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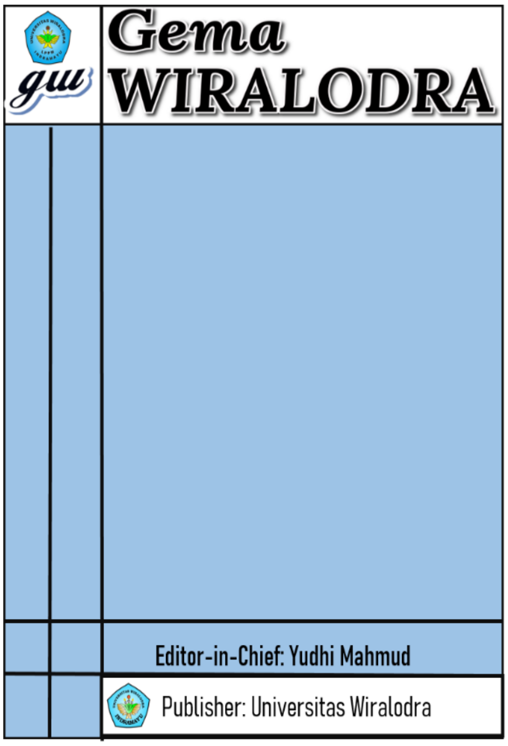

Factors influencing tax aggressiveness: profit management, leverage, and profitability

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Orginal Article

Factors influencing tax aggressiveness: profit management, leverage, and profitability

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Abstract
Previous or relevant research is fundamental in a research or scientific article. Previous or relevant research strengthens the theory and phenomena of the relationship or influence between variables. This article reviews the factors that influence tax aggressiveness, earnings management, leverage, and profitability, a literature study on tax accounting. This article aims to build a hypothesis on the influence between variables to be used in further research. The results of this literature review article are: 1) Profit Management influences Tax Aggressiveness; 2) Leverage affects Aggressiveness; and 3) Profitability affects Tax Aggressiveness.
Keywords: Tax Aggressiveness, Profitability, Leverage, Earnings Management

1. Introduction

Taxes are the largest source of state revenue. Therefore, the government encourages companies and individuals to pay taxes with various socializations. In practice, there are still many companies and individuals who have not fulfilled their obligation to pay taxes. There are also many companies and individuals who try to minimize their tax payments through tax-aggressive activities. If done properly, tax aggressiveness can provide significant benefits, especially for corporate taxpayers.

For companies, taxes are considered a burden that will reduce company profits. This causes companies to look for ways to reduce tax costs. Therefore, it is possible that companies will become aggressive in taxation (Chen et al., 2010). According to Frank (2009), corporate tax aggressiveness is an act of manipulating taxable income by companies through tax planning actions, using either legal (tax avoidance) or illegal (tax evasion) methods. Even though not all of the actions taken violate the regulations, the more loopholes that are used, the more aggressive the company is toward taxes.

According to Frank et al. (2009), aggressive tax action is an action that aims to manipulate the company's taxable profit through tax planning, either using legal (tax avoidance) or illegal (tax evasion) methods. Tax aggressiveness can be measured in various ways, namely by using the Effective Tax Rate (ETR), Book Tax Difference (BTD), Residual Tax Difference (RTC), and Cash Effective Tax Rate (CETR).

In this article, we will present articles that discuss matters that affect tax aggressiveness from a taxation point of view. This aims to make it easier for lecturers, students, researchers, and other functional staff to find relevant articles to strengthen the theory under study in order to see the relationship or influence between variables and determine hypotheses. This article discusses the effect of Profit Management, Leverage, and Profitability on Tax Aggressiveness, a literature review study in the field of tax accounting. Based on the background, the problems that will be discussed can be formulated in order to build hypotheses for further research, namely:

1) Does earnings management affect tax aggressiveness?
2) Does leverage affect tax aggressiveness?
3) Does profitability affect tax aggressiveness?

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Tax Aggressivity

According to Mustika (2017), tax aggressiveness is an action taken by a company to reduce taxable income, which is carried out through tax planning both in a legal way by carrying out tax avoidance and in an illegal way which is carried out by tax evasion (tax evasion) by exploiting the gaps in the tax regulations. Common types of tax aggressiveness transactions that are often used by companies to reduce their taxable income are excessive use of corporate debt by claiming excessive interest expenses and excessive use of tax losses (Lanis & Richardson, 2013) (in the journal Gemilang, Desi Nawang, 2016) Tax aggressiveness can be measured in various ways. Research conducted by Novitasari, Shelly (2017) measures tax aggressiveness using the cash effective tax rate (CETR) by comparing tax payments to company profits before tax. While research conducted by Mustika (2017), tax aggressiveness is measured using the effective tax rate (ETR) formula. In this study, tax aggressiveness is measured using the effective tax rate (ETR). According to Lanis and Richardson (2012), ETR can identify the presence of tax aggressiveness in companies. If a company has a low ETR value, it will indicate that the income tax burden is less than pre-tax income (Lanis and Richardson). So it can be interpreted that companies that have a low ETR indicate that these companies are increasingly aggressive toward their taxes.

Tax aggressiveness, in which the action is carried out by minimizing the taxable amount that the company gets, is something that often happens to large companies today. Hlaing (2012) defines tax aggressiveness as the tax planning activity of all companies involved in efforts to reduce effective tax rates. Tax Planning is the process of controlling actions in order to avoid the consequences of unwanted tax imposition. Slemrod (in Balakrishnan et al., 2011) argues that tax aggressiveness is a more specific activity, which includes transactions whose main objective is to reduce corporate tax obligations. Balakrishnan et al. (2011) stated that companies that are aggressive toward taxes are characterized by lower transparency.

Profitability

Profitability is a description of the company's financial performance in generating profits derived from assets. Profitability is measured using return on assets (ROA). The higher the ROA of a company, the better the management of the company's assets. ROA is used to measure the net profit derived from the use of assets. The higher the value of ROA, the higher the profit company, which means the higher the profitability of the company. High corporate profitability will result in high taxes as well, so they tend to tax evasion (Prakosa, 2014).

Profitability in this study is measured using proxies*Return On Assets* (ROAs). According to Rodriguez and Arias (2012), ROA can be calculated by comparing net profit after tax divided by total assets.

Leverage

Leverage is a financial ratio that describes the relationship between a company's debt to capital and company assets. Companies that use debt will bear the interest that must be paid. Loan interest is a cost that can reduce (deductible expense) taxable income. Deductible interest expenses will reduce the company's taxable profit. The reduced taxable profit will ultimately reduce the amount of tax that must be paid by the company. Leverage can be calculated using total debt divided by total assets. The use of these proxies is because the debt incurred by the company for business or other purposes does not only consist of long-term debt but also short-term debt (Kuriah & Asyik, 2016).

Setiawan (2006), in Suyanto & Supramono (2012) states that in line with increased leverage, the level of tax aggressiveness is also significantly affected. Richardson and Lanis (2007) stated that corporate leverage does not affect corporate tax aggressiveness.

Profit Management

Basically, the operational definition of earnings management is the potential use of accrual management with the aim of obtaining personal gain (Belkoui, 2007, p. 201). Schipper

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(in Lee and Swenson, 2011) defines earnings management as "... purposeful intervention in the external financial reporting process, with the intent of obtaining some form of private gain." While Cohen and Zarowin (in Lee and Swenson, 2011) define earnings management as "*....firms manage earnings through real activities manipulation as well as through accruals* . . .

Scott (2015) explains that earnings management is a method in the world of business, finance, and accounting in the form of managers' actions to report profits that can maximize personal or company interests by using accounting policies. Scott (2015) suggests several motivations for earnings management, namely bonus purpose, other contractual motivation, political motivation, taxation motivation, CEO turnover, initial public offering (IPO), and providing information to investors. Taxation motivation can be explained that companies tend to reduce reported profits (income decreasing) to reduce taxable income so that companies pay less tax.

2. Methods

The method of writing scientific articles is a qualitative method and literature review (library research). Examine the theory and the relationship or influence between variables from books and journals offline in the library and online sourced from Mendeley, Scholar Google, and other online media. In qualitative research, a literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions posed by the researcher. One of the main reasons for conducting qualitative research is that it is exploratory (Ali & Limakrisna, 2013).

3. Discussion

Based on relevant theoretical studies and previous research, the discussion of this literature review article in the concentration of Tax Aggressiveness is:

Effect of Profit Management on Tax Aggressiveness

Suyanto et al. (2012) used the purposive sampling research method in which the population taken was all manufacturing companies listed on the IDX in the period 2006 to 2010 and found that earnings management had a positive and significant effect on corporate tax aggressiveness. The descriptive statistical analysis of the earnings management variable (DA) illustrates that during the observation period, the sample companies indicated a decrease in company profits (income decreasing) with an average of 3% of total assets in t-1. This provides evidence that during the observation period, there was a tendency for the company's income to decrease as an effort to avoid taxes, where the higher the decreasing income that is made, the company is also indicated to behave aggressively towards corporate taxes.

The influence of earnings management in the form of decreasing income on corporate tax aggressiveness can be explained by the fact that profit is the benchmark for measuring the size of the company's tax burden. Therefore, management will report profits according to its objectives, using accounting options that reduce profits or decrease income as a form of tax avoidance. If the more significant the company makes decreasing income, the smaller the tax that the company must pay. Therefore, companies that are increasingly aggressive in managing earnings in the form of decreasing income are also increasingly aggressive toward taxes.

The results of this study are by the opinion of Scott (2000), which states that one of the reasons companies carry out earnings management is to get the most minimal tax payments. This study also supports the opinion of Watts & Zimmerman (1990) in Wulandari (2005) and Badertscher research, et al. (2009), where companies carry out earnings management practices as a tool to avoid government regulation (political cost hypothesis). One of the government regulations that is directly related to company profits is the corporate income tax.

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The Effect of Leverage on Tax Aggressiveness

Herlinda & Rahmawati (2021), it uses quantitative research and a method of testing the hypothesis to obtain results showing a negative effect between leverage and tax aggressiveness. Companies with debt to investors and shareholders as financing will have interest expenses that can reduce the burden of paying corporate taxes.

The research data shows that the sample companies have debts that are likely to be used to finance company assets obtained from third parties/creditors so that they get tax savings by obtaining incentives in the form of interest expenses that cannot be deducted from taxable income as stipulated in Law No. 36 the Year 2008 article 6 paragraph 1a and article 18 paragraph 3. This study is also by the theory used in the study that there is an effect of the level of long-term debt on the tax aggressiveness of the company.

The results of the research are in line with research from Dewi and Noviari (2017), which states that the greater the value of the company's leverage, the more tax-aggressive practices will increase. This study also contradicts the research of Darmawan and Sukharta (2014), Dewinta and Setiawan (2016), and Tiaras and Wijaya (2015), stating that leverage does not affect tax avoidance, which is part of tax aggressiveness, so that higher the debt level of a company, the company management will be more conservative in reporting financially on the company's operations.

Effect of Profitability on Tax Aggressiveness

Windaswari & Merkusiwati (2018) They are using associative research using a quantitative approach where the object of this research is mining sector companies listed on the Indonesia Stock Exchange for the period 2012-2016 (5 years), which produces a hypothesis stating that profitability hurts aggressiveness tax. The test results obtained a t statistical value of -3.970 with a significance value 0.000. The significance value is less than the 0.05 significance level or the 0.000 value <0.05, so H3 is accepted. The profitability variable with a t statistic value of -3,970 is negative, indicating that the profitability variable has an inverse relationship with tax aggressiveness, so it can be concluded that profitability hurts tax aggressiveness.

The results of this study are in line with the research of Gupta and Newberry (1997), Utari and Supadmi (2017), Prasista and Ery (2016), Maharani and Suardana (2014) and Ariawan and Setiawan (2017) found that profitability hurts tax aggressiveness. Taxpayers with large incomes tend to be obedient and obedient compared to taxpayers with low incomes; this is because taxpayers with large incomes tend to be more conservative in reporting their tax obligations. Suppose the administrative system of the tax authority in a country needs to be more robust (unable to supervise compliance with the substance of tax payments from taxpayers). In that case, this will encourage the taxpayer to become disobedient because he sees opportunities that can be exploited. Applying low tax rates will also motivate taxpayer compliance because the amount of tax payment obligations are not burdensome for the taxpayer. Besides all that, taxpayers also assume that the amount of tax paid is an obligation and reasonable because the government has provided various public facilities needed to drive a country's economy (pajak.go.id, 2012).

Conceptual framework

Based on the formulation of the problem, theoretical studies, relevant previous research, and discussion of the influence between variables, the framework for thinking about this article is processed as follows.

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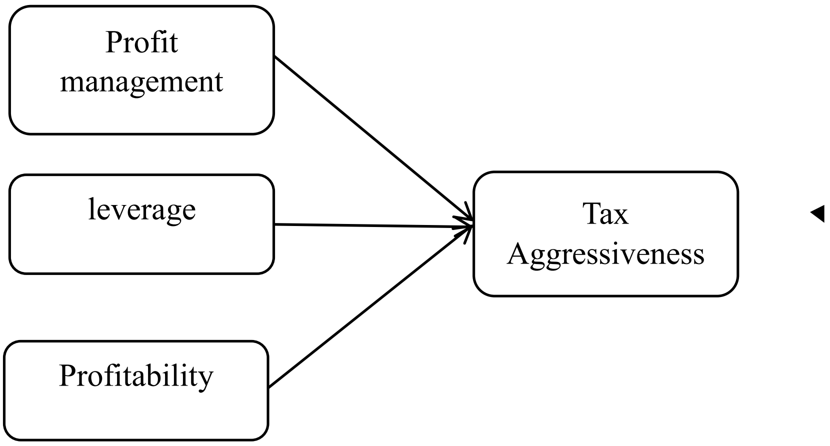
Figure 1
Conceptual framework



Based on the conceptual framework picture above, Profit Management, Leverage and Profitability effect on tax aggressiveness. Apart from these three exogenous variables that affect tax aggressiveness, there are many other variables that influence it, including:

a) *Capital Intensity*: (Utomo & Fitria, 2020), (Maulana, 2020), and (Awaliyah et al, 2021).
b) Company Size: (Tiaras & Wijaya, 2015), (Herlinda & Rahmawati, 2021).
c) *Inventory Intensity*: (Maulana, 2020) and (Savitri & Rahmawati).
d) Liquidity: (Herlinda & Rahmawati, 2021) and (Awaliyah et al, 2021).
e) Independent Commissioners: (Tiaras & Wijaya, 2015) and (Suyanto & Supramono, 2012).
f) Political Connection: (Windaswari & Merkusiwati, 2018).
g) Transactions related to special relations: (Rachmawati at al, 2023)
h) Capital structure: (Rachmawati at al, 2023)

4. Conclusion

Based on the theory, relevant articles, and discussion, hypotheses can be formulated for further research: (1) Profit Management influences Tax Aggressiveness. (2) *Leverage* effect on Tax Aggressiveness. (3). Profitability affects Tax Aggressiveness. Based on the conclusions above, this article suggests that many other factors influence tax aggressiveness, apart from profit management, leverage, and Profitability at all types and levels of organizations or companies. Therefore further studies are still needed to look for other factors that can affect tax aggressiveness besides the variables examined in this article. These other factors include Capital Intensity, Company Size, Inventory Intensity, Liquidity, Independent Commissioners, and Political Connections.

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