

Analysis of Profitability, Leverage on Tax Avoidance in Banking Companies

Natasya Putri¹, Feni Marnilin², Ichwan Rahmanu Widjaja³

^{1,2,3}Universitas Nusa Bangsa, Indonesia; ¹fenimarnilin01@gmail.com;

Background: Increasing global economic competition forces companies to maximize profits by minimizing tax burdens. Taxes are mandatory contributions collected by the government to finance state expenditures, but they are a burden for taxpayers, leading to widespread tax avoidance practices. This tax avoidance exploits legal loopholes to reduce tax burdens without breaking the rules, which can result in losses for state revenue. The largest source of revenue in Indonesia comes from tax revenue. This can be proven by data published by the Ministry of Finance, which occurred in 2023, namely tax revenue of Rp. 2,463.0 trillion. The increasing prevalence of tax avoidance by companies around the world. One company that is very dominant in Indonesia is the banking company. This study focuses on two main factors influencing tax avoidance: profitability and leverage. The purpose of using profitability is to encourage companies to protect their income by avoiding taxes, while the purpose of using leverage is to reduce taxable income thru interest expense. Tax avoidance is an effort to minimize tax burden by exploiting regulatory loopholes without breaking the law. Tax planning can be done using two methods: tax avoidance and tax evasion. The methods and techniques used are not within the framework of tax laws and regulations, making them unsafe for taxpayers as they are considered illegal criminal acts.

Purpose: This research certainly aims to analyze the profitability and leverage of tax avoidance in banking companies listed on the IDX in 2023.

Methodology: The research uses quantitative description aimed at providing a summary overview that can help understand the types of independent variables and test the established hypotheses. In this study, data collection techniques were carried out from secondary data sources, namely the company's financial statement data, with sampling done using research instruments. This research uses the following calculations: a. Profitability: $NPM = \text{Net Profit} : \text{Total Revenue}$ b. Leverage: $DAR = \text{Total Debt} : \text{Total Assets}$ c. Tax Avoidance: $\text{Tax Payment} : \text{Profit Before Tax}$

Finding: The results of this study indicate that profitability, calculated using the NPM ratio, is above 20% for banking companies, which means profitability is considered good. Leverage, calculated using the DAR ratio, is below 1.0, indicating the company is in a safe or healthy position because total debt is less than total assets or equity. Meanwhile, tax avoidance in banking companies listed on the IDX for the 2023 period, calculated using the ETR method, shows that the average result is lower than 25%. This indicates that the companies are suspected of engaging in tax aggressiveness or, in other words, not paying the appropriate amount of taxes

Limitation: In this study, the scope of the research problem is Profitability (X1), Leverage (X2), and Tax Avoidance (Y) in banking companies listed on the IDX for the period 2023. Profitability in this study is measured using Net Profit Margin (NPM), to determine the extent of profit earned by the company. Leverage is measured using the Debt to Asset Ratio (DAR), to determine the extent to which the company is financed by debt. Tax avoidance is measured by the Effective Tax Rate (ETR), and this proxy is the most widely used in the literature to measure tax aggressiveness in tax avoidance. Using ETR because it can provide a comprehensive overview of the tax burden that will impact profits.

Originality: This research provides direction for problem-solving in society by identifying and analyzing the issues that are occurring within the community. Expanding one's horizons is one way to develop a good mindset for oneself and others. Problems in taxation: many taxpayers/entities do not pay taxes according to the amount set by the Directorate General of Taxes (DJP). Therefore, the researcher will provide an overview/insight to the public about paying their tax obligations to the state.

Keywords: Keywords: profitability, leverage, tax avoidance.