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Sales Growth as a Moderator Between Leverage and Tax Avoidance: Evidence from Indonesian Real Estate Companies

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ABSTRACT

The level of tax payment compliance in Indonesia is low, which is one indication of tax avoidance practices. The purpose of the study was to test and analyze the effect of Leverage, Liquidity and Profitability on Tax Avoidance in Real Estate Property Companies and Sales Growth as a moderating variable. Researchers use agency theory and Resource Based Theory. The population in this study consists of 91 property and real estate sector companies listed on the Indonesia Stock Exchange (IDX) during the period between 2020 and 2022. A total of 15 companies were selected as the sample using a purposive sampling technique, resulting in 45 observations over the three-year period. The novelty in this study is to add sales growth as a moderating variable on tax avoidance and tests the data using regression analysis with the PLS approach. Sales growth refers to the percentage increase in sales revenue over a specified period, indicating the company's ability to expand its market share and generate higher income. This will prompt management to engage in tax planning initiatives aimed at mitigating the tax liability. The analysis demonstrated that Leverage, Liquidity and Profitability did not affect tax avoidance in real estate property companies. Sales growth is found to moderate the relationship between leverage and tax avoidance. However, it does not moderate the relationship between liquidity, profitability and tax avoidance.

Keywords : Leverage; Liquidity; Profitability; Tax Avoidance; Sales Growth

JEL Codes : H26; M21; M41; F65; L85

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1. INTRODUCTION

Tax Avoidance in practice is indeed a legal concept, but the government also faces a dilemma because this tax avoidance action allow taxpayers to reduce the tax burden that must be paid which does not conflict with the regulations on taxation. However, the government is unable to take decisive action, despite the fact that tax avoidance will have a significant impact on the state's revenue from the tax sector (Jaka Pamungkas, 2021).

The Indonesia Stock Exchange comprises a wide range of company listings. Property and real estate companies are the subject of research because based on the characteristics of this industrial sector, they require liquid funds to support the continuity of development operations and the sustainability of the company's resilience while sales funds from this sector require a long time to be collected (long-term receivables). This sector experienced the second-lowest growth in tax revenue in 2022, with an increase of only 12.4% because this indicates of tax avoidance in this sector, so that researchers choose that object of research.

Tax avoidance in Indonesia can occur due to differences in thinking between the community and the government. For the State, tax collection from the community is a primary source of state revenue, primarily aimed at development. However, the community objects to tax collection because they believe that taxes are a burden that reduces the income the community has earned. There is a direct correlation between taxable income and tax payments, such that an increase in one results in an increase in the other. Therefore, people have started to avoid tax avoidance.

This case demonstrates that the ethical implications of tax avoidance are subject to divergent perceptions. From a corporate perspective, tax avoidance can be viewed as a beneficial strategy, given its capacity to result in a reduction in tax payments, even in substantial amounts. Conversely, from the perspective of state revenue, tax avoidance is detrimental. The practice of tax avoidance has been demonstrated to result in a diminution of state revenue derived from taxes. The government can allocate this revenue toward financing various of state expenditures, which, in turn, can yield benefits for the community.

The phenomenon of tax avoidance cases that occurred in 2016 was the Panama Papers case where a leak of documents regarding financial transactions took place. The document contains a list of prominent global clients that is purportedly concealed to mitigate the tax liability of the company. Many Indonesian companies are involved including PT Ciputra Development, Tbk and PT Lippo Karawaci, Tbk (Utami Putri, 2021).

The issue of tax evasion in Indonesia involves a property transaction carried out by the developer of Bukit Semarang Baru Housing developed by PT Karyadeka Alam Sari, specifically the sale of a luxury house worth IDR 7.1 billion in Semarang. However, the notarial deed only stated Rp 940 million. This discrepancy indicates a price difference of Rp 6.1 billion. With a potential tax deficit of IDR 910 million from this transaction alone, the cumulative loss to the state could reach tens of billions of rupiah if the developer has sold hundreds of luxury housing units within a single project. The discrepancy in value has given rise to allegations of tax evasion, as it appears that an effort was made to conceal the actual transaction, thereby reducing state revenue.

According to the Director General of Taxes, it is estimated that tax avoidance leads to state losses amounting to IDR 68.7 trillion annually. The Director General of Taxes has

indicated that the phenomenon of tax avoidance arises from transactions conducted between parties who possess particular relationships, both domestically and internationally. (Fatimah, 2020).

Based on the phenomenon of the case described above, points to a persistent lack of tax compliance in Indonesia, which can be interpreted as an indication of ongoing tax avoidance practices. Tax Avoidance in practice is indeed a legal thing, but the government also experiences a dilemma because this tax avoidance action taxpayers lessen the financial obligations related to taxation which does not conflict with the regulations on taxation. Nevertheless, the government has been unable to implement decisive measures, despite the fact that strategies for avoiding taxes will have a direct impact on the amount of state revenue derived from the tax sector (Jaka Pamungkas, 2021).

Various empirical studies have been conducted previously related to tax avoidance, namely (Tebiono et al., 2019), (Wahyuni & Wahyudi, 2021), (Rahmadani et al., 2020), show different research results. Departing from the inconsistent results of previous research, the researcher is encouraged to continue and re-explore the linkage between the variables.

2. LITERATURE REVIEW

2.1 Effect of Leverage on Tax Avoidance

In financial terms, leverage refers to the reliance on borrowed capital to invest in assets or support business operations, with the aim of increasing potential returns to shareholders. Companies that rely heavily on debt financing to support their operational activities are subject to increasing interest expenses associated with that debt. These interest payments reduce a company's taxable income (Suyanto Herli, 2022). In relation to taxation, firms with high tax obligations often tend to accumulate more debt, as the interest expense can serve as a tax shield. As a result, such companies of this nature are more inclined to participate in tax avoidance strategies as a means to minimize their overall tax burden.

The leverage ratio provides insight into the sources of a company's operating capital and serves as an indicator of the financial risks the company may encounter over both the short and long term (Kasmir, 2018). The use of debt in a company’s capital structure results in interest expenses that the company must bear. Since interest expenses are deducted from revenue before tax, a higher interest burden generally indicates reduced pre-tax profitability. An increase in the leverage ratio typically leads to higher interest expenses due to the greater reliance on debt financing (Sidik & Suhono, 2020). If the tax burden is reduced, it will affect the increasing ETR value.

H1 : Leverage positively affects Tax Avoidance.

2.2 Effect of Liquidity on Tax Avoidance

Liquidity indicates how well a company can pay off its short-term debts and is a critical indicator of overall financial health. In line with agency theory, managers may seek to maintain liquidity at an optimal level to achieve tax efficiency and, in turn, secure performance-based incentives. A high liquidity ratio typically suggests financial stability and the ability to fulfill financial obligations—including tax payments—in a timely and responsible manner. This contributes to a strong credit reputation and supports the continuity of business operations.

According to (Marito & Hutabarat, 2020), a higher level of short-term debt is associated with an increased likelihood of tax avoidance, liquidity measured by the current ratio, appears to positively impact tax avoidance. However, these findings contrast with those of (Dianawati & Agustina, 2020) findings reveal that liquidity does not exert a statistically significant influence on tax avoidance activities within companies.

H2 : Liquidity has a positive effect on Tax Avoidance.

2.3 Effect of Profitability on Tax Avoidance

Profitability is linked to tax avoidance through the value of a company's assets, which can affect taxable income and ultimately influence the company's tax obligations. Conversely, a higher ROA is associated with greater profit for the company and superior performance in managing its assets. The present study sought to ascertain the effect of ROA on tax avoidance (Ratih Wulandari & Joko Purnomo, 2021). Research conducted by (Anggie & Mahpudin, 2024) also proves that profitability affects tax avoidance.

Companies with high profitability will have an impact on the company's ETR. An increase in profit leads to higher company profitability, contributing to a decreased effective tax rate (ETR), thereby signaling heightened corporate tax avoidance. A high level of profitability provides companies with the capacity to undertake tax planning efforts that decrease the amount of taxes owed (Hamidah, 2023).

H3 : Profitability has a positive effect on Tax Avoidance.

2.4 Effect of Leverage on Tax Avoidance with Sales Growth as moderation

Sales growth metrics are a key indicator of the company's financial performance, reflecting the development of sales levels from one fiscal period to another. The company's operating capacity is subject to augmentation due to the occurrence of increased growth. Conversely, in the event of a decline in growth, the company will encounter impediments in its efforts to augment its operational capacity (Ratih Wulandari & Joko Purnomo, 2021). A concomitant rise in sales is expected to be accompanied by an increase in the company's operating costs. To address its operational requirements, the company will depend on funding from external sources. This will undoubtedly have ramifications for interest expense, which is known to increase and affect tax avoidance (Sidik & Suhono, 2020). Research related to leverage has been conducted by (Sumartono & Wahyu Tri Puspitasari, 2021) who found that leverage has a effect on tax avoidance.

H4 : The effect of Leverage on Tax Avoidance can be moderated by Sales Growth.

2.5 Effect of Liquidity on Tax Avoidance with Sales Growth as moderation

The objective of minimizing tax liabilities can be achieved through various means. These include strategies that are in accordance with tax regulations, classified as tax avoidance, and those that contravene tax regulations, designated as tax evasion. Consequently, an augmentation in sales growth is poised to result in a concomitant rise in company revenue. The company will obtain additional funds from sales, which it can use to prioritize the repayment of short-term debt. It is imperative to acknowledge that this will exert a direct influence on the level of debt interest payments (Suyanto Herli, 2022).

H5 : The effect of Liquidity on Tax Avoidance can be moderated by Sales Growth.

2.6 Effect of Profitability on Tax Avoidance with Sales Growth as moderation

If the level of sales rises, then there must be tax avoidance. It is evident that an escalation in sales will concomitantly engender an augmentation in profits, thus exerting a concomitant influence on the substantial tax liabilities the company is required to remit. In the corporate context, there is a range of strategies employed by companies to minimize their tax obligations. One such method is through the acquisition of fixed assets. The introduction of fixed assets to a company's assets will invariably result in increased expenditures. The aforementioned costs are derived from the process of depreciation, which has the potential to reduce the tax liability of the company. Hence, tax avoidance is pursued by companies to lessen the financial impact of taxation. The research conducted by (Dianawati & Agustina, 2020) states that companies with high sales levels are not expected to take tax avoidance actions, because high sales levels do not necessarily result in high profits as well. This is because if sales growth increases followed by corporate spending, it will result in low corporate profits.

H6 : The effect of Profitability on Tax Avoidance can be moderated by Sales Growth.

3. RESEARCH METHODOLOGY

This study utilizes quantitative research methodologies to empirically examine the impact of financial leverage, liquidity, and profitability on tax avoidance strategies employed by real estate property companies. It also explores the role of sales growth as a moderating variable in these financial strategies. This study uses secondary data, focusing on companies in the property and real estate sector that were listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022. The study employed a nonprobability sampling method, more specifically purposive sampling (Sugiyono, 2020).

Table 1. Sampling Criteria

No.	Description	Total
Total Population		**91**
1.	Companies that do not publish financial reports during the observation period	(28)
2.	Companies with negative net income.	(48)
Number of research samples selected		15
Total sample in the study period (15*3 years)		**45**

Table 1. desccribed this study implemented quantitative data with purposive sampling technique, obtained 45 observation data from 15 companies of information between 2020 and 2022 Indonesia Stock Exchange financial statements of real estate and property enterprises.

This research using smartPLS. The Partial Least Square or PLS test is a variant-based structural equation modeling (SEM) approach. Testing is carried out using a two-stage approach, which is a method used to test moderation effects using formative constructs:

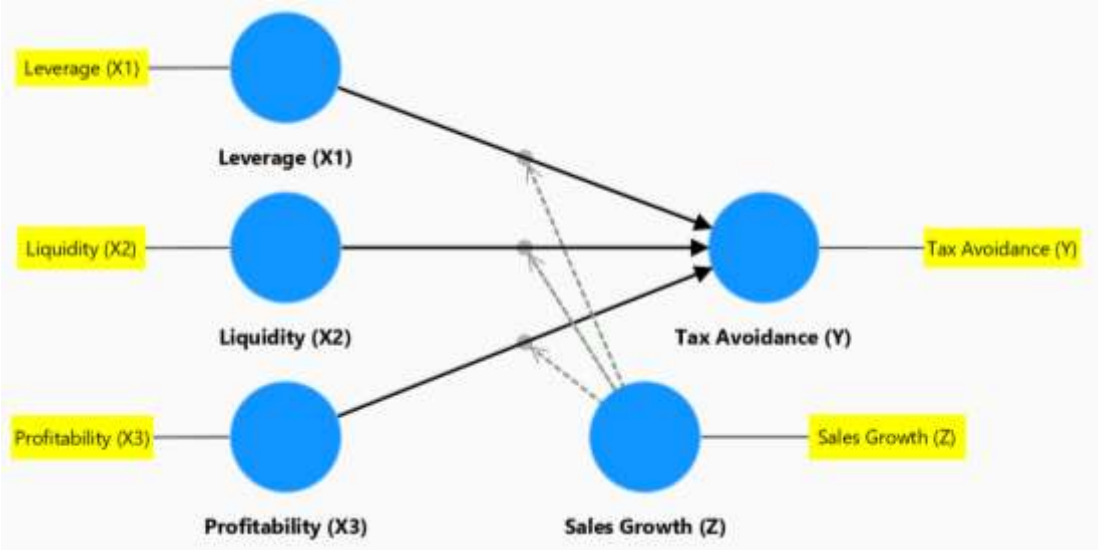

Figure 1. Conceptual Framework

Operational Definition

a. Tax Avoidance

Tax Avoidance is the reduction of legal taxable income through the use of tax planning techniques. Effective Tax Rate (ETR) is genuine tax percentage that must be paid by the taxpayer by comparing the taxpayer's income, calculated using the following formula (Muljono, 2020):

$$\text{Effective Tax rate (ETR)} = \frac{\text{Tax Expense}}{\text{Net Income before Tax}}$$

b. Leverage

The leverage ratio of a company is indicative of its capacity to manage both short-term and long-term debt obligations. The measurement of leverage is achieved through the utilization of the proxy Total Debt to Total Assets Ratio, which is expressed as follows (Muslichah & Bahri, 2021):

$$\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

c. Liquidity

The prevailing definition of liquidity, as stipulated by the conventional economic wisdom, is the possession of sufficient liquid assets to settle all maturing financial obligations. The current ratio proxy is a measure of liquidity that can be calculated using the following formula (Kasmir, 2018):

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Payables}}$$

d. Profitability

Profitability ratios are utilized to assess the efficacy and efficiency of a company, thereby indicating its capacity to generate profits based on operations, such as sales figures and investment income. The measurement of profitability is achieved through the utilization of the return on asset proxy (Kasmir, 2018):

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Asset}}$$

e. Sales Growth

Sales growth serves as a metric for evaluating long-term performance of company. The capacity of an organization to effectively execute its strategic initiatives is signified by its sales growth rate. The following formula is employed in the measurement of sales growth (Effendi, 2021):

$$\text{Sales Growth} = \frac{sales_t - sales_{t-1}}{sales_{t-1}}$$

Data Analysis Technique

The following methods were used to analyse the data is two-stage approach test using the SmartPLS application. The two-stage approach test is a method used to test moderation effects using formative constructs. The PLS evaluation model is executed through the assessment of two models: the outer model and the inner model.

a. Outer Model Evaluation

Outer model is carried out to assess the validity and reliability of the model. When using the SmartPLS program for path analysis with observed variables, there is no need to measure the model (measurement model) to test validity and reliability.

b. Inner Model Evaluation

The inner model or structural model can be evaluated by looking at the stability of the estimates assessed using the t-statistic test seen through the bootstrapping procedure. The Structural Model in PLS is evaluated using R-Square (R^2).

4. RESULTS AND ANALYSIS

4.1 Descriptive Statistics Analysis

Descriptive statistics provide an overview of the research data, which also display the standard deviation, minimum, maximum, and average values. The SmartPLS software was used to analyse the data. The following is a statistical data display:

Table 2. Descriptive Statistics

	Mean	Min	Max
Leverage	0.58976	0.00740	1.45320
Liquidity	2.37020	0.01300	6.54389
Profitability	0.04291	0.00005	0.19972
Tax Avoidance	0.09084	0.00007	1.52359
Sales Growth	-0.00703	-2.23852	0.97652

Table 2 shows the mean of tax avoidance is 0.090 or 9%, meaning that of the 45 samples of analysis and observation data during the 2020-2022 period, the average tax avoidance is 9%. The mean of leverage is 0.589 or 58.9%, meaning that of the 45 samples of analysis and observation data during the 2020-2022 period, the average leverage is 58.9%. The mean of the liquidity is 2.370 or 237%, meaning that of the 45 samples of analysis and observation data during the 2020-2022 period, the average liquidity is 237%. The mean of profitability is 0.042 or 4.2%, meaning that of the 45 samples of analysis data and observations during the 2020-

2022 period, the average profitability is 4.2%. The mean of sales growth is -0.007 or -0.7%, meaning that of the 45 samples of analysis and observation data during the 2020-2022 period, the average sales growth is -0.7%

4.2 Hypothesis Test Results

Table 3. below provides a detailed summary of the results generated through the bootstrapping technique:

Table 3. Output Results of Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Leverage -> Tax Avoidance	0,013	-0,024	0,143	0,093	**0,926**
Likuditas -> Tax Avoidance	-0,002	-0,004	0,154	0,011	**0,992**
Moderating Effect 1 -> Tax Avoidance	-0,751	-0,485	0,359	2,094	**0,037**
Moderating Effect 2 -> Tax Avoidance	-0,711	-0,349	0,598	1,189	**0,235**
Moderating Effect 3 -> Tax Avoidance	-0,065	-0,083	0,364	0,179	**0,858**
Profitability -> Tax Avoidance	-0,235	-0,260	0,144	1,638	**0,102**
Sales Growth -> Tax Avoidance	-0,109	-0,089	0,214	0,512	**0,609**

Hypotesis 1, the results of the study indicated that leverage exerts no significant impact on the practices employed by real estate property companies in regard to tax avoidance. These findings align with the results reported in previous studies (Anggie & Mahpudin, 2024) which shows that leverage has no effect on tax avoidance. The outcomes correspond with prior research in the field of (Yusuf Firmansyah & Bahri, 2023) which shows that leverage has no effect on tax avoidance. The results showed that the large or high leverage or the ability to pay long-term and short-term liabilities proxied by debt to asset ratio will not affect the property sector company to decide to take tax avoidance action because the inability to pay all obligations causes the company not to do tax avoidance. This is inseparable from the nature and characteristics of the real estate property business sector which tends to use its fund flow for development operations or finished goods inventory. The decline in purchasing power for property is also one of the consequences of the inability to pay because the cash inflow from sales is significantly reduced, causing the inability to pay. With reduced sales and high inventory, the company will not take tax planning to avoid tax liability.

Hypotesis 2, the findings indicated that liquidity exerts no significant impact on tax avoidance strategies employed by real estate property companies. This is in accordance with the findings of (Dianawati & Agustina, 2020) which shows that liquidity has no effect on tax avoidance. In contrast to the results of (Marito & Hutabarat, 2020) found that liquidity has an impact on tax avoidance. Therefore, it can be concluded that the current ratio, a measure of liquidity, does not exert an influence on the practice of tax avoidance. This is due to the fact

that the Company is incapable of fulfilling its short-term financial obligations. Because receivables as one of the current assets that play a major role in cash inflows are unable to cover obligations that will be due soon. In accordance with the nature of the receivables of real estate property sector companies is a long aging age. Generally, receivables in this company sector are taken by customers in installments over the next few years, however, it does not rule out the possibility of customers buying with cash (hard cash). Thus the cash inflow becomes stagnant and the company is unable to pay the obligations that are due immediately so that it does not do tax planning.

Hypotesis 3, the findings indicated that profitability exerts no influence on the propensity of real estate property companies to engage in tax avoidance strategies. These results are in line with research conducted by (Anggie & Mahpudin, 2024) indicates that profitability does not have a significant influence on tax avoidance. This is not in accordance with research conducted by (Ratih Wulandari & Joko Purnomo, 2021) the results indicate a statistically significant relationship between ROA and tax avoidance. The results of this study state that the higher or lower the level of company it has been demonstrated that the company's return on asset, will have no bearing on its tax avoidance strategies. Because return on asset (ROA) is the company's ability to earn profits using assets. The return on asset ratio is also used by stakeholders to assess and measure whether a company is able to provide rewards and rights in accordance with the assets owned. Return on asset is strongly influenced by cash turnover, receivable turnover, and inventory turnover. However, based on the character of the real estate property sector companies generally have assets that are long-term or very long turnover so that they are unable to use assets to finance all their operational obligations.

Hypotesis 4, sales growth reflects the year-to-year development in a company's revenue. An increase in sales growth indicates the company's enhanced ability to expand its operational capacity. Conversely, a decline in sales growth may hinder the company’s efforts to scale its operations, potentially limiting overall performance and competitiveness (Ratih Wulandari & Joko Purnomo, 2021). Sales growth is found to act significantly influences the strength of the relationship between leverage and tax avoidance, influencing the strength or direction of this association. This is indicated by the results of statistical data testing with Pvalues 0.037 (<0.05, meaning accepted) this can be interpreted as evidence that sales growth significantly influences how leverage affects tax avoidance. High sales growth will lead to an increase in company profits. The rise in earnings will precipitate a concomitant rise in the amount of tax liability incurred. This phenomenon prompts the company to engage in tax planning by leveraging the increased utilization of debt to fund the costs of operational activities, which concomitantly rise due to escalating sales. The relationship between debt usage and interest expense is directly proportional, meaning that an increase in debt usage will result in a corresponding increase in interest expense. Consequently, the company will be able to allocate its profits towards developing new projects rather than using them to pay off upcoming debts.

Hypotesis 5, the study revealed that an increase in sales is incapable of mitigating the correlation between liquidity and tax avoidance strategies. The size of sales growth will still not affect the ability to pay short-term liabilities in real estate property companies. In accordance with the character of this sector company where the sales that occur are long-term

in nature which gives rise to receivables with a long aging and causes a long receivable turnover so that the cash inflow from sales is not able to fulfill imminent short-term obligations. Despite the increase in sales and the receipt of additional funds, the company has opted to utilize these financial resources for expansion purposes rather than to settle its short-term obligations. These financial resources will be reallocated or utilized to meet the funding requirements of new projects. So that it will not significantly affect the increase in profit and tax burden.

Hypotesis 6, the findings indicated that sales growth failed to mitigate the correlation between profitability and tax avoidance. This means that the size of sales growth has no influence on profitability on tax avoidance. Contrary to the findings of previous studies, which indicated that increased sales, revenue, and profit were associated with greater tax liability for the company, this study's results suggest a different relationship. Therefore, sales have a significant influence on the occurrence of tax avoidance. Agents may seek to manage the tax burden to prevent a reduction in performance-based compensation, which could otherwise be affected by increased corporate profits resulting from higher sales growth and the corresponding rise in tax obligations. Sales growth in this sector company will not affect return on asset on tax avoidance. This is because sales growth is also followed by a considerable increase in operating costs in this sector. In circumstances where an augmented allocation of assets is necessary in order to satisfy the entire demand for goods, the depreciation expenses will concomitantly increase, which will in turn result in a diminution of post-tax profits. So that it will not significantly affect the increase in profit and tax burden.

The findings indicated that sales growth exerts no influence in tax avoidance strategies. An escalation in sales growth within a company is often indicative of elevated profits. While sales growth is indicative of operational performance, it might not provide a comprehensive view of the firm’s financial position. It is possible for companies to experience sales growth while still complying with Tax compliance requirements. Even so, it should be acknowledged that a substantial increase in sales growth may draw the attention of the fiscus, leading to more stringent tax supervision. Consequently, company management will adopt a more vigilant approach in managing their tax obligations.

5. CONCLUSION

The results of this study indicate that leverage has no significant effect on tax avoidance in property and real estate companies. In addition, liquidity also has no effect on tax avoidance practices in this sector. Profitability was also found not to be significantly related to tax avoidance. Interestingly, sales growth is able to moderate the relationship between leverage and tax avoidance. In contrast, sales growth is unable to moderate the relationship between liquidity and tax avoidance, and cannot moderate the relationship between profitability and tax avoidance.

This research is expected to be able to enhance their knowledge, Investors who are considering allocating capital to the company can examine its financial performance and related indicators and prospective investors are advised to thoroughly examine the company's financial statements to minimize the risk of errors or misjudgments in their equity investment decisions. The company's action to conduct tax avoidance or choose to comply depends on the company's own decision. Companies need to consider the positive and negative impacts of each decision. The government can use this research to be able to review policies such as tax incentive

facilities that are right on target to overcome the outbreak disaster so that the potential for taxation in this sector can rise again as a form of effort to restore the national economy.

6. LIMITATIONS AND FUTURE RESEARCH RECOMMENDATIONS

Research has limitations, namely using objects in the property and real estate while there are still many industrial sectors that can be studied related to the research variables raised by researchers. Likewise, related to variables, further researchers can develop or add other variables such as capital intensity. Further research is expected to use this research variable in other industrial sectors such as automotive and funding companies to test the results of research on tax avoidance. Subsequent research may explore the use of intervening variables in place of moderating variables to gain deeper insights into the relationships among the studied variables. For instance, the independent commissioner variable may be utilized as an intervening factor to more accurately determine a company's adherence to tax compliance requirements.

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