THE EFFECT OF LEVERAGE AND LIQUIDITY ON CORPORATE DECISIONS IN CONDUCTING TAX AVOIDANCE

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ABSTRACT

This study examines the effect of leverage and liquidity on corporate decisions in conducting tax avoidance in the primary and chemical industry sectors. The research methodology involves a literature review that includes articles on factors influencing leverage and liquidity on corporate decisions in conducting tax avoidance. The findings of this study reveal that Leverage and liquidity influence corporate decision-making in conducting tax avoidance.

Keywords: **Leverage, Liquidity, Tax, Tax Avoidance**

INTRODUCTION

Taxes are contributions that citizens are obliged to make to the government for the public interest. According to Law No. 16/2009 on General Provisions and Tax Procedures, tax is a contribution that must be given to the state by individuals or entities by force in accordance with the law, without getting direct rewards, and is used for state purposes to increase the prosperity of the people. Taxes have a crucial role in increasing state revenue which is later used to finance government programs.

Since the adoption of tax reform in 1984, Indonesia has implemented a self-assessment system in taxation. Self-assessment is a system where taxpayers, both individuals and entities, have the responsibility to calculate, calculate, deposit, and report the amount of tax to be paid to the state (Hutagaol, 2003). This tax reform was carried out because previously the tax administration procedures were less organized and well managed. The change from an official assessment system to a self-assessment system is the government's step to increase the understanding and awareness of taxpayers, which in turn is expected to increase overall tax revenue.

Following applicable rules and regulations is an obligation for business entities or companies operating in Indonesia. However, for the government, collecting taxes is not easy. Although taxes are a significant source of revenue for the state, for companies, taxes are considered a burden that can affect their operational continuity (Masri & Martani, 2012). This creates a difference of interest between the government and the taxpayer.

Tax avoidance in Indonesia itself the percentage of taxpayer compliance is relatively low compared to other Asian countries. Many tax avoidance efforts are carried out by taxpayers such as tax reduction efforts but still comply with tax provisions and regulations such as utilizing exceptions and deductions that are allowed or delaying taxes that have not been regulated in applicable tax regulations. Many companies utilize efforts to reduce the tax burden through tax avoidance activities. Therefore, the issue of tax avoidance is a complicated issue because on the one hand tax avoidance does not violate the law but on the other hand tax avoidance is not desired by the government.

Based on this description, this study can be used as a reference, literature, and theoretical basis for similar research and contribute to the factors that influence the company's decision to conduct tax avoidance. This research aims to contribute to decision-making or rule-making that will be carried out by the government related to tax avoidance.

METHOD

The research method used in this article is to conduct a review of articles to determine the effect of leverage and liquidity in the decision making of companies in the basic and chemical industry sector to conduct tax avoidance. The results of this test can be used as a basis for developing tax regulations to reduce tax avoidance.

RESULTS AND DISCUSSION

AGENCY THEORY

The Agency Theory (also known as the Genealogy Theory) is the relationship or framework between the Principal and the Agent, wherein the Principal is the organisation that manages the Agent in order to carry out tasks related to the Principal's benefit, and the Agent is the organisation that initiates the Principal's benefit (Scott, 2010). The difference in values between the agent and the principal makes a problem known as a "beagenan" problem (Anwar, 2019). This agency's main focus is on tax avoidance, specifically the importance of the relationship between the government as the ultimate payer and the business as the ultimate payer (Ainniya, Sumiati, & Susanti, 2021). Based on the theory of contingent liability, differences in the interests between the government and business entities will result in business management that is resistant to tax avoidance.

According to Fakhriyah & and Mawardi (2020), agency conflict is caused by the separation of ownership and management. According to this theory, there is a gap between owners and managers arising from a decrease in share ownership. This condition causes managers to pursue their interests, rather than maximizing company value. Agency conflicts can be minimized by several alternatives, such as increasing corporate income through the use of debt, which will reduce the level of conflict between shareholders and managers. In addition, increasing the proportion of institutional ownership can also encourage more optimal supervision of management performance.

TAX AVOIDANCE

Tax avoidance is one method used by many businesses to reduce their tax liability. The term "tax avoidance" refers to the practice of legally and ethically evading taxes and not colluding with government regulations (Pohan, 2018). The goal of a business engaging in tax avoidance is to reduce payroll expenses in order to obtain higher wages. literature, especially the latest journals and related sources.

Tax avoidance is carried out by utilising the available opportunities in the tax law field as efficiently as possible, such as by prudent planning and judicious use of legal resources, as well as by taking advantage of undeveloped areas and loopholes in the tax laws.

LIQUIDITY

According to Van and Wachowicz (2012), liquidity is a ratio used to reduce the company's ability to meet its financial obligations. This ratio compares short-term needs with the current funds available to meet these needs. Businesses with a high level of liquidity can show that their operations are running well. When there are good accounting records, the company is not burdened to pay debts incurred, including the obligation to pay fines in accordance with applicable law (Suyanto & Supramono, 2012).

Liquidity describes how well a company can meet its short-term obligations. A high level of liquidity indicates that the company has the ability to pay off its obligations smoothly. The study by Indradi confirms that liquidity has a positive impact because companies tend to focus more on maximizing profits than paying taxes. This shows that the higher the level of liquidity, the more likely it is to carry out a tax avoidance strategy (Indradi, 2018).

LEVERAGE

According to Darwan & Sukartha (2014), Pengaruh Penerapan Corporate Governance, Leverage, ROA, and Ukuran Perusahaan at Penghindaran Pajak, leverage (or structure of value) is a ratio that indicates the amount of value that a business has to modify its operational activities. The study on leverage was conducted by Pradipta and Sukartah, and the results showed that companies with high leverage indexes were more likely to have strong financial performance when adjusting their business models.

Businesses with high leverage ratios have a higher risk of failure, but they also have higher turnover rates (Pradipta & Supriyadi, 2015).

Businesses with high leverage tend to avoid paying taxes because they have an insensitive approach to the interest rate that businesses use to reduce their tax obligations (Ariawan & Setiawan, 2017). In positive accounting theory, the higher the leverage, the more likely the company is to do tax avoidance. Because companies that have a large leverage ratio will prefer to choose accounting procedures that can increase current period profits.

RELEVANT EMPIRICAL RESEARCH RESULT

Research conducted by Wijaya & Wibowo (2022) with the title "The Effect of Profitability, Sales Growth, Leverage, and Liquidity on Tax Avoidance (Case Study of Manufacturing Companies in the Automotive Sub-Sector Automotive Industry and Components Listed on the Indonesia Stock Exchange 2015-2021)". This study shows that (1) Leverage has an effect on tax avoidance. (2) Liquidity has an effect on tax avoidance.

Pulungan et.al (2020) research with the title "Pengaruh Intensitas Modal, Likuiditas, Leverage Dan Kepemilikan Institusional Terhadap Tax Avoidance Pada Perusahaan Pertambangan Subsektor Batu Bara Yang Terdaftar Di Bursa Efek Indonesia Periode 2018-2020". This study shows that (1) Leverage has positive and significant effect on tax avoidance. (2) Liquidity has no significant effect on tax avoidance.

Thoha & Wati (2020) research entitled "PENGARUH LEVERAGE, LIKUIDITAS, UKURAN PERUSAHAAN, DAN PROFITABILITAS TERHADAP TAX AVOIDANCE (Studi Empiris Pada Perusahaan Industri Penghasil Bahan Baku Sektor Pertambangan yang Terdaftar di Bursa Efek Indonesia Periode 2015-2019)". This study shows that (1) Leverage has negative effect on tax avoidance. (2) Liquidity has negative effect on tax avoidance.

Research by (Nursari & Nazir, 2023) entitled "The effect of profitability, leverage, capital intensity, and inventory intensity on tax avoidance in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX). The research method used is a quantitative approach method using secondary data. Based on this research it can be concluded that (1) the leverage variable affects tax avoidance (2) inventory intensity affects tax avoidance.

CONCLUSION

Based on the explanation above, which is supported by several previous studies, it can be concluded that leverage and liquidity have an influence on corporate decision in conducting tax avoidance, although research results still vary. Some studies show a positive correlation between these metrics and tax avoidance, while other studies show a negative impact. These contrasting findings could be due to industry-specific factors, different methodologies, or variations in the period studied. Overall, the relationship between liquidity leverage and tax avoidance appears to be complex and context-dependent, requiring further analysis and consideration.

The Writer expressed the following suggestions:

1. Encourage collaborative platforms within industries to share ethical tax planning approaches, promoting compliance.
2. Continuously review and update tax laws to close loopholes and prevent aggressive tax planning strategies.
3. Support ongoing research to understand industry-specific nuances, aiding in the development of targeted policies.

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