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THE EFFECT OF LEVERAGE AND EXTERNAL AUDIT QUALITY ON TAX AVOIDANCE IN FOOD AND BEVERAGE COMPANIES

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Abstract

This study aims to determine the effect of leverage and external audit quality on tax avoidance in food and beverage subsector companies listed on the IDX in 2020-2023. This research is a quantitative study using secondary data in the form of company financial reports obtained from the Indonesia Stock Exchange website. The research population amounted to 25 companies. Determination of the sample using purposive sampling method and obtained a sample of 18 companies in 4 years of observation so that the total sample obtained was 72 companies. The data analysis technique used in this research is logistic regression analysis and processed using SPSS version 25.
The results obtained based on the wald test show that leverage has an effect on tax avoidance, external audit quality has no effect on tax avoidance, and leverage and external audit quality simultaneously have no effect on tax avoidance.

Keywords: *Leverage; External Audit Quality; Tax Avoidance.*

1. Introduction

The income that a country has in developing the economy in each region is generated from the APBN, one of the sources of which is tax revenue (Meilinda and Indriani, 2024).Law of the Republic of Indonesia Number 28 of 2007 concerning General Provisions and Tax Proceduresaffirms that tax is a form of contribution that must be given to the state, both by individuals and business entities, has a coercive nature and is regulated by applicable laws. Without any direct compensation received by taxpayers, the funds collected will be used to support the interests of the state in an effort to increase the prosperity of all people.Republic of Indonesia Law Number 36 of 2008 Concerning Income Taxindicates that the entity or company is a tax subject and has an obligation to pay tax on income received during the relevant tax year in accordance with the applicable tax rate during the current period. The increasing tax obligation for a company is directly proportional to the increase in the financial burden that must be borne. Tax is considered a burden that reduces income, therefore, companies want their tax burden to be relatively low.

Companies have various options to minimize the total tax obligations they must fulfill to the state. One of them is by legal means to avoid taxes without violating tax regulations known as tax avoidance. This method utilizes interpretations or loopholes in tax regulations with the aim of reducing tax obligations without violating applicable legal restrictions (Pradipta, 2019). The purpose of tax avoidance is to reduce the amount of tax to be paid to the government by reducing profits, employing tax experts and utilizing the company's fixed assets.

The phenomenon related to tax avoidance practices that occurred in Indonesia is the case of the company PT Adaro Energy Tbk in 2019, which was suspected of tax avoidance through transfer pricing. Transfer pricing is the activity of transferring large amounts of profit funds in Indonesia to foreign companies, which are not subject to tax or countries with low tax rates. The case of tax avoidance of PT Adaro Tbk was proven to have been carried out in the period 2006 to 2017. Through this, the company was able to pay lower taxes worth US$ 125 million or Rp1.75 trillion.

Tax avoidance carried out by PT Adaro Energy Tbk cannot be separated from several factors. The first factor is leverage. The level of debt used to fund company assets is measured by a ratio called leverage (Safii and Sahara, 2024). The proportion between a company's total debt obligations and the total value of its assets reflects the company's level of dependence on loans. According toApriliani (2023), leverage is a financial ratio used to evaluate an entity's ability to meet its financial obligations, both long-term and short-term. Leverage utilization provides benefits in terms of tax. This is due to the existence of tax reduction facilities on debt interest. Thus, the tax burden borne by the company becomes lower.

External audit quality also plays an important role in tax avoidance. Audit quality covers all aspects that may occur during the auditor's audit procedures on the financial statements of the client entity. This includes the discovery of errors or violations that exist, which are then reported in the financial statements (Anggara, Verwati and Bhegawati, 2023). Audits with maintained quality standards can increase the level of information disclosure in financial reports, and at the same time, reduce opportunities for tax avoidance practices. The quality of external audits is related to the size of the KAP (Public Accounting Firm) that audits the company's financial statements. KAPs included in the "Big

Four" are considered to be KAPs that are competent to audit financial reports so that they can detect fraud or material misstatements that are intentional or unintentional.

Previous studies conducted by (Fadilah and Ambarita, 2024) revealed that leverage has an effect on tax avoidance. The study conducted by (Syifa and Septanta, 2024) in line with this finding, which indicates that leverage has an influence on tax avoidance practices. Companies that have debt can use interest expenses as a tax deduction. The potential for tax deductions will increase as the value of debt increases, because interest expenses are classified as tax-deductible costs. This creates an incentive for companies to use leverage as a scheme in tax avoidance.

Norisa, Dewi and Wijayanti (2024) revealed that leverage has no effect on tax avoidance. This is also consistent with the study conducted byAriska, Wahyu and Kusuma (2020). Not all companies with high debt use interest expense to reduce their tax liabilities. Some companies tend to choose not to use debt aggressively in their tax planning, either because of internal policies or because the company is more focused on long-term growth that does not rely on short-term tax reductions.

Tamara and Saragih (2021) explains that audit quality has an impact on tax avoidance.Tahilia et al. (2022) strengthens this with the finding that audit quality has an impact on tax avoidance. Auditors who have high competence generally show greater thoroughness in evaluating the tax compliance of business entities. Auditors who are experienced and have a good reputation will conduct an in-depth examination of the company's financial statements and tax practices. The quality of external audits can affect the perception of stakeholders, including tax authorities and investors. Companies audited by leading audit firms (The Big Four) are considered more transparent and trustworthy. A study conducted byMeilinda and Indriani (2024) also revealed that external audit quality has an effect on tax avoidance. The high level of focus and thoroughness in the financial management of a company will have a positive impact on the company so that it can avoid tax avoidance.

Nurhidayah, Wibawaningsih and Fahria (2021) found different results, that audit quality had no influence on tax avoidance. The Little Mermaid (2019) found that audit quality has no effect on tax avoidance. Companies will still engage in tax avoidance even if audited by a high-quality auditor. This is due to the fact that tax avoidance often involves complex and legal strategies, which are not fully disclosed in the financial statements.

This study uses food and beverage sector companies listed on the IDX as the location to differentiate it from previous studies. This sector is considered stable and has good growth potential, given the consistent demand for food and beverage products. In addition, these companies often have transparent and standardized financial statements. Thus, the financial data needed for analysis, such as information on the company's total debt and total equity, which are needed in calculating leverage. Information on income tax expense and profit before tax avoidance, which are needed in calculating tax avoidance, as well as information on the Public Accounting Firm used by the company are more easily accessible and more reliable. The reason for choosing the 2020-2023 period is that the latest year ensures that the data used in this study is relevant and reflects current market conditions. The new data provides a more accurate picture of tax avoidance practices, capital structure and audit quality applied by the company.

Based on the description of the background of the problem and empirical phenomena, the author is interested in trying to see the things that influence management in carrying out tax avoidance practices. It is expected that the factors analyzed by the author, namely leverage and external audit quality, can make the company's financial statements, especially the value of tax payable, more accurate and precise. Based on the explanation of the background above, the author conducted a study entitled "THE EFFECT OF LEVERAGE AND EXTERNAL AUDIT QUALITY ON TAX AVOIDANCE IN FOOD AND BEVERAGE SUB-SECTOR COMPANIES LISTED ON THE IDX IN 2020-2023".

This research aimsto analyze the influence of leverage and external audit quality partially on tax avoidance in food and beverage sub-sector companies listed on the IDX in 2020-2023. And to analyze the influence of leverage and external audit quality simultaneously on tax avoidance in food and beverage sub-sector companies listed on the IDX in 2020-2023.

2. Method, Data, and Analysis

Identification of Variables and Their Measurement

Table1. Identification of Variables and Their Measurement

No	Information	Operational Definition	Size	Scale
1.	*Leverage* Source: (Seto et al., 2023: 47)	*Leverage*is a strategy used to maximize company profits by utilizing debt.	$\text{DER} = \frac{Total\ Hutang}{Total\ Ekuitas}$ Indicator: 1. Total Debt 2. Total Equity	Ratio
2.	External Audit Quality Source: (Nurhidayah et al., 2021)	External audit quality is how reliable and effective the audit process carried out by independent auditors is on a company's financial statements.	Dummy Indicator: 0: KAP non The Big Four 1: KAP The Big Four	Nominal
3.	Tax evasion Source: (Nurhidayah et al., 2021)	Tax avoidance is a strategy carried out by an entity with the aim of reducing the tax burden that must be paid to the state, without violating Tax Regulations.	$\text{CETR} = \frac{Cash\ Tax\ Paid\ i,t}{Pretax\ Income\ i,t}$ Indicator: 1. Cash tax paid 2. Pretax Income Dummy	Nominal

	0: CETR > 25% does not engage in tax avoidance 1: CETR ≤ 25% engage in tax avoidance

Source: Data processed by the author (2025)

Population and Sample

The population in this study was 25 food and beverage companies listed on the Indonesia Stock Exchange (IDX) in 2020-2023. Meanwhile, the number of research samples was 28 companies that met the established criteria.

Data Types and Sources

The type of data used in this study is quantitative, the data used in this study is secondary data, according toSugiyono (2023: 194), secondary data is a source of data obtained indirectly, namely through other parties or documents.

Data Collection Techniques

In this study, the data was obtained through documentation, namely studying financial report documents, especially in the company's profit section and total assets in food and beverage sub-sector companies obtained from purely audited financial reports, as listed on the official BEI website (www.idx.co.id).

Data Analysis Techniques

The data processing technique used in this study is a quantitative analysis technique, which is an analysis used through a measurement in the form of numbers using statistical methods. Logistic regression analysis is a statistical analysis method used to model the relationship between one or more independent variables with categorical dependent variables.(Paramita, 2020:7). The use of logistic regression analysis because the dependent variable in this study is dichotomous, namely "0" and "1".

3. Results

Results

Wald test

*Wald test*conducted to assess whether the independent variables, namely leverage and external audit quality, have an influence on the dependent variable, namely tax avoidance in this study. Determining whether the hypothesis is accepted or rejected is done by comparing the significance value at the α = 0.05 level.

Table1. Wald test

	B	SE	Wald	Df	Sig.
Leverage	-.015	.007	4.361	1	0.037
External Audit Quality	-.096	.734	.017	1	0.896
Constant	2,742	.680	16,241	1	0.000

Source: Results of data processing with SPSS 25.0

Based on table 4.9. Hypothesis testing results can be obtained using logistic regression analysis, as follows:

1) The first hypothesis (H1) is that leverage has an effect on tax avoidance.
   *Wald test*shows that the probability value is smaller than the established significance level (0.037 < 0.05). Based on the test results, it can be concluded that H1 which states that leverage has an effect on tax avoidance is accepted. This can be interpreted that leverage has an effect on tax avoidance.
2) The second hypothesis (H2) is that external audit quality has an effect on tax avoidance.
   The Wald test shows a probability value greater than the level of significance (0.896 > 0.05). Based on the test results, it can be concluded that H2 which states that external audit quality has a positive effect on tax avoidance is rejected. This can be interpreted that external audit quality has no effect on tax avoidance.

Omnibus Test Of Model Coefficients

The Omnibus Test Of Model Coefficients test is used to test whether all independent variables consisting of leverage and external audit quality are able to influence the dependent variable, namely tax avoidance. Determination of acceptance or rejection of the hypothesis is done by comparing the significance value at the α = 0.05 level.

Table2.*Omnibus Test of Model Coeffcents*

Chi-Square	Df	Sig.
5,524	2	0.063
5,524	2	0.063
5,524	2	0.063

Source: Results of data processing with SPSS 25.0

Based on table 4.10, the significance level is 0.063 > 0.05, so H3 is rejected. So it can be concluded that leverage and external audit quality simultaneously do not affect tax avoidance.

4. Discussion

Partial Effect of Leverage on Tax Avoidance

The results of this study are in line with research conducted bySyifa and Septanta (2024) Selviana and Fidiana (2023) And Fadilah and Ambarita (2024) which found that leverage has an effect on tax avoidance. The level of a company's debt, known as leverage, reflects the proportion of debt used to support its operational activities. Debt that generates interest expenses can be used as a strategy to reduce taxable profits. Interest expenses that qualify as a reduction in taxable profits are interest expenses arising from loans obtained from third parties or creditors who are not affiliated with the company. High tax interest expenses result in increased tax liabilities that must be paid, which will reduce the company's profits. Therefore, the company will carry out tax avoidance so that the company's profits are stable and increase.

However, the results of this study contradict research conducted byMeilinda and Indriani (2024) AndSafii and Sahara (2024) which states that leverage has no effect on tax avoidance.

This study is in line with the agency theory which states that company management has the right to make decisions related to debt financing for the purpose of minimizing tax payments, so that management can achieve maximum profit for the company. Companies that have a fairly high average level of leverage can cause company management to carry out tax planning in order to minimize tax obligations which result in tax avoidance practices within a company.

The Partial Effect of External Audit Quality on Tax Avoidance

The results of this study are in line with research conducted byYunawati, (2019) (Madina and Hapsari, 2024) And Serving God, Pratama, Dirgantari and Wibowo (2022) in his research stated that there is no significant influence between companies audited by KAP the Big Four or KAP non the Big Four. This is because the auditor when carrying out the audit process of a company has the same Public Accountant standards and ethics so that the audit process remains in accordance with existing regulations. KAP the Big Four and KAP non Big Four both have experts in conducting audits so as to produce audit quality that is reliable and competent. However, the results of this study contradict the research conducted byTamara and Saragih (2021) found that audit quality has an effect on tax avoidance.

The Simultaneous Effect of Leverage and Audit Quality on Tax Avoidance

Increasing leverage does not affect tax avoidance because many companies with high debt levels still comply with applicable tax regulations. In addition, companies that have high financial risks due to debt prefer to allocate their resources to improve their financial position rather than engage in risky tax avoidance practices.

External audit quality has no effect on tax avoidance. Some companies may still engage in tax avoidance practices even though they are audited by auditors affiliated with the Big Four accounting firms. This means that even though a company has a good external audit, it cannot prevent tax avoidance practices. Thus, it is important for owners to ensure that managers' incentives are aligned with the company's long-term goal of reducing the likelihood of tax avoidance.

5. Conclusion, Limitations, and Suggestions

Conclusion

Conclusion

Based on the results of the data analysis and discussion that have been explained, the following conclusions can be drawn:

1. Leveragepartially affects tax avoidance in food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2020-2023.

2. External audit quality has no partial effect on tax avoidance in food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2020-2023.

3. Leverage and external audit quality simultaneously have no effect on tax avoidance in food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2020-2023.

Limitation and suggestions

Limitations

1. This research has a time limit of 4 years.

2. This study specifically selects companies engaged in the food and beverage sub-sector as the population. From this population, 18 companies were selected as research samples.

3. This study only uses 2 (two) independent variables, namely: leverage and external audit quality.

4. This study only uses the ETR proxy to test tax avoidance.

5. In this study, the ability of the independent variables, namely leverage and audit quality, to explain the dependent variable, namely tax avoidance, only reached 12.4%.

Suggestions

1. For Academics

This research is expected to contribute to the development of tax accounting science, especially regarding the influence of leverage and external audit quality on tax avoidance practices. For further research, it is recommended to expand information sources and apply various data collection techniques.

2. For Regulators

The Directorate General of Taxes, as part of the government, has the responsibility to supervise tax avoidance practices carried out by companies with high levels of debt.

3. For Further Researchers

Further researchers have the option to enlarge the research sample size in order to obtain findings that may differ from the research that has been conducted. Further researchers have the option to expand the research by including other independent variables that have the potential to influence tax avoidance, such as managerial ownership, fiscal loss compensation, institutional ownership, sales growth and audit committee.

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