THE EFFECT OF TAX AVOIDANCE, LEVERAGE, AND PROFITABILITY ON COST OF DEBT IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract
For a company's operational activities to run smoothly, it requires funds to finance the company's activities as working capital, one of the ways is through debt financing. This financing option would result in interest payment, hence resulting in the cost of debt. This research aims to study the effect of tax avoidance, leverage, and profitability on cost of debt in manufacturing companies listed on Indonesia Stock Exchange (IDX). This study is a quantitative descriptive study that applies the purposive sampling method, with 78 manufacturing companies listed on the IDX from 2017 to 2019 were chosen as the sample of this study. To analyze the data obtained, this study used a multiple linear regression model. This study found that tax avoidance has no effect on the cost of debt in manufacturing companies listed on the IDX. Meanwhile, leverage and profitability both have positive significant partial effect on the cost of debt in manufacturing companies listed on the IDX. Furthermore, tax avoidance, leverage, and profitability have significant simultaneous effect on cost of debt in manufacturing companies listed on IDX. Collectively, these variables have 19.1% effect on cost of debt, while the remaining 80.9% effect is caused by factors that are not addressed in this study, such as good corporate governance, inflation, sales growth, and payback period.

Keywords: Tax Avoidance; Leverage; Profitability; Cost of Debt; Manufacturing Companies

INTRODUCTION

This study is being conducted for two motives. First, companies with inflated cost of debt might be exposed to high default risk. Hence, inefficient debt financing could lead companies to greater business risk. Second, since companies with inflated cost of debt are often associated with higher risk level, investors are advised to avoid investing in such companies. This demonstrates that the cost of debt is a crucial factor to consider when making an investment decision.

METHODOLOGY

The current study is a descriptive study, by which according to Sanusi (2017), is a research design that aims to give systematic interpretations of data gathered throughout a study. The goal of descriptive research is to characterize the features of the event under investigation. In this study, quantitative research method is selected to understand the influence and relationship among the independent variables (tax avoidance, leverage, and profitability) and the dependent variable (cost of debt). According to Anshori and Iswati (2019), quantitative method is employed when numbers are used throughout the data gathering, analysis, and presentation of the results. It is a study that uses statistical analysis to quantify data and generalize findings from a sample to the complete population of interest. Furthermore, this study also employs causal research method, where the influence of one variable with another variable is objectively proven by utilizing the data and facts acquired.

RESULTS

A. Figures and Tables

Hypothesis tests are used to evaluate whether to accept or reject temporary assumptions. They are also used to assess the validity of a proposition. To test the hypotheses of this study, t-test, F-test, and adjusted R2 are performed. In partial significance test, the effect between each independent variable on the dependent variable will be tested. The results of partial significance test are presented in the following table:

Partial Significance Test Results

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.366	.238		-1.538	.127
	LAG_CETR1	.235	.120	.168	1.964	**.052**
	LAG_DER1	.517	.100	.432	5.187	**.000**
	LAG_ROA1	.225	.097	.202	2.324	**.022**
a. Dependent Variable: LAG_COD1						

Source: SPSS Output (2022)

Based on the results presented in table, the following is how partial significance test results should be interpreted:

a. Tax avoidance that is proxied by CETR, is proven to have no effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This conclusion is drawn based on the partial significance level of CETR of 0.052, which is greater than 0.05. Thus, the first hypothesis, which states that tax avoidance has effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange, is therefore rejected.
b. Leverage that is proxied by DER, is proven to have significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This conclusion is drawn based on the partial significance level of DER of 0.000, which is lower than 0.05. Thus, the second hypothesis, which states that leverage has effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange, is therefore accepted.
c. Profitability that is proxied by ROA, is proven to have significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This conclusion is drawn based on the partial significance level of ROA of 0.022, which is lower than 0.05. Thus, the third hypothesis, which states that profitability has effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange, is therefore accepted. Based on the results presented in table 4.8, the following is how partial significance test results should be interpreted:

Tax avoidance that is proxied by CETR, is proven to have no effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This conclusion is drawn based on the partial significance level of CETR of 0.052, which is greater than 0.05. Thus, the first hypothesis, which states that tax avoidance has effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange, is therefore rejected.

Leverage that is proxied by DER, is proven to have significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This conclusion is drawn based on the partial significance level of DER of 0.000, which is lower than 0.05. Thus, the second hypothesis, which states that leverage has effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange, is therefore accepted.

Profitability that is proxied by ROA, is proven to have significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This conclusion is drawn based on the partial significance level of ROA of 0.022, which is lower than 0.05. Thus, the third hypothesis, which states that profitability has effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange, is therefore accepted.

Simultaneous Significance Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.828	3	4.943	10.450	**.000[b]**
	Residual	55.336	117	.473		
	Total	70.164	120			

a. Dependent Variable: LAG_COD1
b. Predictors: (Constant), LAG_ROA1, LAG_DER1, LAG_CETR1

Source: SPSS Output (2022)

The simultaneous significance test results shown in table infers that tax avoidance, leverage, and profitability have significant simultaneous effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange. The conclusion is drawn based on the significance level of 0.000. As the significance level is lower than 0.05, therefore the fourth hypothesis of this study is accepted.

Coefficient of determination (R2) is a metric used to evaluate the effect of independent variables on the dependent variable. The coefficient of determination can range between 0 and 1, with a score near to zero indicating an insignificant effect and a number close to one indicating a significant effect. This study's coefficient of determination is as follows:

Adjusted R Square

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.460[a]	.211	**.191**	.68772

a. Predictors: (Constant), LAG_ROA1, LAG_DER1, LAG_CETR1

Source: SPSS Output (2022)

The adjusted coefficient of determination (Adjusted R2) is 0.191, according to table 4.10. It indicates that the multiple regression model accounted for 19.1% of overall variability, according to the data. In other words, tax avoidance, leverage, and profitability have a 19.1% effect on cost of debt. Meanwhile, the remaining 80.9% effect is caused by factors that are not addressed in this study, such as good corporate governance, inflation, sales growth, and payback period.

DISCUSSION

This study examines the effect of tax avoidance, leverage, and profitability on cost of debt in manufacturing companies listed on Indonesia Stock Exchange from 2017 to 2019. The following are the findings of the tests performed:

Descriptive statistics on tax avoidance shows that tax avoidance has a minimum value of 0.0031 and a maximum value of 7.71. This means that the value of tax avoidance in this study ranges from 0.0031 to 7.71. The average CETR of this study is 0.4970, showing that the average sampled company does not avoid paying taxes because the average CETR is greater than the benchmark of 25%. The hypothesis test using tax avoidance as the independent variable and its effect on cost of debt as the dependent variable yields a significance result of 0.052, which is larger than 0.05. The result indicates that tax avoidance has no effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange during the period 2017 to 2019. Therefore, the first hypothesis of this study that presumes the existence of the effect is rejected. The outcome of this research infers that companies that perform tax avoidance practice does not always inolve the use of large amount of debt. Hence, it is not certain that companies that are engaging tax avoidance practice would have a large amount of debt; likewise, companies that have a large amount of debt do not necessarily mean that they are engaging tax avoidance practice. The finding is consistent with the research conducted by Utama et al. (2019), Awaloedin and Nugroho (2019), Manullang (2020), as well as Pardosi and Sinabutar (2021), who state that tax avoidance has no significant effect on cost of debt. However, this finding is inconsistent with the research by Heryawati (2018), who found that tax avoidance has positive major influence on cost of debt.

Descriptive statistics on leverage shows that DER has a minimum value of 0.0004 and a maximum value of 14.69. This implies that the value of leverage ranges from 0.0004 to 14.69. While the mean value is 1.0103, showing that the average sampled company uses high leverage in financing its operational activities with an average Debt to Equity Ratio (DER) of 101.03%.

Based on the hypothesis test result, leverage is proven to have significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange as the partial significance test yields a value of 0.000, which is lower than 0.05. Hence, the second hypothesis is accepted. According to the findings of this study, the higher a company's debt ratio, which implies the larger the part of loan capital, thus the greater the cost of debt that must be paid by the company. The greater this ratio, the lesser the company's chances of long-term profit growth and cash flow. This is consistent with the research performed by Awaloedin and Nugroho (2019), who found that leverage has major influence on cost of debt of manufacturing companies. Based on the descriptive statistics result, profitability has minimum value of 0.0003 and a maximum value of 0.72. This demonstrates that profitability of sampled companies in this study ranges from 0.0003 to 0.72. The average ROA of this study is 0.0765, showing that the average sampled company has a good profitability as the value is greater than 5%. This implies that the sampled companies can generate sufficient returns relative to the company's total assets.

According to the hypothesis test result, profitability is shown to have significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange. This result is based on ROA's partial significance level of 0.022, which is less than 0.05. As a result, the third hypothesis, which asserts that profitability has an influence on loan cost in manufacturing businesses listed on the Indonesia Stock Exchange, is accepted. In this study, profitability is shown to have a positive relationship on cost of debt. This indicates that high earning companies in the manufacturing sector opt to use external capital rather than internal capital to support their operations. This result is consistent with the research performed by

Manullang et al. (2020) as well as Pardosi and Sinabutar (2021), who claimed that profitability has significant partial effect on cost of debt of manufacturing companies.

According to the result of simultaneous significance test, the regression's significance value is 0.000, which is less than 0.05. This suggests that tax avoidance, leverage, and profitability have significant simultaneous effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange. Thus, as the significance level is lower than 0.05, therefore the fourth hypothesis of this study is accepted.

CONCLUSION

Based on the results of data analysis and discussion of the effect of tax avoidance, leverage, and profitability on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange mentioned in the preceding chapter, the following conclusions may be drawn from this study:

a. Tax avoidance has no effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange.
b. Leverage has significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange.
c. Profitability has significant partial effect on the cost of debt in manufacturing companies listed on the Indonesia Stock Exchange.
d. Tax avoidance, leverage, and profitability have significant simultaneous effect on cost of debt in manufacturing companies listed on Indonesia Stock Exchange.
e. Tax avoidance, leverage, and profitability have a 19.1% effect on cost of debt and the remaining 80.9% effect is caused by factors that are not addressed in this study, such as good corporate governance, inflation, sales growth, and payback period.

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