The Effect of Financial Performance on Tax Avoidance With Good Corporate Governance as a Moderation Variable

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Abstract: Tax avoidance is one of the strategies to reduce the tax burden carried out by taxpayers in a certain way without violating tax regulations. This study aims to determine the effect of financial performance on tax avoidance as measured by *Effective Tax Rate* (ETR). In addition, a *Good Corporate Governance* (GCG) moderation test was carried out on the effect of financial statements on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2021 period. Sample determination using the *purposive sampling* method obtained 48 samples from 144 financial statements. This type of research is associative with a quantitative approach sourced from secondary data, namely data obtained from annual financial statements with data collection techniques using documentation through the official IDX website. The analysis method of this study uses multiple regression analysis, *Moderated Regression Analysis* (MRA). The results of this study show that the influence of financial statements as a proxy for profitability and *leverage* affects tax avoidance. In addition, *Good Corporate Governance* (GCG) proxied by independent commissioners can strengthen the effect of profitability of financial statements and *leverage* on tax avoidance.

Keywords: financial performance, *Good Corporate Governance (GCG),* and tax avoidance

Introduction

Contributions derived from taxes have an important role as a source of state revenue that can be used to fund activities, government economic development, and to prosper the interests of the general public (Arinda & Dwimulyani, 2018) . Indonesia gets revenues derived from tax collections that account for an average of more than 70% of the country's overall income. However, for companies, taxes are costs that must be incurred so that companies will tend to do tax *avoidance. Tax avoidance* is an activity carried out by taxpayers in order to reduce the burden of tax payable in a certain way without violating tax laws regulations (Sari & Mulyani, 2020) . The existence of *tax avoidance* is in the *grey area* because it is between tax compliance and tax evasion.

The case in *tax avoidance* occurred in a manufacturing company, namely the company PT Bentoel *International* Investama Tbk in 2019. Tax avoidance is carried out by taking loans from Dutch affiliated companies to refinance bank debts and paying for machinery and equipment, so as to decrease the company's tax burden due to interest payments on the loans. From this phenomenon, it proves that companies in Indonesia are trying to minimize the tax burden without violating taxation in Indonesia or making *tax avoidance* efforts. The size of the company's debt and the acquisition of profit affect the amount of tax that must be paid by the companyn which can be seen from the company's financial performance. *Return on Assetss* (ROA) is a profitability ratio to measure the amount of profit generated by a company, if the ROA obtained is large enough, it will tend to have a large enough tax obligation as well. While *leverage* is a ratio that displays the amount of debt that the company has to increase the company's profits. If the amount of long-term debt is high, it will cause high interest expense payments which will reduce the company's profit, thereby reducing the tax burden because interest expense can reduce the company's profit. According to previous study by (Rahmadani *et al*., 2020), *leverage* and profitability have a positive influence on *tax avoidance*, this indicates that the greater the ROA value there will be a tendency for companies to do *tax avoidance* and the leverage is getting bigger reflecting an increase in total funding obtained from debt which will result in high interest costs thus lowering the company's tax burden. Contrary to the research conducted by (Sari & Kinasih, 2022) that *leverage* does not affect tax avoidance. While the research conducted by (Dewi & Noviari, 2017), has the result that *leverage* had a negative influence on *tax avoidance,* this indicates that the greater the value of the company's debt, the smaller the *tax avoidance* action. Research conducted by (Hidayat, 2018), obtained results if profitability had a negative effect on *tax avoidance* that indicates the greater the profitability can reduce *tax avoidance* actions in companies because large companies have the ability to pay taxes. Meanwhile, the research (Hapsari Ardianti, 2019), showed that *Return on Assets* (ROA) has no effect on *tax avoidance.* In achieving the company's goals and not violating regulations, management actions are required by being supervised by *the principal.* A good and healthy company requires supervision by applying the principles of Good Corporate Governance (GCG). The independent board of commissioners is one of the organs that supports the implementation of this GCG principle so that it runs well in a company. The implementation of good GCG in the company is expected to minimize the practice of *tax avoidance* (Maidina & Wati, 2020). (Lestari & Putri, 2017), conducting research related to tax avoidance results *that corporate governance* affects tax avoidance, which means the better the implementation of *good corporate governance* will have an impact on decreasing tax avoidance actions. Meanwhile, according to (Purbowati, 2021), it says that *good corporate governance*, namely an independent board of commissioners, does not affect *tax avoidance*.

This research will analyze the effect of financial performance on *tax avoidance* with *good corporate governance* as a moderation variable. Previous research that has been carried out previously discusses problems similar to this research, namely regarding tax avoidance. However, there is a difference with previous research, namely making *good corporate governance* a moderation variable. The objectives of this study are 1) To determine the effect of financial performance proxied by profitability and *leverage* on tax avoidance in manufacturing companies in 2019-2021 listed on the IDX and 2) To find out *good corporate governance* can moderate financial performance proxied by profitability and *leverage* against tax avoidance in manufacturing companies in 2019-2021 listed on the IDX.

Method

This research applies associative research with a quantitative approach. This research is carried out on the IDX, namely by using the scope of manufacturing companies obtained through the official website of the IDX. This research was started from February to July 2022. The population in this study, namely manufacturing companies listed on the IDX from 2019-2021, amounted to 207 companies, then to determine the number of samples, the *purposive sampling* method was used. The sample used was 144 samples, consisting of 48 manufacturing companies registered on the IDX that matched the assessment criteria within a 3-year period of 2019-2021. The dependent variable in this research is *tax avoidance* as measured by the *Effective Tax Rate* (ETR). Meanwhile, the independent variables in this research are profitability as measured by *Return on Assets* and leverage as measured by *Debt to Asset Ratio* with moderation variables, namely *good corporate governance*, which is measured from the proportion of independent board of commissioners. The data collection method in this study is documentation which is in the form of data collection involving various documents related to research and secondary data in the form of annual financial statements and related to corporate governance management obtained from the official IDX *website*, namely *www.idx.co.id*. This research uses descriptive analysis techniques with a quantitative approach with theoretical testing through secondary data analysis using descriptive statistical procedures, multiple linear regression analysis, and *Moderated Regression Analysis* (MRA) using IBM SPSS software version 26. Some of the analytical tests used include descriptive statistics, classical assumption tests, hypothesis tests with 2 regression models, namely 1). $\mathrm{TA} = \alpha + \beta_1\mathrm{PRO} + \beta_2\mathrm{LEV} + \varepsilon$, 2) $\mathrm{TA} = + \beta_1\mathrm{PRO} + \beta_2\mathrm{LEV} + \beta_3\mathrm{GCG} + \beta_4\mathrm{PRO}^*\mathrm{GCG} + \beta_5\mathrm{LEV}^*\mathrm{GCG} + \varepsilon$ t test, f test, coefficient of determination.

Information:

TA = tax avoidance

PRO = profitability

LEV = leverage

GCG = Good Corporate Governance (GCG)

PRO*GCG = variable multiplication between profitability and independent commissioners which fully describes the variable moderation of *Good Corporate Governance* (GCG) to profitability with tax avoidance.

LEV*GCG = the multiplication variable between leverage and independent commissioners which fully describes the moderation *variables of Good Corporate Governance* (GCG) against leverage with tax avoidance.
α = Constant
$\beta_1 - \beta_5$ = regression coefficient
ε = error (5%)

Result and Discussion

Descriptive Statistical Analysis

The results of the descriptive statistical analysis used to describe the information of the characteristics in each of the research variables are presented as follows.

Table 1. Descriptive Statistical Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
Tax Avoidance	144	.0262	.9368	.253940	.1014239
Profitability	144	.0004	.4163	.098042	.0774945
Leverage	144	.0630	.7734	.343418	.1665568
GCG	144	.1667	.8333	.421519	.1028473
Valid N (listwise)	144				

Source: Data processed on IBM SPSS 26 (2022)

Test of Classical Assumptions

The regression model in this study has met the requirements, namely passing the classical assumption test starting from the normality, multicollinearity, heteroskedasticity, and autocorrelation tests.

Test F

Table 2. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.147	5	.229	97.815	.000[b]
	Residual	.324	138	.002		
	Total	1.471	143			

a. Dependent Variable: Tax Avoidance
b. Predictors: (Constant), X2.MO, Profitability, GCG, Leverage, X1.MO

Source: Data processed on IBM SPSS 26 (2022)

The results of the F or simultaneous test based on Table 4.6 show that F counts 97.815 with a significance value of P *value* of 0.000 <0.05, this indicate that the model used in this study is feasible for further analysis. It shows that the overall independent variables of profitability (X1), *leverage* (X2), independent board of commissioners (M), profitability interaction *Good Corporate Governance* (GCG) (X1. M) and the interaction *of leverage* with *Good Corporate Governance* (GCG) (X2. M) has the opportunity to provide predictions or describe the phenomenon *of tax avoidance* in manufacturing companies listed on the IDX for the 2019-2021 period.

Partial Test

Table 3. Partial Test Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.251	.021		-11.844	.000
	Profitability	.328	.105	.251	3.121	.002
	Leverage	.103	.049	.170	2.113	.036

Source: Data processed on IBM SPSS 26 (2022)

From the results of the analysis of the effect of profitability proxied by *Return on Assets* (ROA) on *tax avoidance*, $\mathbf{t_{hitung}}$ a positive value of 3,121 was obtained, while the value $\mathbf{t_{tabel}}$ was 1,977.So a value $\mathbf{t_{hitung}}$ greater than $\mathbf{t_{tabel}}$ the significance value of 0.002 < 0.05 indicates H_0 is rejected and H_1 is accepted. The value of t indicates a positive number, which means that this study proves that profitability has a positive and significant effect on *tax avoidance*.

From the results of the analysis of the effect of *leverage* proxied by the *Debt to Total Asset Ratio* (DAR) on *tax avoidance*, t_{hitung} a positive value of 2,113 was obtained greater than t_{tabel} 1,977. A significancee value of 0.036 < 0.05 indicates H_0 is rejected and H_2 is accepted. The value of t indicates a positive number, which means that this researchh proves that *leveragee* has a positive and significant effect on *tax avoidance*.

Moderation Test

Table 4. Moderation Test Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.162	.037		4.339	.000
	Profitabilitas	.637	.090	.487	7.089	.000
	Leverage	.311	.035	.510	8.844	.000
	GCG	.014	.021	.033	.673	.502
	X1.MO	.085	.007	.879	12.155	.000
	X2.MO	.059	.004	.847	13.188	.000

Source: Data processed on IBM SPSS 26 (2022)

The results of the moderation regression analysis show that the value of the positive profitability variable is significant and the variable interaction of profitability with *good corporate governance* is also significantly positive, so it shows that there is a unidirectional relationship so that it is concluded that the good *corporate governance* variable is a *moderating* variable that strengthens the effect of profitability on *tax avoidance*. Referring to these results, H_3 is rejected, which means that GCG cannot weaken the positive effect of profitability on *tax avoidance.*

The results of the moderation regression analysis show that the value of the positive *leverage* variable is significant and the variable interaction of *leverage* with *good corporate governance* is also significantly positive, so it shows that there is a unidirectional relationship so that it is concluded that the *good corporate governance* variable is a *moderating* variable that strengthens the influence of *leverage* on *tax avoidance.* Referring to these findings, H_4 was rejected, which means that *Good Corporate Governance* (GCG) cannot weaken the positive influence of *leverage* on *tax avoidance.*

Determination Coefficient Test

Table 5. Coefficient of Determination Test Results

Equation	*R Square*	*Adjusted R Square*
Y= $-0{,}251 + 0{,}328X_1 + 0{,}103X_2 + e$	0,090	0,077
Y= $0{,}162 + 0{,}637X_1 + 0{,}311X_2 + 0{,}014M + 0{,}085X_1M + 0{,}059X_2M$	0,780	0,772

Source: Data processed on IBM SPSS 26 (2022)

The determination value (*Adjusted R²*) of 0.077 which means 7.7% of the variation in *tax avoidance* is influenced by variations in profitability (X_1) and *leverage* (X_2) while the rest is explained by other factors that are not incorporated into the model. Meanwhile, the results for moderation regression provide results where the total determination value (*Adjusted R^2*) is obtained by 0.772. This means that the variation in *tax avoidance* in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period can be significantly influenced by variables of profitability, leverage, *Good Corporate Governance* (GCG) as well as variable interactions between profitability and *leverage* with *Good Corporate Governance* (GCG) of 77.2% while the remaining 22.8% is explained by other factors.

Discussion

The effect of profitability on *tax avoidance*

Profitability as measured by *Return on Assets* (ROA) is one of the measurements for a company's financial performance that describes the effectiveness of a company in making a profit by utilizing its total assets. When the company obtains a high profit, the company will make tax plans so that the tendency to do *tax avoidance* increases. The existence of this agency theory spurs agents to manage the tax burden so as not to reduce the performance of agents. The results of this study are in line with research conducted by (Mahdiana & Amin, 2020), which states that profitability has a significant positive effect on *tax avoidance*.

The effect of leverage on tax avoidance

Leverage measured by the *Debt to Assets Ratio* (DAR) shows that the comparison of the amount of debt the company has with the assets financed by the company's debt. The high interest expense caused by the amount of long-term debt owned will cause a reduction in the company's tax burden. If profit before tax is reduced due to interest expense that must be paid, the obligation to pay tax will be reduced which indicates tax *avoidance*. The results of this study are in line with the research conducted by (Triyanti et al., 2020), stating that the results of the study show that *leverage* affects *tax avoidance.*

Good Corporate Governance* (GCG) can moderate the effect of profitability on *tax avoidance

Good Corporate Governance (GCG), as measured by an independent board of commissioners, is needed as a form of supervision of company management to minimize the occurrence of *tax avoidance*. The independent board of commissioners is the representative of the shareholders, so it is expected that the independent board of commissioners can supervise the quality of financial reporting in the company. However, on the contrary, this study provides results that are in line with tax avoidance, namely that an independent board of commissioners can strengthen the effect of profitability on *tax avoidance*. So, it can be said that the placement of an independent board of commissioners is only for the benefit of company regulation. Good knowledge related to company conditions, independence, and responsibility to the company is very necessary for independent commissioners so that the company can be on the right track in implementing GCG principles.

Good Corporate Governance (GCG) can moderate the effect of leverage on tax avoidance

With the existence of an independent board of commissioners, it is hoped that it will be able to provide effective supervision of financial reporting by enforcing the principles of *Good Corporate Governance* properly. However, this study provides results that are in the same direction as tax avoidance, namely that an independent board of commissioners can strengthen the influence of *leverage* on *tax avoidance*. This showed that the number of independent boards of commissioners does not determine the quality of the company's financial reporting, but rather the need to have objectivity, professional, independence, and responsibility in supervising the company's financial reporting.

Conclusion

After hypothesis testing using multiple linear regression analysis methods and *moderated regression analysis* (MRA), conclusions were reached, 1) the effect of financial performance proxied by profitability and *leverage* has a significant positive influence on *tax avoidance*, 2) *Good Corporate Governance* which is proxied by an independent board of commissioners cannot weaken the effect of profitability and leveraged financial performance on *tax avoidance*.

From the results on this research obtained, it can provide insight to investors as a consideration in making investment decisions in a company, and can provide representation regarding the compliance of taxpayers carrying out their obligations and assess the effectiveness of tax regulations currently in force in Indonesia.

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