their tax burdens. This assertion aligns with the findings of Uliandari et al. (2021), which posit that sales growth influences tax avoidance. Based on this premise, the following hypothesis can be postulated:
Hypothesis 1: Sales growth influence the practice of tax avoidance

Company size is commonly assessed based on the total assets it possesses, serving as a criterion for classifying companies as large, medium, or small. In the realm of taxation, the size of a company plays a pivotal role in influencing the company's inclination toward or against engaging in tax avoidance strategies. According to Ependi's research (2020), large companies often exhibit a low Effective Tax Rate (ETR), indicating their adeptness at tax planning. The correlation between company size and tax avoidance activity is positive, implying that as the company size increases, so does the prevalence of tax avoidance activities. Larger companies possess more substantial resources, enabling them to implement effective tax planning measures. Consequently, company size transcends being merely an indicator of physical dimensions; it also signifies the company's capacity to adeptly manage its tax responsibilities, particularly in the realm of tax avoidance. Based on this elucidation, the following hypothesis can be postulated:
Hypothesis 2: Company Size influences tax avoidance

In the corporate realm, managers often seek strategies to appease shareholders, and one approach they frequently employ is to enhance company profits. A method to achieve this objective involves augmenting the quantity of fixed assets within the company. The intensity of fixed assets reflects the degree to which a company invests in such assets to bolster production activities and secure profits. This investment typically results in depreciation expenses associated with the deployed fixed assets. The heightened intensity of fixed asset investment correlates with a greater recognition of depreciation expenses in the company's financial statements. The presence of depreciation expenses can positively impact the company's tax liability. By elevating the depreciation expense through fixed asset investment, the company can potentially reduce its tax burden. Therefore, a higher intensity of fixed assets tends to be associated with increased tax avoidance by the company (Permatasari et al., 2022). Building on this explanation, the following hypothesis can be proposed:
Hypothesis 3: Intensity of investment in fixed assets influences tax avoidance

Based on the four hypotheses, this research has a proposed research model (see Figure 1).

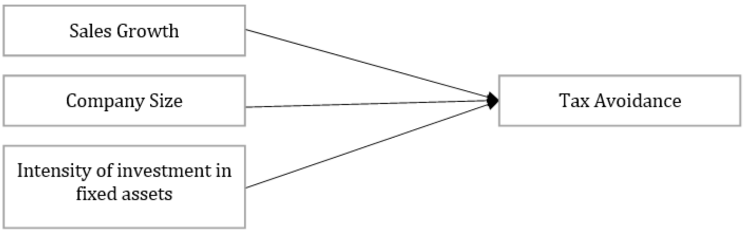


Figure 1 – Proposed Research Model

Review

This study employs a quantitative methodology to examine causality and elucidate the cause-and-effect relationships among the variables posited in the hypothesis. The data utilized is sourced from secondary outlets, indicating pre-existing information. Data compilation is conducted through the documentation method, involving the gathering of information pertaining to the research variables from the Indonesian Stock Exchange (www.idx.co.id).

The research population comprises Property and Real Estate companies listed on the IDX in the years 2017-2022, totaling 85 companies. Purposive sampling is employed to secure a representative sample that adheres to specified criteria. The selection criteria encompass companies that consistently release financial reports from 2017 to 2022, those without financial losses during this period, and entities possessing comprehensive financial data necessary for measuring all variables. Following the application of these criteria, a sample of 11 companies is retained. This research spans 6 years, resulting in a sample size of 66 data points.

Results And Discussion

This study focuses on Property and Real Estate firms listed on the IDX from 2017 to 2022, totaling 79 companies. The sample comprises 11 companies that meet the specified criteria, encompassing a research period of six years.

Panel data offers specific advantages, one of which is the exemption from classic assumption tests like normality or autocorrelation. Various authors, including Verbeek (2000), Gujarati (2003), Wibisono (2005), and Aulia (2004) as cited in Ajija et al. (2011), collectively assert that panel data eliminates the necessity for testing these classical assumptions. Panel data with a substantial number of observations presents advantages by reducing the necessity for testing specific classical assumptions.

Tabel 2 Multicollinearity Test Results

	X1	X2	X3	Z
X1	1	0.36632789...	-0.0906790...	-0.0329469...
X2	0.36632789...	1	-0.0611445...	-0.0498570...
X3	-0.0906790...	-0.0611445...	1	-0.0921819...
Z	-0.0329469...	-0.0498570...	-0.0921819...	1

Source: Secondary data processed by eviews 12, 2023

Based on the information in table 2, it can be inferred that the coefficient values among variables are below 0.9, suggesting the absence of multicollinearity issues. This implies that no correlation exists among the independent variables.

Tabel 3 Heteroscedasticity Test Results

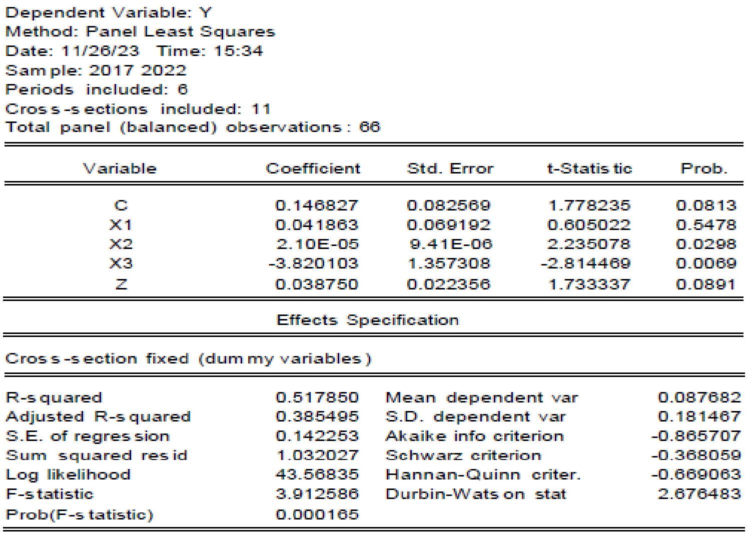
Total panel (unbalanced) observations: 66

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.216733	0.361551	0.599455	0.5511
X1	0.090994	0.054651	1.665010	0.1010
X2	-0.008991	0.027544	-0.326427	0.7452
X3	-0.267913	0.411222	-0.651505	0.5172
Z	7.98E-05	0.013613	0.005863	0.9953

Source*: Secondary data processed by eviews 12, 2023*

Referring to table 3, it is evident that the probability values for each variable are > 0.05. Therefore, the conclusion can be drawn that there is no heteroscedasticity in this study. This implies the absence of variation similarity in the residuals between one observation and another. The panel data regression model used is the Fixed Effect Model (FEM).

Tabel 4 Results of Panel Data Regression Analysis



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Dependent Variable: Y
Method: Panel Least Squares
Date: 11/26/23   Time: 15:34
Sample: 2017 2022
Periods included: 6
Cross-sections included: 11
Total panel (balanced) observations: 66
==========================================================================
       Variable          Coefficient    Std. Error    t-Statistic    Prob.
==========================================================================
          C               0.146827      0.082569      1.778235      0.0813
          X1              0.041863      0.069192      0.605022      0.5478
          X2              2.10E-05      9.41E-06      2.235078      0.0298
          X3             -3.820103      1.357308     -2.814469      0.0069
          Z               0.038750      0.022356      1.733337      0.0891
==========================================================================
                         Effects Specification
==========================================================================
Cross-section fixed (dummy variables)
==========================================================================
R-squared                 0.517850    Mean dependent var          0.087682
Adjusted R-squared        0.385495    S.D. dependent var          0.181467
S.E. of regression        0.142253    Akaike info criterion      -0.865707
Sum squared resid         1.032027    Schwarz criterion          -0.368059
Log likelihood            43.56835    Hannan-Quinn criter.       -0.669063
F-statistic               3.912586    Durbin-Watson stat          2.676483
Prob(F-statistic)         0.000165
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Tabel 5 Recapitulation of Hypothesis Test Results

Hypothesis	Statement	Sig.	Conclusion
H1	Sales growth influence the practice of tax avoidance	0,5478	rejected
H2	Company Size influences tax avoidance	0,0298	Accepted
H3	Intensity of investment in fixed assets influences tax avoidance	0,0069	Accepted

Table 4 reveals that the obtained Adjusted R-Squared value is 0.3855 or 38.55%, signifying that the independent variable contributes 10.22% to the dependent variable, while 61.45% is accounted for by other factors beyond the research variables.

Table 4 displays the outcomes of the F statistical test, revealing an F count of 3.912586 and a significance value of 0.000165, compared to the F table value of 2.52. The significance level below 5% (α= 0.05) is a contributing factor, and the observation that F count (3.912586) exceeds F table (2.52) suggests that all independent variables collectively exert a significant impact on tax avoidance.

The statistical t-test conducted on the sales growth variable indicates a lack of significant impact on tax avoidance, given the significance level of 0.5478, which is greater than 0.05. Additionally, the t count of 0.605022 is less than the t table value of 1.99962. Consequently, it can be inferred that H1 is rejected. Sales growth measures the change in a company's sales from one year to the next, with a high sales growth rate indicating successful increases in sales volume or revenue. This growth may result from effective marketing strategies, business expansion, product innovation, or winning market share. A high sales growth rate also reflects increased company profits, positively impacting financial health. While increased profits may provide a company with greater capacity to pay taxes, the decision to pay taxes is influenced not only by profit but also by factors such as tax policies, financial management, and the company's tax strategy.

In the context of taxation, high sales growth can motivate companies to comply with tax obligations, as successful sales increases may lead to adherence to tax regulations and payment according to applicable provisions. Ultimately, a company's tax stance is influenced by various factors, and sales growth is just one of many aspects that can affect it. The research findings are supported by Wahyuni (2023), Uliandari et al. (2021), and Ependi (2020), stating that sales growth affects tax avoidance. However, these results contradict the findings of Prasetyo et al. (2023) and Yulyanti et al. (2022), who assert that sales growth does not influence tax avoidance.

The statistical t-test conducted on the variable representing company size demonstrates a significant impact on tax avoidance, given the significance level of 0.0298, which is less than 0.05.

Additionally, the t count of 2.235078 exceeds the t table value of 1.99962. Consequently, it can be inferred that H2 is accepted. The size of a company, often measured by its total assets, serves as a criterion for categorizing companies as large, medium, or small. In the tax context, company size plays a crucial role in influencing a company's motivation to engage in or avoid tax avoidance decisions.

Ependi's (2020) research indicates that larger companies tend to have a lower Effective Tax Rate (ETR), signifying their ability to engage in effective tax planning. The positive relationship between company size and tax avoidance activities suggests that larger companies exhibit higher levels of tax avoidance. Larger companies possess adequate resources for effective tax planning, making company size reflective of its capacity to manage tax obligations, particularly in the context of tax avoidance. These findings align with previous research stating that company size influences tax avoidance practices (Pertiwi and Desy, 2023, as well as Ependi, 2020).

The statistical t-test conducted on the fixed asset intensity variable indicates a noteworthy impact on tax avoidance, given the significance level of 0.0069, which is below 0.05. Additionally, the t count of -2.814469 is less than the t table value of 1.99962. Consequently, it can be inferred that H3 is accepted. In the business world, company managers often seek ways to satisfy shareholders, including strategies for increasing corporate profits. One method employed is to augment the amount of fixed assets within the company.

Fixed asset intensity reflects the extent to which a company invests in fixed assets to support production activities and achieve profits. This investment results in the depreciation expense of the invested fixed assets. The greater the fixed asset intensity, the larger the depreciation expense recognized in financial statements. Depreciation expenses can have a positive impact on the company's tax burden. With an increase in depreciation expenses due to investments in fixed assets, the tax burden the company must bear can become smaller. Therefore, a higher fixed asset intensity raises the likelihood of the company engaging in tax avoidance (Permatasari et al., 2022). This research aligns with the findings of Pertiwi and Desy (2023), Wahyuni (2023), and Ependi (2020), stating that fixed asset intensity influences tax avoidance. However, it contradicts the results of Mustikasari et al. (2023), Prasetyo et al. (2023), and Uliandari et al. (2021), which suggest that fixed asset intensity does not impact tax avoidance.

Conclusions and Suggestions

This research aimed to understand the impact on tax avoidance by studying a sample of 66 companies in the property and real estate sector listed on the Indonesia Stock Exchange from 2017 to 2022. The Eviews 12 program was used for testing, and the findings indicated that, in part, the disclosure of sales growth does not affect tax avoidance, while both company size and fixed asset intensity have an impact on tax avoidance. All independent variables in this study (sales growth, company size, and fixed asset intensity) collectively demonstrate a positive influence on the tax avoidance variable. A limitation of this study is the absence of intervening or moderating variables when examining the influence of sales growth, company size, and fixed asset intensity on tax avoidance.

Given the limitations of this study, a recommendation for future research is to incorporate additional independent variables, intervening variables, or moderating variables in the investigation of tax avoidance.

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