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Dynamics of Tax Avoidance Practices: Uncovering the Influential Factors in Indonesian Property and Real Estate Companies

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Abstract— **This type of research is quantitative research that aims to analyze the influence of financial distress, leverage, profitability, and company size on tax avoidance focused on property and real estate issuers on the Indonesia Stock Exchange (IDX) in 2019-2023. The population was 92 companies, 12 companies were selected as samples using purposive sampling method, so the number of observations was 60. The data analysis technique uses multiple linear analysis using SPSS software. In the classical assumption test there is an autocorrelation disorder so that treatment is carried out and the observation is reduced by 1 to 59. The results showed that simultaneously, the four independent variables had a significant influence on tax avoidance. Partially, profitability has a positive and significant influence on tax avoidance, leverage has a negative and significant influence on tax avoidance, while financial distress, and firm size have no significant influence on tax avoidance. For further research, it is recommended to be able to add tax avoidance measurements other than cash influenceive tax rate (CETR), for example with effective tax rate (ETR) or book-tax difference (BTD). It is also recommended to add research samples and observation periods to obtain much better results.**

Keywords— Financial Distress; Firm Size; Leverage; Profitability; Tax Avoidance

I. INTRODUCTION

Indonesia is one of the countries in the Asia-Pacific Region, which collects taxes as the largest source of revenue used to finance routine state expenditures and development funding. The Organization of Economic Co-operation and Development (2023) states that "In 2021 Indonesia's tax revenue is still low when compared to countries in the Asia-Pacific Region and even in Southeast Asia it is also low, this can be seen from the tax ratio". Based on the data presented by Databoks, Indonesia's tax ratio in 2019 amounted to 9.77%, in 2020 amounted to 8.33%, 2021 amounted to 10.9%, 2022 amounted to 10.38%, and for 2023 the state budget target is 11.69%. Indonesia's low tax ratio is partly due to the low level of compliance of taxpayers, including companies.

In the Tax Justice Network report entitled "State of Tax Justice 2023" states that Indonesia's annual tax losses arising from tax abuse by companies amounted to US $ 2,736.5 million. This study aims to reveal whether there is an effect of financial distress, leverage, profitability and firm size which are thought to be factors that influence the dynamics of tax avoidance practices, especially in property and real estate companies in Indonesia. In Indonesia, property and real estate sector companies play a significant role in economic growth as one of the tax contributors. According to Databoks in 2023 property and real estate companies occupy the sixth position at 4.4% as the largest contributor to corporate income tax for Indonesia.

Tax avoidance is an effort to avoid taxes that is carried out legally and safely for taxpayers without contradicting applicable tax provisions [15]. Tax avoidance is done by utilising the weaknesses (grey areas) of tax regulations that are not or have not been regulated, so that it is legal and does not violate the law to reduce the amount of tax payable. Tax avoidance is one of the tax planning as a sustainability strategy in the business aspect, namely one of the tax management methods to minimize tax payments from the nominal value so that the net profit obtained can be maximized. Tax avoidance is a unique problem because there are two opposing interests, namely on the one hand the government does not want tax avoidance even

though it is legal because it can reduce state revenue and harm the state. Meanwhile, on the other hand, companies try as much as possible to reduce their tax burden by utilising existing loopholes to optimize the net profit to be obtained.

Previous research by [11] financial distress has a significant positive influence on tax avoidance, while according to research by [20] that financial distress has a significant negative influence on tax avoidance. Then research by [21] states that leverage as measured by Debt to Equity Ratio (DER) has a significant positive influence on tax avoidance, while according to [20] DER has a negative influence on tax avoidance. Furthermore, research by [5] states that profitability has a positive influence on tax avoidance, while research by [17] states the opposite, namely that profitability has a negative influence on tax avoidance. Then research by [2] states that firm size has a positive influence on tax avoidance, while research by [10] states that firm size has a negative influence on tax avoidance. This shows that there is a gap in the literature regarding the specific factors that influence tax avoidance practices carried out by each company, therefore the authors are interested in conducting research on what factors influence the dynamics of tax avoidance practices, especially in property and real estate sector companies in Indonesia.

Hypothesis Development

The Influence of Financial Distress on Tax Avoidance

Financial distress is a situation where the company's operating cash flow is insufficient to meet current obligations such as accounts payable or interest expenses, so the company must take corrective measures. Based on previous research, financial distress has a positive influence on tax avoidance, namely the higher the level of financial difficulties faced by the company, the more likely the company will practice tax avoidance [22, 13]

H1: Financial distress has a positive influence on tax avoidance

The Influence of Leverage on Tax Avoidance.

The leverage ratio is a ratio that measures the extent to which the company uses funding through debt. Based on previous research, leverage has a positive influence on tax avoidance, namely the higher the level of leverage or debt owned by the company, the more likely the company will avoid taxes [21, 19].

H2: Leverage has a positive influence on tax avoidance

The Influence of Profitability on Tax Avoidance

Profitability is the company's ability to earn profits in relation to sales, total assets and own capital. Based on previous research, profitability has a positive influence on tax avoidance, namely the higher the profitability obtained by a company, the greater the tendency of the company to practice tax avoidance [18, 5].

H3: Profitability has a positive influence on tax avoidance

The Influence of Firm Size on Tax Avoidance

Firm size refers to the method or criteria used to classify the size or scale of a company, whether it is based on the total assets owned, the size of its stock market, the number of employees, sales turnover, or other relevant criteria. Based on previous research, firm size has a positive influence on tax avoidance, namely the larger the size of the company, the greater the tendency of the company to practice tax avoidance [22, 23].

H4: Firm size has a positive influence on tax avoidance

II. RESEARCH METHODS

Population, Sample, and Methods of Collecting Data

In this research, the methodology used is a quantitative approach using secondary data in the form of financial reports of property and real estate issuers listed on the IDX during the 2019-2023 time span. The sample was selected with certain criteria using purposive sampling technique, the criteria used to select the sample are as follows:

a. All property and real estate companies listed on the IDX during the period 2019-2023
b. Companies that consistently publish financial reports in the 2019-2023 period
c. Companies that consecutively experienced profits during the 2019-2023 period
d. Companies that have the data needed to measure the variables in the study.

Based on the purposive sampling technique, of the 92 companies listed, there are 12 companies that are able to meet the criteria. This means that there are 12 property and real estate companies that will be used as samples in this study, namely during the 2019-2023 period with a total of 60 observation data. The data required for the research variables are obtained from financial reports that can be accessed on the official website of the Indonesia Stock Exchange, namely www.idx.co.id and on the company's official website.

Definition of Operational and Measurement Variables

Tax Avoidance (Y)

The dependent variable in this study is tax avoidance, which can be measured using the cash effective tax rate (CETR) proxy. The lower the resulting CETR value indicates that the greater the tax avoidance carried out. Based on research by [6] CETR can be calculated by the formula:

$$CETR = \frac{Income\ Tax}{Earning\ Before\ Tax} \quad (1)$$

Financial Distress (X1)

If the Z'' value is greater than 2.60, it is classified as a non-bankrupt company, if the index value ranges from 1.10 to 2.60, it is classified in the grey area, and if the index value is less than 1.10 the company is in a difficult situation and is classified in a high risk of bankruptcy, [1] as cited in [3] financial distress can be measured using the bankruptcy prediction model, the Altman Z-Score:

$$Z'' = 6{,}56A + 3{,}26B + 6{,}72C + 1{,}05D \quad (2)$$

Leverage (X2)

A higher DER value indicates that the company relies more on debt as a source of funding. According to research by [4] leverage can be measured using the Debt to Equity Ratio (DER), DER can be calculated using the formula:

$$DER = \frac{Total\ Liability}{Total\ Equity} \quad (3)$$

Profitability (X3)

The greater the value of profitability (ROA) shows that the greater the company makes a profit from its total assets. According to research by [16] profitability can be measured using the return on assets (ROA) ratio which is calculated by the formula:

$$ROA = \frac{Earning\ After\ Tax}{Total\ Asset} \times 100\% \quad (4)$$

Firm Size (X4)

Company size is generally classified into two, namely small and large. The higher the firm size value indicates that the larger the size of the company. Based on research by [14] firm size can be measured by the natural logarithm of the company's total asset value, the formula is:

$$Firm\ Size = Ln(Total\ Asset) \quad (5)$$

Methods of Data Analysis

The data analysis methods used in this research are descriptive statistical analysis, classical assumption test, multiple linear regression analysis, F test, t test, and R test. This study uses multiple linear regression analysis which will be processed using Statistical Package for the Social Sciences (SPSS 20) software, the research model is as follows:

$$Lag\_Y = \alpha + b1Lag\_X1 + b2Lag\_X2 + b3Lag\_X3 + b4Lag\_X4 + e \quad (6)$$

Description:

Y	Tax Avoidance
α	Intercept
$b1X1$	Coefficient of Financial Distress
$b2X2$	Coefficient of Leverage
$b3X3$	Coefficient of Profitability
$b4X4$	Coefficient of Firm Size
e	error

III. RESULT and DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide an overview of the variables tested in this study which can be seen in table 1.

Table 1. Descriptive Statistics Test Results

Description	N	Min	Max	Mean	Standar Deviasi
Before Cochrane Orcutt Method					
Financial Distress (X1)	60	2,44	16,32	6,80	2,96379
Leverage (X2)	60	0,09	1,74	0,57	0,41135
Profitability (X3)	60	0,00	0,20	0,06	0,04449
Firm Size (X4)	60	28,17	31,81	30,05	1,05493
Tax Avoidance (Y)	60	0,05	0,56	0,18	0,10968
Valid N (listwise)	60				
After Cochrane Orcutt Method					
Lag_Financial Distress (X1)	59	-1,07	11,21	4,23	2,23404
Lag_Leverage (X2)	59	-0,19	1,53	0,36	0,31115
Lag_Profitability (X3)	59	-0,02	0,16	0,04	0,03591
Lag_Firm Size (X4)	59	16,72	19,93	18,70	0,75338
Lag_Tax Avoidance (Y)	59	-0,06	0,44	0,11	0,09624
Valid N (listwise)	59				

Source: SPSS 20 Data Processing Results (2024)

Based on table 1, the autocorrelation test problem has been treated with the cochrane orcutt method from 60 observation data to 59 observation data. For the tax avoidance variable (Y), the average value is 0.1129, the standard deviation is 0.09624, with a minimum value of -0.06 and a maximum value of 0.44. For the financial distress variable (X1), the average value is 4.2335, the standard deviation is 2.23404, with a minimum value of -1.07 and a maximum value of 11.21. For the leverage variable (X2), the average value is 0.3600, the standard deviation is 0.31115, with a minimum value of -0.19 and a maximum value of 1.53. For the profitability variable (X3), the average value is 0.0367, the standard deviation is 0.03591, with a minimum value of -0.02 and a maximum value of 0.16. For the firm size variable (X4), the average value is 18.7022, the standard deviation is 0.75338, with a minimum value of 16.72 and a maximum value of 19.93.

Classical Assumption Test

There are four classical assumption tests in multiple linear regression analysis, namely normality, multicollinearity, autocorrelation and heteroscedasticity. The number of observations ready to be tested in the classical assumption test is 60 observations. However, when the classical assumption test was conducted, it was found that the observation data in this study did not meet the requirements in one of the tests, namely the autocorrelation test. So that treatment is needed by transforming the data using the cochrane orcutt method. If using the cochrane orcutt method the number of observations is reduced by 1, so that in this study it becomes 59 observations.

Normality Test

The normality test is applied to evaluate whether the data in the regression model follows a normal distribution pattern. The purpose of this test is to ensure that the distribution of the data used in the regression analysis meets the assumption of normality. To test normality, the One-Sample Kolmogorov-Smirnov method was applied by looking at the Asymp. Sig (2-tailed) value. If the value of Asymp. Sig. (2-tailed) value exceeds 0.05, this indicates that the residual data has a normal distribution [7].

Table 2. Normality Test Results After the Cochrane Orcutt Method

N	59
Kolmogorov-Smirnov Z	1,196
Asymp. Sig. (2-tailed)	0,114

Source: SPSS 20 Data Processing Results (2024)

Based on the results of the One-Sample Kolmogorov-Smirnov residual normality test in table 2, the asymp.sig value is obtained. (2-tailed) of 0.114 > 0.05, which means that the residuals are normally distributed.

Multicollinearity Test

Multicollinearity test is used to check whether there is a significant correlation between independent variables in the regression model. Tolerance and VIF are used as assessment criteria, tolerance > 0,10 indicates no multicollinearity, while VIF < 10,00 also indicates no multicollinearity.

Table 3. Multicollinearity Test After Cochrane Orcutt Method

Variabel	Tolerance	VIF
Lag_Financial Distress (X1)	0,357	2,801
Lag_Leverage (X2)	0,408	2,451
Lag_Profitability (X3)	0,680	1,470
Lag_Firm Size (X4)	0,527	1,898

Source: SPSS 20 Data Processing Results (2024)

Based on the results of multicollinearity testing that has been carried out, it can be seen in table 3 that the regression model does not experience symptoms of multicollinearity. This is evidenced by seeing that each independent variable has a tolerance value > 0.1 and a VIF value < 10 in the regression model.

Autocorrelation Test

The Autocorrelation test is conducted to detect whether there is a correlation between confounding errors (residuals) in period t and confounding errors in period t-1 (previous) in a linear regression model. This test aims to verify that the regression model is not affected by autocorrelation problems. To detect the presence or absence of autocorrelation, the Durbin-Watson test method can be applied [7]. In the study, problems were found in the autocorrelation test so that it required treatment with the cochrane orcutt method. The cochrane orcutt method was chosen because the autocorrelation coefficient (ρ) or what is called the term "Rho" is unknown [8].

Table 4. Autocorrelation Coefficient Results

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
Lag_Res	0,377	0,123	0,377	3,069	0,003

Source: SPSS 20 Data Processing Results (2024)

Based on Table 4, the rho coefficient value can be seen in the lag_res beta value, which is 0.377. Next, perform the Cochrane Orcutt transformation for each variable, the steps are:

a. Lag_Financial Distress = Financial Distress – (0,377 * Lag (Financial Distress)

b. Lag_Leverage = Leverage – (0,377 * Lag (Leverage))
c. Lag_Profitability = Profitability – (0,377 * Lag (Profitability))
d. Lag_Firm Size = Firm Size – (0,377 * Lag (Firm Size))
e. Lag_Tax Avoidance = Tax Avoidance – (0,377 * Lag (Tax Avoidance)

After transforming the independent variable and the dependent variable, the next step is to re-run the regression with the new variables resulting from the data transformation to get the residual value. The residual results are entered into the Durbin Watson test. After the Durbin Watson test is completed, compare the Durbin Watson (d) value with the dU value at N of 59 which can be found in the Durbin Watson table. The basis for decision making in the autocorrelation test is if dU < d < (4-dU) then the null hypothesis is accepted, meaning that the regression model does not have an autocorrelation problem.

Table 5. Autocorrelation Test Results After the Cochrane Orcutt Method

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,615[a]	0,378	0,332	0,07864	2,031

Source: SPSS 20 Data Processing Results (2024)

The results of the autocorrelation test after the Cochrane Orcutt method are in table 5. Based on the Durbin Watson test, the d value is 2.031, while in the Durbin-Watson table, it is found that the dU value is recorded at 1.7266. The results show that dU < d < (4 - dU), namely 1.7266 < 2.031 < 2.2734. Based on the results of the calculations that have been carried out, it means that the regression model has passed the autocorrelation test.

Heteroscedasticity Test

The heteroscedasticity test is carried out to check whether there are differences in residual variances between one observation and another in the regression model [7]. A good regression model is one that is not heteroscedasticity or homoscedasticity because the nature of the residuals from one observation to another is fixed. A study can be said to be free from heteroscedasticity problems if the Sig. value > 0,05.

Table 6. Heteroscedasticity Test Results Cochrane Orcutt Method

Variable	Sig.
Lag_Financial Distress (X1)	0,813
Lag_Leverage (X2)	0,782
Lag_Profitability (X3)	0,442
Lag_Firm Size (X4)	0,710

Source: SPSS 20 Data Processing Results (2024)

Based on table 6, the results of heteroscedasticity testing carried out using the Glejser test, obtained the results of the significance value of the financial distress, leverage, profitability, and company size variables> 0.05. This means that there are no symptoms of heteroscedasticity in the regression model.

Multiple Linear Regression Analysis

Multiple regression analysis is used to test the influence between the independent variable and the dependent variable.

Table 7. Multiple Linear Regression Test Results

Variable	B
Constant	0,428
Lag_Financial Distress (X1)	0,004
Lag_Leverage (X2)	0,127
Lag_Profitability (X3)	-1,103
Lag_Firm Size (X4)	-0,018

Source: SPSS 20 Data Processing Results (2024)

Based on table 7, the results of multiple linear regression tests can be concluded with the following equation:

CETR = 0,428 + 0,004Lag_X1 + 0,127Lag_X2 – 1,103Lag_X3 – 0,018Lag_X4 + e

The constant value of 0.428 has a positive value. This means that if the independent variables including financial distress, leverage, profitability, and firm size are constant, the CETR value is 0.428. The regression coefficient value of financial distress and leverage (DER) is 0.004 and 0.127, meaning that each financial distress variable increases by one unit will increase the CETR value by 0.004 and each leverage variable increases by one unit will increase the CETR value by 0.127. The regression coefficient value of profitability and firm size is -1.103 and -0.018, meaning that each profitability variable increases by one unit, it will reduce the CETR value and by 1.103 and each firm size variable increases by one unit will increase the CETR value by 0.018.

Hypothesis Test

ANOVA Test (F Test)

The ANOVA test in multiple linear regression is used to test the significance of the regression model as a whole. This test aims to evaluate whether there is a substantial influence of all independent variables simultaneously on the dependent variable.

Table 8. F Test Results

Description	F	Sig.
Regression	8,215	0,000[b]

Source: SPSS 20 Data Processing Results (2024)

From the F test results in table 8, the F count result is 8.215 with a significance value of 0.000. The significance value of 0.000 is smaller than 0.05. This means that simultaneously the independent variables used (financial distress, leverage, profitability, and company size) have an influence on the dependent variable (tax avoidance).

The t test in multiple linear regression is used to test the significance of each regression coefficient individually.

Table 9. t Test Result

Model	B	T	Sig.
Constant	0,428	1,180	0,243
Lag_Financial Distress (X1)	0,004	0,468	0,642
Lag_Leverage (X2)	0,127	2,435	0,018
Lag_Profitability (X3)	-1,103	-3,165	0,003
Lag_Firm Size (X4)	-0,018	-0,949	0,347

Source: SPSS 20 Data Processing Results (2024)

Based on table 9, it can be concluded that financial distress has no significant effect on tax avoidance. This is evidenced by the significance value of 0.642> 0.05. Leverage has a significant effect on tax avoidance. This is evidenced by the significance value of 0.018 <0.05. Profitability has a significant effect on tax avoidance. This is evidenced by the significance value of 0.003 <0.05. Firm Size has no significant effect on tax avoidance. This is evidenced by the significance value of 0.347> 0.05.

Coefficient of Determination (R2)

The Coefficient of Determination (R^2) is the proportion of the total variation in the dependent variable that can be explained by the independent variables in the regression model. Its value ranges from 0 to 1, where a higher value indicates that the model has better predictive power.

Table 10. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	0,615[a]	0,378	0,332	0,07864155

Source: SPSS 20 Data Processing Results (2024)

In table 10, the results of R2 testing indicate that the amount of influence given by the independent variables (financial distress, leverage, profitability, and company size) on the dependent variable (tax avoidance) is 0.332, or 33.2%, while there are 66.8% of other factors that can affect the dependent variable (tax avoidance) in this study.

IV. DISCUSSION

The Influence of Financial Distress on Tax Avoidance

The results of data analysis show that financial distress has no significant influence on tax avoidance by property and real estate companies. This shows that financial distress is not a driving or inhibiting factor for property and real estate companies in conducting tax avoidance, companies that experience financial difficulties or do not have the same tendency to avoid taxes.

The Influence of Leverage on Tax Avoidance.

Based on the results of data processing, it is found that the leverage ratio (DER) has a significant and negative influence on tax avoidance. This finding indicates that companies that have higher levels of debt are less likely to engage in tax avoidance because they are under close scrutiny from creditors and regulators, thus reducing their ability to engage in aggressive tax avoidance practices. In addition, companies with high DER have a large interest expense, so it can be utilized as tax savings without the need to do risky tax avoidance.

The Influence of Profitability on Tax Avoidance.

Based on the results of data analysis, it is found that profitability has a significant and positive influence on tax avoidance, namely the higher the profitability obtained by property and real estate companies, the greater the tendency of these companies to practice tax avoidance This finding supports agency theory which states that there are differences in interests between the company as an agent and the government as a principal. The government wants to increase revenue from taxes, but managers or companies want maximum profit so they will strive to reduce their tax expense. The higher the level of profitability (ROA) of the company indicates that the profit earned is greater, so the tax to be paid will also increase. In this condition, the company certainly does not want to pay high taxes, so it tends to practice tax avoidance to maximize net income.

The Influence of Firm Size on Tax Avoidance

Based on the results of data analysis, the research shows that firm size has no significant influence on tax avoidance. This means that firm size is not a factor driving or inhibiting property and real estate companies in conducting tax avoidance, whether large or small, does not affect the company's decision to engage or not engage in tax avoidance practices, large or small companies have the same opportunity to avoid tax.

V. CONCLUSION

The study conducted on the property and real estate sectors in Indonesia for the period 2019–2023 yielded several important conclusions. This study reveals that neither the situation of financial distress nor the size of the firm has a significant impact on the company's tendency to practice tax avoidance. The main finding of this study is that companies with higher profitability (ROA) tend to be more aggressive in tax avoidance. This is consistent with agency theory [9] that there is a conflict of interest between the owner (principal) and manager (agent). Owners want the company to maximize profits and company value, while managers also have personal interests, such as getting large compensation or increasing personal wealth. One way for managers to increase company profits and the compensation received is by avoiding tax. By minimizing the company's tax burden through legal tax avoidance strategies, managers can increase the company's net profit and show good performance. The greater the profit generated, the greater the potential tax savings that can be obtained through tax avoidance, so that managers have the opportunity to get incentives and increase their personal compensation.

In addition, another key finding is that companies with high levels of debt (DER) are more cautious in their tax avoidance practices. This result is consistent with the trade-off theory [12], which explains that the optimal capital structure is obtained by finding a balance between the benefits and costs of debt funding. The main benefit of debt funding is tax savings because debt interest can be a tax deduction. However, the greater the amount of debt used, the higher the risk of bankruptcy. Therefore, firms should consider the trade-off between the benefits of tax savings and the costs of bankruptcy to achieve an optimal capital structure. The theoretical implications of these findings strengthen the understanding of the factors that influence corporate tax avoidance, particularly in the context of developing countries such as Indonesia.

From a practice and policy perspective, these findings highlight the importance of considering capital structure and corporate profitability in designing influential tax policies in Indonesia targeted towards tax avoidance in certain sectors, especially property and real estate companies. Regulators can make relevant regulations in the supervisory function and in examining corporate taxes so that state revenues derived from taxes can be optimized. They also need to establish relevant legal mechanisms to prevent tax evasion and encourage fair tax practices through social pressure and norm changes. The government can also provide incentives and service improvements as an effort to increase taxpayer compliance, especially among taxpayers. In addition, companies must also respect basic rights in society that support corporate profits and value. Efforts to achieve a balance between the practice of minimizing tax obligations and compliance with paying taxes are pursued by creating a healthy tax climate. This is done in order to achieve an optimal contribution to state revenue, which in turn can benefit the entire community.

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