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The Effect of Profitability, Company Size, and Liquidity on Tax Avoidance

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ABSTRACT

The biggest source of income in state finances is taxes. The higher the tax revenue, will have the good impact on the sustainability of a country. On the other hand, the company as a taxpayer considers that tax is a cost that can reduce profits. Thus, the company will try to minimize tax payments, one of which is tax avoidance. This study aims to determine and examine the effect of profitability, firm size, and liquidity on tax avoidance of food and beverage companies listed on the Indonesia Stock Exchange. The population used is food and beverage companies on the Indonesia Stock Exchange for the period 2017-2019. The sampling method in this study used a purposive sampling method and 18 companies were obtained according to the sample selection criteria during the 2017-2019 period. The data analysis technique used is multiple linear regression with the help of SPSS software version 25.0. The results of this study show that the profitability variable partially does not affect tax avoidance, the firm size variable partially has a positive effect on tax avoidance and the liquidity variable partially does not affect tax avoidance.

Keywords: Tax Avoidance, Profitability, Firm Size, Liquidity

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INTRODUCTION

Taxes have an essential role in a country as a source of funds to finance development and state financing to realize the welfare of the people. Funds from the collected taxes proceeds are allocated for state development such as to finance education, health, industry, infrastructure, and others (Hidayat, 2018). Based on Law Number 16 of 2009 concerning General provisions and Tax Procedures in Article 1 paragraph 1, tax is a mandatory contribution to the state that is owed by an individual or entity that is coercive under the law, without direct compensation, and is used for state purposes. The reform of the tax system in Indonesia occurred in early 1984, from the *official* assessment system to the *self-assessment* system. The purpose of changing the tax system, especially tax collection, is to become a *self-assessment system* to achieve state independence and release dependence on other countries and strengthen the country's financial capabilities by increasing tax sector revenues (Dewinta & Setiawan, 2016).

Table 1 . Targets and Realization of tax revenues for 2016-2019

Year	Target	Realization	Percentage
2016	1.539,2	1.285,0	83,5%
2017	1.472,7	1.339,8	91,0%
2018	1.618,1	1.424,0	88,0%
2019	1.786,4	1.577,6	88,3%

Source: APBN 2016-2019

Based on Table 1.1, it can be seen that the realization of tax revenues received by the government does not meet the predetermined targets. The percentage of tax revenue increased from 2016 to 2017 but decreased from 2017 to 2018 and in 2019 the realization of tax revenues increased by 0.3%. The data illustrates that the tax revenue target has not been met and is far from the target set by the government. This is caused by the existence of taxpayers who carry out tax avoidance in various ways.

Tax avoidance is an effort by taxpayers to avoid taxes by legal means to reduce the amount of tax owed without violating the provisions of regulations (Swingly & Sukartha, 2015). According to Pohan & Anwar (2015) tax avoidance is an effort made by taxpayers to streamline the tax burden, namely avoiding tax imposition by directing it to non-tax transactions. Several cases of tax avoidance that harm the government have occurred in Indonesia. PT Coca-Cola Indonesia (CCI), whose shares are listed on the Indonesia Stock Exchange, for example in 2014, is suspected of getting around taxes whose impact has caused a reduction in tax payments worth Rp 49.64 billion.

Some factors that can affect tax avoidance are profitability, company size, and liquidity. Profitability is the ability of an enterprise to make a profit over a certain period. The level of profitability of a company can be seen in several ways related to the level of sales, the level of assets, and the level of capital which is measured using ratios. The profitability ratio is used to determine the level of profit earned by the company in one period, determine the position of the company's profits in the previous year and the current year, and determine the productivity of all company funds used (Kasmir, 2016, p. 198).

Profitability consists of several ratios, one of which is *the return on assets* (ROA), which measures how much a company can make a profit from investment activities (Suryani, 2020). Research on ROA related to tax avoidance has been conducted by Akbar, A., &

E-ISSN 2809-5960 http://journal.sinergicendikia.com/index.php/ijeset

Hakiman Thamrin.(2020), Subagiastra et al., (2020), Ningtyas et al., (2020), Hidayat (2018), Irawati et al., (2020), and Suryani, (2020). The results showed that ROA affected tax avoidance (Akbar, A., & Hakiman Thamrin. (2020), Subagiastra et al., (2020), and Ningtyas et al., (2020), while the results of research by Hidayat (2018), Irawati et al., (2020), and Suryani, (, 2020) found evidence that return on assets (ROA) did not affect tax avoidance.

Company size is a scale that can classify companies in various ways, namely total assets, total sales, number of workers, and others. According to Riyanto (2016, p. 313), company size is the size of the company seen from the value of equity, sales value, or asset value. Company size is a scale that can categorize the size of a company in various ways, including total assets, log size, sales and market capitalization, and others. Research related to company size (*firm* size) on tax avoidance shows (Ngadiman & Puspitasari, (2017) and Kusufiyah and Anggraini (2019) which shows that size affects *tax avoidance*, while Khairunisa et al., (2017); Barli, (2018); Ningtyas et al., (2020); Suryani, (2020) shows the opposite result.

Liquidity is a benchmark for a company's ability to meet its short-term obligations as illustrated by its current assets against its current debt (Marwah & Indiana, 2019). Liquidity can be measured using several ratios including the current ratio, quick ratio, cash ratio, cash turnover ratio, and inventory to net working capital. Research related to the effect of liquidity on tax avoidance has been conducted by several researchers. Budianti & Curry, (2018) and Abdullah (2020) showed results that liquidity has a positive effect on tax avoidance, while Rozak et al., (2018) showed that liquidity does not affect tax avoidance.

Hypothesis Development

Research on the effect of profitability, company size, and liquidity on tax avoidance has been conducted by several previous researchers, including Dewinta & Setiawan (2016), Khairunisa et al., (2017), Barli (2018), Budianti & Curry, (2018), Hidayat (2018), Rozak et al., (2018), Abdullah (2020), Irawati et al., (2020), Ningtyas et al., (2020), Suryani, (2020),

Dewinta & Setiawan (2016) analyzed how the impact of company age, profitability, company size, *leverage*, and sales growth on tax avoidance. The sample used was a manufacturing company listed on the Indonesia Stock Exchange (IDX) for the period 2011-2014, the analysis tool used was multiple linear regression. The results of the study proved that the variable that affects tax avoidance is the size of the company, the age of the company, profitability, and sales growth.

Khairunisa et al., (2017) with a sample of beverage and food companies listed on the Indonesia Stock Exchange for the period 2011-2015 tested how the influence of audit quality, *corporate social responsibility*, and company size on tax avoidance. The result of the study showed that if tested simultaneously all variables of audit quality, *corporate social responsibility*, and company size had a significant effect on tax avoidance. Meanwhile, if tested partially, they managed to prove that only the quality of audits and *corporate social responsibility* negatively affect *tax avoidance*, and the size of the company has no effect.

Barli (2018) with a sample of 34 property, real estate, and construction sector companies listed on the Indonesia Stock Exchange in 2013-2017, tested the effect of leverage and company size on tax avoidance. The results showed evidence that if tested separately, *only leverage* affected tax avoidance, while size did not. If tested simultaneously both variables affect tax avoidance.

E-ISSN 2809-5960
http://journal.sinergicendikia.com/index.php/ijeset

Bud].ianti & Curry (2018) tested the effect of profitability, liquidity, and *capital intensity* on *tax avoidance*. The sample of companies is a consumer goods company listed on the Indonesia Stock Exchange (IDX) for the period 2013-2016. Sampling technique using *purposive sampling* with panel data. The test result showed evidence that with the alpha significance of 1% profitability and liquidity negatively affecting tax avoidance, *capital intensity* has no effect. At an alpha rate of 5%, only *capital intensity* affects tax avoidance.

Hidayat (2018) with a sample of 25 manufacturing companies listed on the Indonesia Stock Exchange for the period 2011-2014, tested the effect of profitability, *leverage*, and sales growth as independent variables and tax avoidance as dependent variables. Using multiple regression analysis, he managed to prove profitability and sales growth had a positive and significant effect on tax avoidance (p-value <0.05). While *leverage* has no effect.

Rozak et al., (2018) examined the effect of current ratio (CR), *return* on asset (ROA), *and debt-to-asset ratio (*DAR) on tax avoidance. The sample used in this study was a company of various industries listed on the Indonesia Stock Exchange for the period 2013-2017 The results of the study showed that if tested individually that only CR had a negative effect while ROA and DAR did not affect tax avoidance. Meanwhile, if tested simultaneously, the three variables affect tax avoidance.

Abdullah (2020) with a sample of beverage and food companies listed on the Indonesia Stock Exchange in 2013-2016 tested the effect of liquidity and *leverage* on tax avoidance. The research is a quantitative descriptive study. Multiple linear regression analysis was used to test and the results of the study proved that partially and simultaneously liquidity and *leverage* variables affect tax avoidance.

Irawati et al., (2020) examined the effect of profitability, *leverage*, sales growth, and family ownership on tax avoidance. The research was conducted on manufacturing companies listed on the Indonesia Stock Exchange from 2013-2017. The test results partially show evidence that only the company's growth affects tax avoidance, while others have no effect. Meanwhile, the test results simultaneously show evidence that profitability, *leverage*, and family ownership have a significant effect on tax avoidance, while sales growth has no effect.

Ningtyas et al., (2020) analyzed the effect of profitability, *leverage*, and company size on tax avoidance. The sample used in this study was 37 banking companies listed on the Indonesia Stock Exchange for the 2016-2018 period. Using multiple linear regression analysis and SPSS 22 *software*, they managed to prove that profitability has a significant effect on tax avoidance, while company size and debt (*leverage*) has no effect.

Suryani (2020) examined the effect of company size, *return on assets*, *debt-to-asset ratio*, and audit committee on tax avoidance. The research period was conducted from 2014-2018 with 45 samples of manufacturing companies whose shares were active and listed on the Indonesia Stock Exchange. The results of the multiple linear regression test prove that the size of the company and the return on assets have a negative effect on tax avoidance, while the debt-to-asset ratio and audit committee have a positive effect.

Based on the results of the above literature review, the author develops a hypothesis in the form of: $H_{1.}$ Profitability has a positive effect on tax avoidance, $H_{2.}$ The size of the Company has a positive effect on tax avoidance, $H_{3.}$ Liquidity has a positive effect on tax avoidance.

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METHOD

The research was carried out by reviewing data on food and beverage companies listed on the Indonesia Stock Exchange (IDX) in the period 2017 to 2019. The type of data in this study is secondary data which is then *processed using* SPSS software version 25. The sampling technique is carried out using *the purposive sampling* method. Some of the companies used as research samples have complied with the established criteria. Details regarding the research sample can be seen in Table 2 as follows:

Table 2. Sample

No	Criterion	Sum
1.	Number of food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the period 2017 to 2019	30
2.	Companies that do not present their financial statements in full during the period 2017 to 2019	(5)
3.	Companies that did not make consecutive profits from 2017 to 2019	(7)
Companies that meet the criteria		**18**
Number of research data		**54**
Data Outlier		**(3)**
Total Research data		**51**

Dependent Variables
Tax Avoidance

The dependent variable in this study is tax avoidance calculated with CETR *(Cash Effective Tax Rate),* which is by comparing all tax payments to profit before tax. Mathematically it can be formulated as follows (Hidayat, 2018):

$$\text{CETR } (Cash\ Effective\ Tax\ Rate) = \frac{\text{Tax Paid}}{\text{Earning Before Tax}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Independent variables in this study *return on assets* (ROA) as a proxy of profitability, company size (Size), and current ratio (CR) as a proxy of liquidity.

Independence Variable
ROA

ROA calculation is done by comparing net profit after tax with the following total assets: This ratio is sought by comparing net profit after tax with total assets, or mathematically it can be formulated as follows (Hidayat, 2018):

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$$\text{ROA } (\textit{Return On Asset}) = \frac{\text{Earning After Tax}}{\text{Total Asset}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(2)}$$

SIZE

The size of the company is calculated by finding the Ln of the total assets of the beverage company. The formula in this study used to measure the size of the company is as follows (Andy, 2018) :

Company size = Ln (Total Assets) ………………………………………………………….. (3)

Current Ratio

The calculation of the *Current ratio* is carried out by comparing current assets with current liabilities. The current ratio is calculated and formulated as follows (Marwah & Fidiana, 2019):

$$\textit{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(4)}$$

Regression Analysis

$$Y = \alpha + b\,1\,X_1 + b\,2\,X_2 + b\,3\,X_3 + + e + \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(5)}$$

Information:
Y: *Cash Effective Tax Rate ;* α: Constants ; $b_1 b_2 b_3$: Regression coefficient on each of the free variables ; X_1 : Profitability ; X_2: Company Size ; X_3 : Liquidity ; e: *Error*

RESULTS AND DISCUSSION

The results of the descriptive statistical test are as follows:

Table 3. Descriptive Statistical Test

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA (X_1)	51	0,0005	0,2229	0,085951	0,0546432
SIZE (X_2)	51	27,0810	32,2010	28,855382	1,4293754
CR (X_3)	51	0,9937	8,6378	2,656725	1,880910
CET (Y)	51	0,1608	0,3337	0,250112	0,0377423

Source: Secondary data processed

The results of the descriptive statistical test are presented in Table 3 with the number of research data (N) as many as 51 data. The test results explained that the profitability variable was the first independent variable tested with a *return on asset* (ROA) proxy against tax avoidance. Table 3 shows the minimum profitability value of 0.0005 obtained from PT. Sekar Bumi Tbk. in 2019 and its maximum value of 0.2229 was obtained from PT. Sekar Bumi Tbk. Delta Djakarta Tbk. in 2019. The average value (*mean*) of the profitability of food and beverage companies on the IDX for the 2017-2019 period is 0.085951 and the standard deviation is 0.0546432.

The company size variable (SIZE) is the second independent variable to be tested for its effect on tax avoidance. Table 3 shows that the minimum value of the company size is 27.0810 obtained from PT. Buying Poetra Sembada Tbk. in 2017, while the maximum value of 32,2010 was obtained by PT. Indofood Sukses Makmur Tbk. in 2018. The average value

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Vol. 1 Issue 5, Ocotober, 2022, pp, 334 - 345

E-ISSN 2809-5960 http://journal.sinergicendikia.com/index.php/ijeset

(*mean*) of food and beverage company sizes on the IDX for the 2017-2019 period was 28.855382 with a standard deviation of 1.4293754.

The liquidity variable is the third independent variable to be tested for its effect on tax avoidance using a *current ratio* (CR) proxy. Table 3 shows that the minimum liquidity value of 0.9937 was obtained from PT. Garudafood Putra Putri Jaya Tbk. in 2017, while the maximum value was obtained from PT. Delta Djakarta Tbk. in 2017 amounted to 8.6378. The average (*mean*) value of liquidity of food and beverage companies on the IDX for the 2017-2019 period was 2.656725 and the standard deviation was 1.880910.

The dependent variable, namely tax avoidance proxied by *the cash effective tax rate* (CETR) has a minimum value of 0.1608 obtained from PT. Sekar Laut Tbk. in 2017, while its maximum value of 0.3337 was obtained from PT. Sekar Laut Tbk. Indofood Sukses Makmur Tbk. in 2018. CETR shows a *mean* value of 0.250112. This shows that the average tax payment from food and beverage companies on the IDX for the 2017-2019 period which is the research sample is 25.01% of profit before tax with a standard deviation of 0.0377423 or 3.77%.

Multicollinear

To find out whether the variables are independent of linear relationships perfectly, the researchers conducted a multicollinearity test. If there are independent variables in the study that have a linear relationship with each other, it can be concluded that the research data experience symptoms of multicollinearity. If the *tolerance* value > 0.10 or the VIF < 10, it can be said that the study data did not experience symptoms of multicollinearity. The results of the multicollinearity test can be seen in the following table.

Table 4. Multicollinearity Test

Type		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	T	Sig	Colinearity Tolerance	VIFs
1	Constant	-.193	.099		- 1.956	.056		
	ROA	-.101	.118	-.147	-.856	.396	.508	1.969
	SIZE	.015	.003	.575	4.488	.000	.907	1.103
	CR	.005	.004	.256	1.463	.150	.485	2.062

a. Dependent Variable: Y

Based on table 4 above, the tolerance results show that there are no independent variables that have *a tolerance* value of less than 0.10, namely 0.508 for the profitability variable (ROA), 0.907 for the company size variable (SIZE) and 0.485 for the liquidity variable (CR). The results of the VIF calculation also show that there are no independent variables that have a VIF value of less than 10. The VIF value in the profitability variable (ROA) is 1.969, in the company size variable (SIZE) it is 1.103 and in the liquidity variable (CR) it is 2.062. This shows that all independent variables do not experience symptoms of multicollinearity.

Results

Regression analysis in this study was used to examine the effect of the independent variables on the dependent variable. This analysis will prove the effectiveness of the variables profitability, company size, and liquidity on tax avoidance in food and beverage

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Vol. 1 Issue 5, Ocotober, 2022, pp, 334 - 345
E-ISSN 2809-5960 http://journal.sinergicendikia.com/index.php/ijeset

companies listed on the Indonesia Stock Exchange in the period 2017 to 2019. The results of the multiple linear regression analysis show that there is an influence of independent variables on the dependent variable can be seen in the following table.

Table 5. The Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	-0,193	0,099	
ROA	-0,101	0,118	-0,147
SIZE	0,015	0,003	0,575
CR	0,005	0,004	0,256

Based on table 5 above, it can be seen that the multiple linear regression equation models in this study that will be used to measure the effect of the variables on profitability, firm size, and liquidity on tax evasion are as follows:

CETR = -0,198 – 0,101 ROA + 0,015 SIZE + 0,005 CR + e

Keterangan :
CETR = Tax avoidance
B = Constanta
ROA = profitability
SIZE = company size
CR = liquidity
e = *error*

The linear regression equation above can be explained as follows:

a. The constant or tax avoidance is -0.193, which means that if the profitability (ROA), company size (TA), and liquidity (CR) are zero, then the constant or tax avoidance is -0.193.
b. The regression coefficient of the profitability variable (ROA) is -0.101, which means that if the other independent variables are fixed and ROA increases by 1%, then tax evasion will decrease by 0.101. The coefficient is negative, meaning that there is a negative relationship between tax avoidance and profitability (ROA). The higher the ROA value, the lower the tax evasion.
a. The regression coefficient of the liquidity variable (CR) is 0.005, which means that if the other independent variables are fixed and the CR increases by 1%, then tax evasion will increase by 0.005. The coefficient is positive, meaning that there is a positive relationship between tax avoidance and liquidity (CR). The higher the CR value, the higher the tax avoidance.

From the results of multiple linear regression analysis in table 4.7 above, it can be seen that the independent variable firm size (SIZE) has the largest beta coefficient compared to other independent variables. The company size variable (SIZE) has a beta coefficient of 0.575. This shows that the variable company size is a variable that has a major influence on

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E-ISSN 2809-5960
http://journal.sinergicendikia.com/index.php/ijeset

tax evasion in food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period

To test the influence of independent variables on dependent variables performed Statistical test t. In this study, the decision-making of the statistical test t can be seen through the significant value of t. If the value of sig. t is more than 0.05 then the hypothesis is rejected, meaning that there is no partially significant influence on the independent variable on the dependent variable. However, if the value of the sig. t less than 0.05 then the hypothesis is accepted, meaning that there is a partially significant influence on the independent variable on the dependent variable. The results of statistical tests in this study can be seen in the following table:

Table 6. Statistical Test Results t

Type	Standardized B	Coefficients Std. Error	Standardized Coefficients Beta	T	Sig
Constant	-.193	.099		-1.956	.056
ROA	-.101	.118	-.147	-.856	.396
SIZE	.015	.003	.575	4.488	.000
CR	.005	.004	.256	1.463	.150

a. Dependent Variable: Y

From the results of the statistical test t in table 5 above, it can be concluded as follows:

a. ROA Variable

Based on table 5 above, it can be seen that the profitability variable (ROA) has a significant value of t that is greater than 0.05, which is 0.396 > 0.05. This shows that variable profitability (ROA) does not have a partially significant effect on tax avoidance in food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The results do not provide support for H 1 which states that profitability (ROA) affects tax avoidance, therefore H_1 is rejected.

b. SIZE Variable

Based on table 5 above, it can be seen that the company size variable (SIZE) has a significant t value that is smaller than 0.05, namely 0.000 <0.05. This shows that the company size variable (SIZE) has a partially significant effect on tax evasion in food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period. These results provide support for H2 which states that company size (SIZE) affects tax avoidance, therefore H2 is accepted.

c. Current Ratio (CR)Variable

Based on table 5 regarding the results of the t-statistical test above, it can be seen that the liquidity variable (CR) has a significance value of more than 0.05, namely 0.150 > 0.05. This shows that the liquidity variable (CR) has a partially significant effect on tax evasion in food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The test results above illustrate that the H3 hypothesis is not proven where liquidity (CR) affects tax evasion and is rejected.

The coefficient of determination test is a test to find out how much the overall contribution of the independent variables is to the dependent variable. The independent variables can explain the variation of the dependent variable well if the resulting value is

International Journal of Economics, Social Science, Entrepreneurship and Technology (IJESET)
Vol. 1 Issue 5, Ocotober, 2022, pp, 334 - 345

E-ISSN 2809-5960 http://journal.sinergicendikia.com/index.php/ijeset

close to 1 (one). While the dependent variable cannot be explained properly by the independent variables if the resulting value is close to 0 (zero). The results of the test for the coefficient of determination in this study can be seen in the following table:

Table 7. Coefficient of Determination (R2)

Model	**R**	**R Square**	**Adjusted R Square**
1	0,549	0,301	0,256

Based on table 6 above, it can be seen that the Adjusted R Square value in this study is 0.256 or 25.6%. So it can be concluded that tax evasion as the dependent variable in food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period was influenced by 25.6% by independent variables, namely profitability (ROA), company size (SIZE) and liquidity (CR). While the remaining 74.4% is influenced by other factors outside the regression model in this study.

CONCLUSION

Research conducted on several independent variables (profitability (ROA), company size (SIZE), and liquidity (CR)) on the dependent variable (tax avoidance) in several food and beverage companies listed on the Indonesia Stock Exchange for the 2017-2019 period, it can be concluded that underlined several things. Profitability by proxy return on assets (ROA) does not affect tax evasion, meaning that high or low profitability will not affect food and beverage companies on the IDX in taking tax evasion actions. The higher the profitability, it shows that the company can pay its tax costs under the provisions of the tax laws and regulations without taking advantage of loopholes such as tax evasion. These results are in line with the research of Dewinta & Setiawan (2016), Budianti & Curry (2018), Hidayat (2018), Rozak et al., (2018), and Ningtyas et al., (2020).

Company size (SIZE) has a positive effect on tax avoidance, meaning that the size of a food and beverage company on the IDX can influence tax avoidance. Companies with large sizes have complicated transactions, this will encourage companies to use more competent resources by taking advantage of loopholes in each transaction to minimize their tax costs. The research results are supported by previous research by Dewinta & Setiawan (2016) and Khairunisa et al., (2017).

Liquidity by proxy Current Ratio (CR) does not affect tax evasion, meaning that liquidity cannot affect tax evasion in food and beverage companies on the IDX. The higher the level of company liquidity, the higher the company's ability to meet its short-term obligations. The high level of assets shows that the financial condition or cash flow of a company is healthy and not problematic so that the company can meet its tax costs and will not take tax evasion actions. The results of the research support the research of Rozak et al., (2018) which are not following the results of the research of Budianti & Curry (2018) and Abdullah (2020).

From the results of the discussion above, it can be underlined that two of the three independent variables do not affect tax avoidance, namely profitability and liquidity. While the variable firm size has a positive effect on tax avoidance. This research empirically has a contribution: first, the research results contribute to the academic world and add to the accounting and tax literature, second, the information from this research is useful as a reference for subsequent tax avoidance researchers.

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For future research, the researcher proposes three things. First, the sample of companies is expanded. Second, liquidity should affect tax avoidance. Third, the time series data is added to 5 years.

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