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The Influence of Prudence and Financial Distress on Tax Avoidance in Food and Beverage Sub-Sector Manufacturing Companies in Indonesia

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ABSTRACT

The growth in state revenues which is expected to be contributed from the taxation sector, which is the largest source of income for Indonesia in 2020-2022, indirectly shows the increasing dependence of the Indonesian economy on revenues originating from this sector for the implementation of national development. However, this has not been balanced with citizens' awareness of paying taxes. For companies, tax is seen as a burden that will reduce net profit, so companies tend to practice tax avoidance to reduce the size of their tax burden. The practice of tax avoidance can be carried out by using management policies in the practice of prudence, where in this principle, the company practices the principle of prudence by delaying income and accelerating the recognition of expenses, resulting in lower net profits. The condition of manufacturing companies in the food and beverage sub-sector in 2020-2022 which was affected by Covid-19 with a decline in sales is one of the early indications of financial distress, which can encourage companies to carry out tax avoidance practices in order to reduce the tax burden that must be paid. Therefore, this research examines the influence of the relationship between prudence and financial distress on tax avoidance in manufacturing companies in the food and beverage sub-sector.

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INTRODUCTION

Taxes are the largest source of revenue for a country, incluiding Indonesia, compared to revenue originating from non-tax items and grants. The following is a table of Indonesia's revenue sources in 2020-2022:

Reception	2020		2021		2022	
	Realization of State Revenue (Billions of Rupiah)	%	Realization of State Revenue (Billions of Rupiah)	%	Realization of State Revenue (Billions of Rupiah)	%
Taxation	Rp 1.628.950,53	81,79%	Rp 1.547.841,10	76,96%	Rp 1.924.937,50	78,99%
Non Tax	Rp 343.814,21	17,26%	Rp 458.493,00	22,80%	Rp 510.929,60	20,97%
Grant	Rp 18.832,82	0,95%	Rp 5.013,00	0,25%	Rp 1.010,70	0,40%
Total Income	Rp 1.991.597,56	100%	Rp 2.011.347,10	100%	Rp 2.436.877,80	100%

Source: Central Statistics Agency Process Data, 2023.

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From the table above, it can be seen that in 2020-2022 the percentage of realized state income originating from taxes was respectively 81.79%, 76.96% and 78.99% of total state income. The growth in state revenues which is expected to be contributed from the taxation sector indirectly shows the increasing dependence of the Indonesian economy on revenues originating from this sector for the implementation of national development.

In order to optimize revenue in the tax sector which is used to finance national development independently, reforms in the tax sector were carried out by the Indonesian government through the issuance of the Law on Harmonization of Tax Regulations in 2021 (UU HPP, 2021). Although the state hopes that its needs can be funded optimally from taxation, this has not been balanced with citizens' awareness of paying taxes.

For companies as business actors, taxes are seen as a burden that will reduce net profit. The large tax burden that is seen as burdensome for companies and their owners encourages managers as agents to make tax avoidance efforts (Chen et al, 2014). Research related to tax avoidance has been carried out by researchers in various countries, such as those conducted by Kałdoński and Jewartowski (2020), Gregova et al. (2021), and Thomsen, (2018). Although the level of tax evasion cannot be measured directly, there are several indicators that have been developed in the literature based on agency financial reports, for example in many empirical research that have been implement in order to detect and determine the practice of tax avoidance and tax aggressiveness so that they can be assessed using appropriate provisions. (Delgado et al. al, 2023).

Tax avoidance is generally defined as an effort made by a company by including corporate tax reduction factors in pre-tax accounting income (Dyreng & Maydew, 2018). Meilany & Noviarini exlain that tax avoidance is an effort carried out safely and legally by companies or individuals who are taxpayers if it does not conflict with tax provisions. To reduce the amount of tax owed, you can use techniques that can be exploited for any weaknesses found in the statutory regulations. One policy that can be used by companies to reduce the tax burden can be implemented by implementing the principle of conservatism (Swandewi & Noviari, 2020). The principle of conservatism or what is currently known as prudence provides freedom for companies to determine policies related to recognizing expenses more quickly or delaying revenue recognition to apply the precautionary principle in accounting, thereby causing the profits generated by the company to be smaller, which results in a lower tax burden paid. Prudence is a convergence of conservatism which was adopted by IFRS in 2012. Prudence is the principle of being careful in a company in order to make decisions and not rely on uncertain assumptions. Application of the principle of prudence for companies to anticipate bad possibilities by manipulating financial data in financial data reporting (Sarah, dkk. 2022).

Agency theory explains the resolution of problems in agency relationships in the form of conflicting interests of the agent and principal (Eisenhardt, 1989). In practice, agents appointed by the principal to carry out operational activities do not always prioritize the principal's interests because they want to maximize their own utility. In agency relationships, managers who generally have access to more information regarding operational conditions carried out in the company compared to investors as principals can result in information asymmetry. This happens because management is the party who has deeper involvement in the company's planning, implementation and control processes compared to investors. The gap in information received between management as agents and investors as principals is referred to as information asymmetry. The information received by investors can be information asymmetric because management avoids taxes in order to maximize their utility (Adityamurti & Ghozali, 2017).

Financial Distress is a company situation that describes a condition where the institution is experiencing financial difficulties. Financial distress is a stage in which the company's financial condition declines before the company goes bankrupt. The condition of a company that is no longer able to pay the company's obligations at their actual maturity (Pratidina. & Majidah, 2022). Based on a survey conducted by the Ministry of Manpower, 88% of companies affected in the first 6 months of the Covid-19 pandemic experienced losses caused by decreased sales, thereby reducing production (Barenbang, 2020). In the early days of the pandemic, it was known that the food and beverage industry was known to be the industry most affected by Covid-19. Of the 17 cities observed, 13 of them experienced a significant decline in daily income (Santia, 2020). These two phenomena can lead to the initial phase of financial distress experienced by the company. During these times, one way that company management can do is avoid taxes in order to reduce the burden that must be incurred due to abnormal financial conditions.

Based on the background above, the problem formulation examined in this research is as follows: (1). Testing the effect of prudence on avoidance in food and beverage sub-sector manufacturing companies in 2020-2022, (2). Testing the effect of financial distress on avoidance in manufacturing companies in the food and beverage sub-sector in 2020-2022.

METHODS

Based on the problem formulation above, problem solving is carried out through the formation of research hypotheses that will be tested. The preparation of hypotheses is carried out with the following basic thinking framework:

The Effect of Prudence on Tax Avoidance

Prudence is used as an accounting principle in financial reports for the action of postponing income and recognizing expenses that may occur. If a company applies the principle of prudence in preparing financial reports, this can reduce profits. If the company produces lower profits, the tax obligations it will pay will also be lower. This is because company profits are the basis for tax payments (Sari et al., 2022). Thus, the first hypothesis that can be formed is as follows:

H1: Prudence has a positive effect on tax avoidance.

The Effect of Financial Distress on Tax Avoidance

Financial distress is a condition or situation where a company is in an unhealthy position or experiencing a period of crisis which is an indication of failure in the company's operational activities in generating profits and is an early indication of bankruptcy caused by declining financial conditions. Financial Distress can be used to predict business continuity by looking at the company's financial performance (Media & Rina, 2022). In

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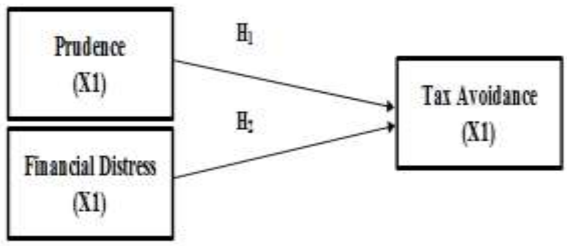
general, tax avoidance is an agency's effort to reduce the tax burden it will pay. One of the factors that makes management avoid taxes is financial distress because the company's financial situation is not normal and this condition causes company profits to fall so that the company experiences financial difficulties. (Fery, 2021). Thus, the second hypothesis that can be formed is as follows:

H2: Financial Distress has a positive effect on tax avoidance

In research conducted by Kusufiyah & Anggraini (2022), in Indonesia, several studies conducted related to tax avoidance were indicated to have been carried out by several researchers for companies in the manufacturing sector. Prudence is an independent variable and is a principle that has been converged from conservatism to the principle of prudence in preparing financial reports (Charisma & Suryandari, 2021). Financial distress is also an independent variable to see the financial situation or condition that influences tax avoidance in a company, so this research can look at the factors that predict a decline in the company's condition resulting in tax evasion in the company.



Picture 3: Framework for Thought

This research is quantitative research with the process used being to record, collect and review financial data, namely secondary data which is annual financial reports that have been audited and the data has been obtained from the BEI website. This study was explained at manufacturing companies in the food and beverage sector over a three (3) year running period, namely 2020-2022. The population in the study was 30 companies with a sample determined using a purposive sampling method with the aim of obtaining a representative sample in accordance with predetermined benchmarks.

This research also uses 2 (two) types of variables, including 2 (two) independent variables and 1 (one) dependent variable. Prudence acts as an independent variable in this observation which is proxied by looking at the size of accruals and the financial distress variable which is proxied by the Altman Z-score model, while tax avoidance is proxied by Cash-ETR (Effective Tax Ratio).

The data analysis methods used are divided into 3 (three), including descriptive statistical analysis, data quality testing and hypothesis testing. Multiple regression tests include partial tests (T-test), simultaneous tests (F-test) and path analysis used in hypothesis testing, while classical assumption tests covering data normality, multicollinearity, heteroscedasticity and autocorrelation are used as data quality tests.

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Based on the results of sample collection, a total sample of 90 companies was obtained from 30 food and beverage companies consistently listed on the Indonesia Stock Exchange for 3 (three) years in the period 2020, 2021 and 2022 as data in conducting this research and calculating variables. Observation variables include accrual size, Altman Z-core and Cash-ETR (effective Tax Ratio).

Descriptive statistics

Descriptive statistical analysis can be carried out to find out and provide a description of data which is described in terms of the average value (mean), minimum value, maximum value and standard deviation value.

Tabel 1.1 Statistik Deskriptif

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Prudence	87	-1.11	.12	-.2988	.24831
FinDistress	90	-1.18	978.54	51.7883	185.89465
Perpajakan	21	-.62	1.25	.2434	.36418
Valid N (listwise)	21				

Based on the results of descriptive statistics in table 4.2 above, it can be seen that the prudence value is -0.2988 and the minimum value is -1.11 for PT FKS Food Sejahtera Tbk in 2020. The maximum value was also obtained at 0.12 for PT Indofood CBP Sukses Makmur Tbk ICBP in 2020. 2021 and the standard deviation is 0.24831. Meanwhile, the average value of the financial distress variable is 51.7883 with a minimum value of -1.18. PT FKS Food Sejahtera Tbk in 2021, the maximum value is 978.54 for the industry PT Prima Cakrawala Abadi Tbk in 2020 with a standard deviation of 185.89465. This proves that food and beverage manufacturing companies in Indonesia on average do not experience financial distress and only a few of these institution apply caution in carrying out tax reporting.

Classic Assumption Test

Table 1.2 Normality test

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Prudence	.123	82	.014	.933	82	.000
FD	.487	82	.200	.293	82	.000
PERPAJAKAN	.532	82	.200	.087	82	.000

a. Lilliefors Significance Correction

Source: Processed Data, 2023

The table 1.2, namely the normality test, it was found that the data was normally distributed as evidenced by the significance value of the prudence variable being 0.014 > 0.05, the financial distress variable being 0.200 > 0.05, and the tax avoidance variable being 0.200 > 0.05. Furthermore, after the data is normally distributed, the next test is the multicollinearity test. In the multicollinearity test, the results found for each variable have a

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VIF (Variance Inflation Factor < 10, tolerance value > 0.10. It can be concluded that this research data doesn't have multicollinearity for all independent variables and is a very good regression model. Furthermore, the results The heteroscedasticity test found that 2 independent variables had a significant number of less than 0.05. This gave rise to symptoms of heteroscedasticity, so the data needed to be transformed by retesting the logarithm test. The results of the transformation were found to produce a significance number of more than 0.05 by looking at the correlation independent variable data and unstandardized residuals. Therefore, the data was found to have no symptoms of multicollinearity.

Hypothesis testing

Multiple Linear Regression Test

Table 1.3 Partial Regression Test Results (t-Test)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.406	.183		2.226	.039
	Prudence	.409	.334	.311	2.224	.000
	FinDistress	9.897E-5	.000	.083	2.322	.002

a. Dependent Variable: Perpajakan

Source: Processed Data, 2023

Based on the results of multiple regression testing on this observation, the following regression equation was found:

$$Y = 0.406 + 0.409X1 + 9.897X2$$

The results of the t- test with a statistical table, it was found that the significance value was 0.05/2 and the degrees of freedom (df) d= n-k-1 or 90-2-1 = 87, the t-table result was 2.003. So the results of the partial regression analysis on the variable prudence towards tax avoidance show that the t-count value is 2.224 with a significance value of 0.000 so that the t-count value is > t-table and the significance value is > 0.05. A conclusion is drawn that **hypothesis 1 is accepted**, where there is a significant positive influence of prudence on tax avoidance. The results of the partial regression of the financial distress variable on tax avoidance show that the t-count value is 2.322 with a significance value of 0.002, so **hypothesis 2 is accepted**, namely that financial distress has a positive and significant effect on tax avoidance.

Simultan Test

Table 1.4 Simultaneous Test Results (Test –f)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.342	2	.171	1.330	.000[b]
	Residual	2.311	18	.128		
	Total	2.652	20			

a. Dependent Variable: Perpajakan

b. Predictors: (Constant), FinDistress, Prudence

Source: Processed Data, 2023

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Based on the overall model testing results, an f value of 2.311 was obtained with a significance of 0.000 <0.05, this means that simultaneously prudence and financial distress influence tax avoidance in food and beverage companies.

The Effect of Prudence on Tax Avoidance

In the variable prudence towards tax avoidance, the t-count value is 2.224 with a significance value of 0.000, so the t-count value is > t-table and the significance value is > 0.05. A conclusion was drawn that hypothesis 1 was accepted. Prudence is one of the variables used by entities to influence tax obligations by applying conservative accounting principles, namely by recognizing potential profits earlier than potential losses. This principle will have the effect of increasing the value of expenses and decreasing the value of the entity's net profit and taxes payable, so that the taxes the entity must pay become low and the financial statements presented do not reflect the entity's actual economic conditions. This result is also supported by Meilany & Hidayati (2020), which states that the application of prudence is really needed by companies because prudence is the same as accounting conservatism, namely applying the principle of prudence in disclosing financial reports and this can be done in carefully disclosing tax reports so that research supports that prudence has a significant influence significantly towards tax avoidance.

The Effect of Financial Distress on Tax Avoidance

Financial distress on tax avoidance partially obtained the t-calculated value of 2.322 with a significance value of 0.002, so hypothesis 2 is accepted, namely financial distress has a positive and significant effect on tax avoidance. This shows that entities experiencing financial distress will try to prevent bankruptcy and use all means, such as manipulating accounting policies by presenting an increase in operating income to pay debts to creditors. This is done by management to create a good image of the entity. Apart from that, financial distress will enable management to minimize the entity's burdens, especially the tax burden that must be paid. Entities experiencing financial difficulties will experience tax aggressiveness in stabilizing the condition of their institutions. So when an agency experiences financial distress, the company uses another strategy, namely effective tax avoidance (Taufik & Muliana, 2021). The results of this research are also in line with research conducted by Nugraha & Rahmawati (2023) that financial distress influences tax avoidance.

The Influence of Prudence and Financial Distress on Tax Avoidance

To minimize the risk of entity bankruptcy, management must monitor its financial position because management plays the role of the party trusted to do the best for society in general and stakeholders in particular. Prudence is one of the principles used by management in acting in the interests of the public and stakeholders. Prudence is used by management to manage the recognition of losses and profits carefully with the principle that losses and expenses are recognized as soon as possible, while profits and assets are recognized without haste. This difference in the timing of profit and loss recognition has an impact on decreasing the entity's profits and makes the tax that must be paid smaller, so that there is a greater possibility for companies to avoid tax. Financial distress is a condition when an entity experiences financial difficulties and the entity is unable to pay off all its

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obligations due to low entity income. When an entity experiences a decline in financial condition, various efforts are made by management to improve the company's image in front of stakeholders, one of which is by minimizing the tax burden and presenting persistent profits. Prudence policies will also be implemented by the entity when this condition occurs, namely that the entity will be more inclined to prepare financial reports carefully and carry out tax avoidance that is appropriate and legal in the eyes of the law. Thus, it can be concluded that simultaneously prudence and financial distress have a significant positive effect on tax avoidance in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2020-2022. This is also shown by the f value obtained, namely 2.311 with a significance of 0.000 < 0.05, which means that simultaneously prudence and financial distress influence tax avoidance in food and beverage companies.

CONCLUSION

Based on the results of observations of the influence of prudence and financial distress on tax avoidance in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (BEI) with a period of 2020-2022, the research results show that prudence has a positive and significant effect on tax avoidance, financial distress has an effect positive and significant on tax avoidance and in the simultaneous test prudence and financial distress have a simultaneous effect on tax avoidance. It is hoped that the results of the observations can be used as a reference for future researchers by considering other variables, such as working asset management and/or using variables outside of this observation. In this study, researchers only limited research related to food and beverage in 2020-2022. So the financial data used is only for the year in question and not outside the food and beverage company. This research is useful for further research in looking again at the influence of prudence and financial distress variables on taxes by using additional independent variables such as company value to see whether company value can influence tax avoidance or not. In this study, researchers only limited research related to food and beverage in 2020-2022. So the financial data used is only for the year in question and not outside the food and beverage company. This research is useful for further research in looking again at the influence of prudence and financial distress variables on taxes by using additional independent variables such as company value to see whether company value can influence tax avoidance or not.

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