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Research Paper

THE INFLUENCE OF BTD, ROA, LEVERAGE, COMPANY SIZE AND DEFERRED TAX ON TAX AVOIDANCE IN THE FINANCIAL SECTOR

Salma Yusriva[1*], Ratri Paramitalaksmi[2]

[1,2] Mercu Buana University Yogyakarta
Corresponding author: salmayusriva60@gmail.com

ABSTRACT

This study concentrates on how the variables of BTD, ROA, Leverage, Company Size, and Deferred Tax impact on Tax Avoidance. The research uses a quantitative approach with multiple linear regression analysis to evaluate the interaction between various variables. The purposive sampling method was applied to select data sources from annual reports. The findings of the analysis reveal that BTD, ROA, Company Size, and Deferred Tax didn't impact tax avoidance. In contrast, leverage is shown to have a significant impact on tax avoidance, which indicates that corporations with higher levels of leverage tend to engage in tax avoidance more often. The implication of this finding is that corporations need to pay attention to factors such as the difference between fiscal and accounting profit in their tax planning strategies, while the government should further tighten regulations to reduce tax loopholes. This research provides important insights for investors, regulators, and companies in understanding the factors that influence tax avoidance practices, as well as contributing to a more effective tax policy in Indonesia.

Keywords: Tax Avoidance, BTD, ROA, Leverage, Financial Sector

JEL code: H26, M41

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INTRODUCTION

Indonesia's economic growth rate is closely intertwined with the revenue earned by the country. Taxes act as the main source of revenue that supports the fulfillment of community needs and boosts national development. So, it is expected that companies can carry out their tax obligations transparently and voluntarily. However, from a corporate perspective, tax is one of the factors that can reduce the profit of a corporation. Therefore, corporate management needs to pay more attention in an effort to maximize its rights and responsibilities and reduce tax obligations without violating established regulations. Thus, the company can improve the efficiency and effectiveness of its operations.

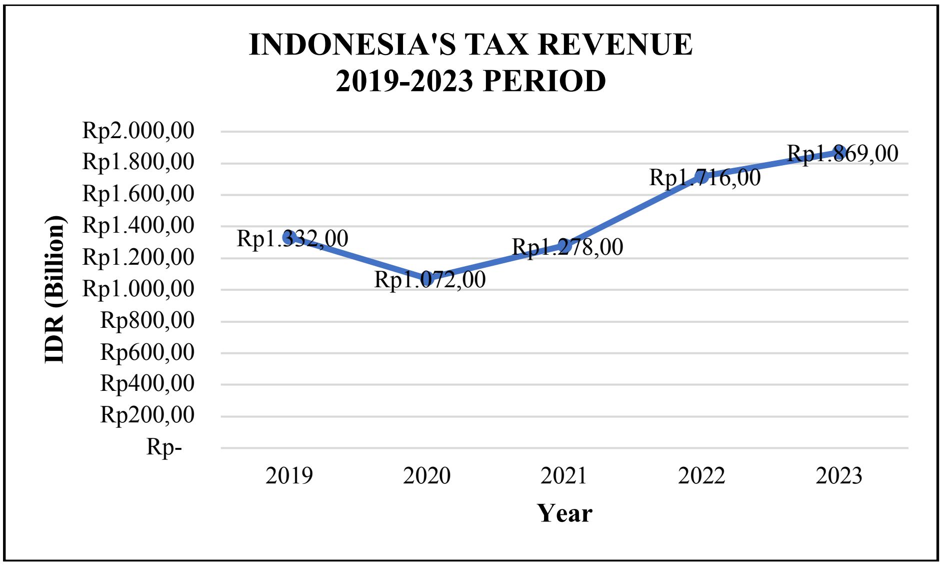
Currently, Indonesia implements a self-assessment system in taxation, which gives full power to taxpayers to calculate, estimate, deposit and report SPT and SSP to the tax office. Tax avoidance refers to legitimate and legal efforts of taxpayers to minimize tax liabilities by exploiting loopholes in regulations without breaking the law, while tax evasion is an illegal act in which taxpayers deliberately hide income or provide inaccurate reports to reduce tax liabilities, which clearly violates the law and can be subject to legal sanctions.

Based on the Tax Justice Network report titled "The State of Tax Justice 2020: Tax Justice in the time of Covid-19", reported by Tax Justice News, Indonesia will experience losses due to tax evasion of around IDR 68.7 billion in the period 2020-2023. Based on this amount, tax evasion by corporate taxpayers in Indonesia reached IDR 67.6 billion, while the rest came from tax evasion by individuals which caused a loss of IDR 1.1 billion (Arifin Choirul, 2020).

There have been many cases of tax evasion in Indonesia, one of which involves PT Bank Pan Indonesia (Panin) Tbk. In a trial related to alleged tax engineering bribery, PT Bank Panin's tax staff, Hindi Purnawan revealed that in 2016, Bank Panin paid taxes amounting to IDR 1.3 billion. Hindi gave the statement as a witness in the trial with the defendants Angin Prayitno Aji and Dadan Ramdani, former DGT officials. Prosecutors at the Central Jakarta Corruption Court asked whether a re-examination had been conducted in relation to this case. Hindi explained that the re-examination had been carried out, with the total tax collected reaching IDR 1.3 billion, including fines. The tax audit was conducted by the Directorate General of Taxes team led by Angin, Director of Audit and Collection for the 2016-2019 period. In the indictment, it is stated that Bank Panin was targeted for audit due to its large tax potential. The audit found a tax underpayment of IDR 926.2 billion based on risk analysis and examination of documents such as General Ledger and interest calculation. To reduce the tax liability, Bank Panin appointed Veronika Lindawati on behalf of Mu'min Ali Gunawan, the owner of PT Bank Panin, to negotiate a tax reduction. Veronika requested that the tax liability be reduced to IDR 300 billion with a fee commitment of IDR 25 billion, although the fee realization only reached IDR5 billion (Indonesia, 2021).

Tax revenue during the 2019-2023 period where taxes are one of the highest sources of state revenue can be seen in Figure 1. below:

Figure 1. Indonesia's Tax Revenue 2019-2023 Period



Based on this data, tax revenue in Indonesia from 2019-2023 has fluctuated. Tax avoidance is one of the factors that contribute to this phenomenon. Tax avoidance is an action to reduce tax obligations through legal steps or not violating the law and regulations, and in line with applicable tax provisions. This practice optimizes the provisions in tax regulations so as to reduce the tax paid (Moeljono, 2020). Several factors can influence tax avoidance, and corporations tend to do so to increase profits earned.

The novelty of this study lies in its emphasis on Book-Tax Differences (BTD) and Deferred Tax, both of which have not been widely studied in previous studies in the financial sector in Indonesia. Previous research focused more on the manufacturing sector or general companies such as in research (Fatmala et al., 2022) which investigates the impact of leverage, ROA, and Firm Size on Tax Avoidance in manufacturing company for the 2015-2018 period. However, this study emphasizes more on the financial sector by using the latest data, namely in the 2020-2023 time span. The addition of the BTD variable is used to show whether the difference between reported accounting profit and profit subject to tax by financial sector companies affects tax avoidance, because previous findings show that this profit difference is often an indication of tax avoidance manipulation. In addition, this study applies a more comprehensive approach, namely adding deferred tax Book-Tax Differences variables which are still rarely used in previous studies, especially within the scope of financial sector companies in Indonesia.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains how principals (shareholders) and agents (management) relate, and reveals conflicts of interest due to differences in objectives between the two (Meckling & Jensen, 1976). In the context of tax avoidance, management often implements strategies that increase visible net income, such as tax avoidance for their personal benefit. This can be detrimental to shareholders because it can increase the risk of reputational damage and potential tax sanctions (Putri Syifa, 2020). Tax avoidance is a legal measure to reduce the tax burden by using loopholes in tax regulations. (Handayani & Murniati, 2023) state that although this action is legally valid, this may trigger a conflict of interest between the government seeking to optimize tax revenue and corporate seeking to reduce their tax burden.

BTD refers to the difference between fiscal profit and commercial profit arising from differences in revenue and cost recognition (M. Hidayat & Mulda, 2019). Research shows that large BTD is often associated with higher tax avoidance practices, especially in the context of temporary and permanent differences (Nuryadi, 2020)**.** This happens because corporations with large BTD tend to utilize these differences to reduce their tax burden.

ROA is a measure of a corporation's efficiency in generating profits from its assets. Research by (Rahyuni & Karna, 2023) shows that corporations with high ROA tend to carry out tax planning to reduce tax liabilities arising from large profits. However, other studies such as (Madya, 2021) show that the impact of ROA on tax avoidance may differ depending on the specific characteristics of the corporation. Some corporations with high ROA may focus more on tax compliance to maintain a positive image, while others may be more aggressive in finding ways to reduce taxes.

Leverage reflects the utilization of debt in a corporation's capital structure. By using debt, corporations can reduce taxable income through the recognition of interest expense. Research (Rindu & Junianto, 2023) reveals that leverage affects tax avoidance, as debt gives corporations the ability to manage their tax liabilities more effectively. However, (Hartanto & Sudirgo, 2023) noted that the impact of leverage on tax avoidance is influenced by the firm’s need for financial stability, which may limit the extent to which debt is used for tax avoidance strategies.

Company size is often used as a reference for the corporate capacity for tax planning. Large corporations potentially have more resources that allow them to be more active in tax avoidance. (Faradilla & Bhilawa, 2022) state that large companies are generally more involved in tax avoidance due to the support of abundant financial and human resources. On the other hand, (Alya & Yuniarwati, 2021) show that strict supervision of large companies can limit their ability to engage in tax avoidance, due to more in-depth supervision from regulators and the public.

Deferred taxes arise from timing differences between revenue or expense recognition in financial statements and tax reporting. (Cendani & Sofianty D, 2022) states that deferred taxes provide flexibility for companies to postpone tax obligations, which can be utilized as part of a tax avoidance strategy. However, (Evita, 2023) explains that the impact of deferred taxes on tax avoidance is reduced due to the application of new, stricter regulations that limit the utilization of deferred taxes.

Factors such as Book-Tax Differences (BTD), ROA, leverage, firm size, and deferred tax collectively influence corporate decisions to engage in tax avoidance. These factors will be further tested in the development of research hypotheses to understand more about the role of each factor in shaping corporate tax avoidance behavior.

The Effect of Book-Tax Differences on Tax Avoidance

BTD refers to the difference between fiscal profit and commercial profit that occurs due to differences in revenue and cost recognition according to accounting standards and tax regulations. This difference creates opportunities for corporations to design tax strategies. For example, a company might choose a certain depreciation method in its fiscal report to reduce its taxable profit without affecting its commercial profit. Previous research by (Wardani & Nugrahanto, 2022) showed that BTD affects tax avoidance, due to the flexibility of corporations in utilizing these differences to reduce tax liabilities. However, there are other research results such as (Jati & Murwaningsih, 2020) which show that the effect of BTD depends on the type of difference, such as fixed assets or deferred taxes. The first hypothesis is formulated as follows:
H1: Book-Tax Differences affect Tax Avoidance.

The Effect of Return on Assets on Tax Avoidance

ROA indicates the level of profitability that illustrates the efficiency of the corporation in utilizing assets to earn profits. Corporations with high ROA often face greater tax liabilities due to high net income. To reduce the tax burden, corporations tend to utilize legal tax avoidance strategies. Research by (Nisa, 2024; Tamirsyah et al., 2023) revealed the influence of ROA on tax avoidance, where corporations with high ROA are more likely to implement aggressive tax planning. However, some studies such as (Madya, 2021) state that ROA does not always affect tax avoidance, because its effect can be moderated by other factors, such as corporate structure and government policies. Therefore, the second hypothesis is formulated:
H2: Return on Assets affects Tax Avoidance.

The Effect of Leverage on Tax Avoidance

Leverage describes how much a corporation uses debt in its capital structure. The use of debt has a direct impact on tax avoidance through the recognition of interest expense as a deduction from profit subject to tax. A higher level of leverage increases the corporation's opportunity to reduce its tax liabilities. Research by (Permatasari & Soedarman, 2024) corroborates that leverage plays a significant role in tax avoidance. But (Hartanto & Sudirgo, 2023) shows the opposite result, where leverage does not affect, because some companies prioritize reducing the risk of bankruptcy rather than reducing taxes. Based on these theories and research, the third hypothesis is:
H3: Leverage affects Tax Avoidance.

The Effect of Company Size on Tax Avoidance

Company size is often associated with the corporation's ability to design tax planning. Large companies that have more resources have a greater chance of developing more complicated tax avoidance strategies. In addition, large companies usually have internal tax teams or tax consultants who are more reliable than small companies. Research (Noviyanti & Nadi, 2024; Praystya & Anggrainie, 2024) indicates that large companies tend to be more active in tax avoidance. However, research (Alya & Yuniarwati, 2021) found that company size is not always significant, especially if the company is under strict government supervision. Thus, the fourth hypothesis is formulated:

H4: Company size affects Tax Avoidance.

The Effect of Deferred Taxes on Tax Avoidance

Deferred taxes reflect the mismatch in the recognition of income or expense between the commercial and fiscal financial statements, which result in the tax expense being deferred to a future date. Deferred taxes are often used by companies as a tool to manipulate profits and reduce current tax liabilities. Research (Hondro & Apulina Sembiring, 2024) shows that deferred tax affects tax avoidance, because it provides flexibility to companies in developing tax strategies. However, other studies such as (Sysmantia, 2023) show that the effect of deferred taxes can be insignificant due to regulatory changes that tighten deferred tax recognition. Based on the theoretical basis and research findings, the fifth hypothesis is formulated:

H5: Deferred Tax affects Tax Avoidance

RESEARCH METHODOLOGY

This study applies a quantitative approach with the aim of examining the relationship between various variables that affect tax avoidance. Researchers explore secondary data obtained from the annual financial statements of financial sector corporations on the IDX throughout 2020-2023. The research population includes all IDX financial sector corporations during the period, which was chosen because the financial sector has a crucial role in the economy and often faces great tax pressure. Researchers determined the sample by purposive sampling, selecting samples according to certain criteria:

a. Financial sector corporates listed on the IDX during 2020-2023.
b. Financial sector corporates that didn’t publish complete financial statements from 2020-2023.
c. Corporates that are profitable in the period 2020-2023.
d. Financial sector corporates that use Rupiah (IDR) currency during 2020-2023.
e. Financial sector corporates that are not less than 10 years old (IPO).

The final sample size will be determined after a selection process based on these criteria.

Dependent Variable

Tax Avoidance

Tax avoidance is evaluated through the CETR proxy, which is calculated as the ratio between current tax expense and profit before tax. A lower CETR value indicates that the company pays less tax than the profit generated, which signifies a higher level of tax avoidance; although this action is still within the realm of taxation, tax avoidance can cause losses to the state (Dewi, 2023), because companies do it efficiently to maximize profits with the main objective of reducing the tax burden that must be borne (Wiharja & Sutandi, 2023).

Formula:

$$\text{CETR} = \frac{Current\ Tax\ Expense}{Profit\ Before\ Tax} \text{ x } 100\%$$

Independent Variables
Book-Tax Differences

BTD represents the difference between the accounting profit reported by the corporates in its commercial financial statements and the fiscal profit applied for tax calculation purposes. BTD is often used as an indicator to detect tax avoidance practices because it reflects differences in treatment arising from differences in accounting standards and tax provisions (Dewi, 2023). This difference, also known as the Book-Tax Gap, indicates a mismatch between corporate financial statements and tax reports, and BTD can be measured using a certain formula to evaluate the extent of the difference.

Formula:

$$BTD = \frac{Accounting\ Profit - Fiscal\ Laba}{Total\ Assets}$$

Return On Assets

ROA is a measure that assesses the extent to which a corporation can optimize its total assets to generate net profit after tax. This indicator reflects the efficiency of the corporation in managing assets to generate profits. Corporations with high ROA show that they are effective in maximizing the use of assets to generate profits. However, some studies show that companies with high ROA have the opportunity to avoid taxes to maintain high net profit after tax, because they try to minimize tax liabilities to increase profitability (Wiharja & Sutandi, 2023).

Formula:

$$ROA = \frac{Net\ Profit}{Total\ Assets}\ x\ 100\%$$

Leverage

DER measure the extent to which a corporations uses debt compared to its own capital. If the DER result is more than one, this indicates that the corporation has more debt than its own capital. Research (Rindu & Junianto, 2023) shows that leverage affects tax avoidance, which means that the greater the use of debt, the greater the likelihood that the corporations will be involved in tax avoidance practices. Leverage, which measures the extent to which a corporate uses debt, also impact the reducing the tax burden through the recognition of debt interest, can be calculated using the following ratio formula:

Formula:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Company Size

Company size describes the large or small dimensions of an entity listed in the financial statements after the audit process. Corporations with significant assets indicate a level of maturity, where the greater the total assets, the brighter the corporate long-term prospects (Oktavia et al., 2021). Company size can be determined by calculating the natural logarithm of total assets. Large corporations generally have sufficient resources to plan taxes, although they are often under greater scrutiny from regulators.

Formula:

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

Deferred Tax

Deferred tax is used as a tax expense management tool by utilizing timing differences in the timing of recognition of income or expenses. Deferred taxes, which include deferred tax assets and deferred tax liabilities, will affect the financial position reflected in the balance sheet and impact the amount of income tax expense. The use of deferred tax can assist companies in planning their tax liabilities and provide flexibility in managing tax expenses (Cendani & Sofianty D, 2022).

Formula:

$$DTE\ it = \frac{Deferred\ Tax}{Total\ Assets - 1}$$

Data Analysis Methods

Descriptive Statistics

Descriptive statistics describe the nature of research data, such as the average, lowest value, highest value, and standard deviation for each variable. These statistics provide an overall picture of the distribution and tendency of the data in the study.

Classical Assumption Test

Researchers verify basic assumptions to ensure that the applied model does not experience problems related to normality, multicollinearity, and heteroscedasticity tests, and ensure that the data obtained is normally distributed (BR Sembiring & Fransiska, 2021). The basic assumption tests used include:

- **Normality Test:** Researchers use the Kolmogorov-Smirnov or Shapiro-Wilk test to ensure normal residual distribution.
- **Multicollinearity Test:** Researchers use (VIF). A VIF value of >10 indicates multicollinearity between the independent variables.
- **Heteroscedasticity Test:** Researchers used the Glejser test to ensure homogeneous residual variances.
- **Autocorrelation Test:** We applied the Durbin-Watson test to identify the presence of autocorrelation in the residuals.

Multiple Linear Regression Analysis

Researchers applied regression models to test the relationship between independent and dependent variables. The multiple linear regression method proved effective in measuring the effect of independent variables such as BTD, ROA, Leverage, Company Size, and Deferred Tax on tax avoidance.

Regression Model:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \varepsilon$$

Description:

Y : Tax Avoidance Variable
A : constant
β1 - β5 : regression coefficient of each independent variable
X1 : Book-Tax Differences
X2 : Return On Assets
X3 : Leverage
X4 : Company Size
X5 : Deferred Tax
ε : Error

Hypothesis Test

- T test (Partial): Assesses the significant effect of the independent variable on the dependent variable and the relationship between the two.

- Coefficient of Determination: Measures the extent to which the independent variable can affect changes in the dependent variable.

RESULTS AND DISCUSSION

The data in this study was collected from the IDX covering all listed companies, where each corporate annual report and financial statements are required to contain information on total debt, total assets, tax liabilities, profit before and after tax, revenue, industry type, and auditor. Based on the available information, this study took a sample consisting of 13 financial sector corporate in the observation period of 4 years, with a total of 52 observations. The following is the sample selection method applied in this study:

Table 1. Research Data Sample

Criteria	Amount
Financial sector corporate listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023	107
Financial sector corporate that didn't publish financial statements from 2020-2023 in full	(53)
Corporate that do not generate profits in the 2020-2023 period	(28)
Financial sector corporate that do not use Rupiah (IDR)	0
Financial sector corporate that are less than 10 years old (IPO)	(13)
Number of company samples	**13**
Year of observation	**4**
Number of observations that can be used	**52**

Descriptive Statistics

Table 2. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Book Tax Differences	52	-3219	484	-33.88	466.977
Return On Asset	52	0	122	21.73	25.852
Leverage	52	7	1133	425.75	323.023
Company Size	52	2651	3508	3081.75	258.158
Deferred Tax	52	1	586638	11780.65	81328.807
Tax Avoidance	52	1	1003	224.35	151.519
Valid N (listwise)	52				

According to the analysis that has been done, it was concluded that the Tax Avoidance variable with a min value of 1, max of 1003, mean of 224.35 and std. deviation of 151.519. Book-Tax Difference min value -3219, max 484, mean -33.88 and std. deviation 466.977. ROA has a min value of 0, max of 122, mean of 21.73 and std. deviation of 25.852. Leverage is a min value of 7, max of 1133, mean of 425.75 and std. deviation of 323.023. Company Size (X4) min value 2651, max 3508, mean 3081.75 and std. deviation 258.158. Deferred Tax (X5) min value 1, max 586638, mean 11780.65 and std. deviation 81328.807.

Classical Assumption Test

Normality Test

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual

N			52
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		139.58688413
Most Extreme Differences	Absolute		.174
	Positive		.174
	Negative		-.119
Kolmogorov-Smirnov Z			1.254
Asymp. Sig. (2-tailed)			.086
Monte Carlo Sig. (2-tailed)	Sig.		.077[c]
	99% Confidence Interval	Lower Bound	.070
		Upper Bound	.084

a. Test distribution is Normal.
b. Calculated from data.
c. Based on 10000 sampled tables with starting seed 2000000.

Based on the table, the value of Kolmogorov-Smirnov (Asymp. Sig. 2-tailed) residual is 0.077. Because Sig. ≥ 0.05, the data is normally distributed.

Multicollinearity Test

Table 4. Multicollinearity Tests

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
		B	Std. Error	Beta	t		Tolerance	VIF
1	(Constant)	705.555	324.417		2.175	.035		
	Book Tax Differences	-.015	.045	-.045	-.325	.747	.967	1.034
	Return On Asset	-.235	1.097	-.040	-.214	.831	.527	1.899
	Leverage	.233	.102	.497	2.280	.027	.388	2.578
	Company Size	-.187	.110	-.318	-1.706	.095	.530	1.888
	Deferred Tax	-6.225E-007	.000	.000	-.002	.998	.900	1.112

a. Dependent Variable: Tax Avoidance

The tolerance value in Book-Tax Differences is 0.967, Return On Assets 0.527, Leverage 0.388, Company Size 0.388 and Deferred Tax 0.900 which means that the value is ≥ 0.1. Meanwhile, the VIF value on Book-Tax Differences is 1,034, Return On Assets 1,899, Leverage 2,578. Company Size 1,888 and Deferred Tax 1,112 which means the value is ≤ 10. In conclusion, the data showed no indication of multicollinearity.

Autocorrelation Test

Table 5. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson

1	.389[a]	.151	.059	146.977	2.016

a. Predictors: (Constant), Deferred Tax, Return On Asset, Book Tax Differences, Company Size, Leverage
b. Dependent Variable: Tax Avoidance

The DW value in the results in the table is 2,016. This test has a du<dw<4-du criterion. The value of the table is obtained 1.7694, 4-du is obtained 4-1.7694 = 2.2306. From these results, 1.7694 < 2.016 < 2.2306 was obtained, so there were no symptoms of autocorrelation test.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.656	1.687		-.982	.331
	Book Tax Differences	1.318E-005	.000	.008	.057	.955
	Return On Asset	-.003	.006	-.105	-.541	.591
	Leverage	.000	.001	-.072	-.317	.753
	Company Size	.001	.001	.259	1.337	.188
	Deferred Tax	-9.528E-007	.000	-.102	-.687	.496

a. Dependent Variable: Abs_Res

The above test recap uses the Glejser test and produces a Sig. value on the variables Book-Tax Differences 0.955, Return on Assets 0.591, Leverage 0.753, Company Size 0.188 and deferred tax 0.496. This data declares heteroscedasticity free, because Sig. ≥ 0.05.

T-test (Partial)

Table 7. t-test (Partial)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	705.555	324.417		2.175	.035
	Book Tax Differences	-.015	.045	-.045	-.325	.747
	Return On Asset	-.235	1.097	-.040	-.214	.831
	Leverage	.233	.102	.497	2.280	.027
	Company Size	-.187	.110	-.318	-1.706	.095
	Deferred Tax	-6.225E-007	.000	.000	-.002	.998

a. Dependent Variable: Tax Avoidance

The variables Book-Tax Differences, ROA, Company Size and Deferred Tax have no impact on tax avoidance because the sig. value is ≥ 0.05. Meanwhile, in the leverage variable, there is an influence on tax avoidance because the value of Sig. ≤ 0.05.
The following is a discussion of the research mentioned above:

The Effect of Book-Tax Differences on Tax Avoidance

BTD is difference between fiscal and commercial profit due to differences in revenue and expense recognition. Companies often use BTD to legally reduce tax liabilities. Agency theory states that management can utilize Book-Tax Differences (BTD) as part of efforts to avoid taxes by reducing the company's tax liabilities. If the Book-Tax Differences (BTD) are positive, it indicates that the company has an advantage in tax calculations, indicating that a positive BTD indicates a tax surplus, which means that there are tax avoidance efforts. However, the study revealed that BTD does not impact tax avoidance, a statement supported by Sig. 0.747 ≥ 0.05 and a regression coefficient of -0.015, this is in line with research (Tara, 2024).

The Effect of Return on Assets on Tax Avoidance

ROA is measured to evaluate the extent to which a corporation uses its assets to make a profit. The increase in profit has an impact on the taxes payable, thereby reducing net profit after tax. Agency theory argues that a high ROA indicates a good corporate performance in maximum the use of assets to produce large income, the greater the income earned by a corporation, the greater its tax liability. This condition may encourage corporations to look for means to maximize their tax liabilities. Companies have the possibility to commit tax evasion, which means that companies can avoid or reduce unnecessary or inefficient tax payments.

This study reveals that there is no significant influence between ROA and tax avoidance, as evidenced by Sig 0.831 (≥ 0.05) and regression coefficient -0.235. These results are in line with research (Lilia & Sudirman, 2024), but contradict research (Istiqomah & Cahyono, 2024) which shows the influence of ROA on tax avoidance.

The Effect of Leverage on Tax Avoidance

Leverage is measured using the DER. If the ratio is more than one, it means that the corporation has greater debt than capital. The agency's theory states that the higher the leverage, the more corporate transparency to reduce tax avoidance.

The test shows leverage with Sig. 0.027 (≤ 0.05) and a regression coefficient of 0.233. This find is in line with (Aprianti et al., 2024; Ifani & Kuntadi, 2024; Malo et al., 2024) which identified that there is an impact of leverage on tax avoidance. However, this is contrary to the (Posumah, 2024; Tunnisa et al., 2024).

The Effect of Company Size on Tax Avoidance

Company size of categorizes companies into large or small categories based on amount of assets or wealth (Putri, 2023). Agency theory argues that large corporations have a better chance of facing higher agency fees and more complex transactions. However, the observations result show that company size did not impact tax avoidance, as evidenced by Sig. 0.095 (≥ 0.05) and a regression coefficient of -0.187. This finding is in line with (Amalia & Purwaningsih, 2024; Hadiati & Fitria, 2024; Prayogo & Desmiza, 2024) which concluded company size has no impact. On the other hand, research (Pratami & Putra, 2024) reveals the influence of company size on tax avoidance.

The Effect of Deferred Tax on Tax Avoidance

Deferred tax is a tax burden or benefit that will affect the tax to be payable in the future. The amount of deferred tax is recorded as a liability or an asset depending on whether this difference results in higher future tax payments (liability) or lower (assets). Deferred tax is part of a corporate tax planning strategy to manage corporate tax payments in the most profitable way. The agency theory states that higher deferred taxes can reduce tax avoidance activities. However, this finding found that deferred tax revenue did not affect tax avoidance, with a value of Sig. 0.988 and a regression coefficient of -6.225E-007. This finding is in line with (Fahreza & Kurnia, 2024; A. Hidayat & Dharma, 2024), but contrary to (Hondro & Apulina Sembiring, 2024).

CONCLUSION AND SUGGESTION

The study found that leverage affects tax avoidance in corporations in the financial sector, where the use of debt by companies contributes to an increased chance of tax avoidance practices, while other variables such as BTD, ROA, Company Size, and Deferred Tax show no effect, which illustrates that companies with high debt structures tend to utilize interest expense as a strategy to reduce profits taxable, so leverage can be considered as one of the tools to achieve tax efficiency.

The implication of this study is that companies need to understand more deeply the factors that affect tax avoidance, especially leverage, in order to be able to design an efficient tax strategy while still complying with regulations, while considering the impact of the use of debt on tax obligations while maintaining a balance between efficiency and compliance, while for the regulator the findings of this paper suggests that tax policy be formulated more firmly and effectively. Especially in supervising the use of leverage as a tool for tax avoidance, as well as considering strengthening regulations in the financial sector to minimize tax avoidance practices that have a negative impact on national revenue.

The limitation of this study lies in the number of samples that only include financial sector corporates listed on the IDX, focusing on the 2020-2023 period. Therefore, the observations from this study may not fully reflect conditions in other sectors or dynamics that occur over longer periods and diverse economic conditions.

Further research is suggested to expand the scope to various industry sectors other than the financial sector, in order to provide a deeper understanding of interindustry tax avoidance. Researchers also suggest adding variables such as capital intensity, ownership structure (e.g. foreign or government ownership), or the latest accounting policies that may impact tax avoidance practices, and extend the analysis period to assess the impact of these factors on tax avoidance practices. Various economic and regulatory conditions, so it is expected to produce more relevant findings, both for companies to develop effective tax strategies and for policymakers in formulating more appropriate regulations in dealing with tax avoidance.

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