



## THE EFFECT OF FINANCIAL PERFORMANCE, TAX AVOIDANCE, SALES GROWTH, AND TAX EXPENSE ON CAPITAL STRUCTURE

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### Abstract

This research aims to determine the effect of financial performance, tax avoidance, sales growth, and tax burden on capital structure. This type of research is quantitative. Capital structure is the dependent variable and financial performance, tax avoidance, sales growth and tax burden are independent variables. This research uses secondary data in the form of financial reports, with a population of 92 companies. This research was conducted on property and real estate sector manufacturing companies listed on the IDX in 2018-2022, the research sample was 13 companies with 5 years of observation, the sample determination method used was purposive sampling. The analysis method uses multiple regression analysis, determination test, T test and F test using Eviews 12. The research results show that tax avoidance has no effect on capital structure, sales growth has no effect on capital structure, and tax burden has no effect on capital structure, financial performance influence on capital structure. Meanwhile, financial performance, tax avoidance, sales growth and tax burden simultaneously influence capital structure.

**Keywords:** Capital Structure, Financial Performance, Sales Growth, Tax Avoidance, Tax Burden

### INTRODUCTION

Capital structure is a balance between the use of long-term loans and the use of own capital (Tangiduk et al., 2017). Basically, every company needs capital to finance operational activities and to develop its business so that capital is an important element in the company. The greater the capital a company has, the greater the operational activities that can be carried out (Habibah, 2015). Capital is needed by every company, especially if the company is going to expand. Therefore, companies must determine how much capital is needed to fulfill or finance their business.

The many variables that can influence a company in determining its capital structure require special consideration. Capital structure constraints can be said to be the main problem for existing companies, so whether a company's capital structure is good or bad can directly influence a company's financial transaction activities. If the capital structure that a company can have is not good, having a lot of debt can result in a big burden for the company. Therefore, there is an appropriate policy regarding determining funding decisions if they are to be implemented in terms of the use of debt.

Capital structure is influenced by one factor, namely financial performance. Financial performance is the company's success in carrying out its operations to generate profits. By getting maximum profits, the company will tend to use internal funding sources, of course this means the company uses retained earnings more often. Financial performance includes profitability, liquidity and dividend policy.

One of the factors that influences capital structure is tax avoidance. Tax avoidance is the preparation of transactions to gain profits or advantages by avoiding tax regulations through legal means without violating tax regulations. Tax avoidance The concept of tax avoidance aims to reduce government tax payments. Tax fraud by definition.

One of the factors that influences capital structure is sales growth. Sales growth is a change in sales increasing or decreasing from year to year which can be seen in the company's profit and loss report. A good company can be seen from its sales from year to year which continue to increase, this has an impact on increasing company profits so that the company's internal funding also increases (Maryanti, 2016).

Another factor that influences capital structure is the tax expense (Houston., 2006). the higher the corporate tax rate, the greater the benefit of debt interest payments. The higher the corporate tax rate, the greater the benefits obtained from debt. that the tax expense regression coefficient exceeds. positive



means that the greater the tax burden, the higher the level of the company's capital structure (Lukiana & Hartono, 2014).

There is a phenomenon reported in Kontan magazine (kontan.co.id) which states that many automotive component and spare parts industries are making efforts to maintain their business during a pandemic like this. The efforts they made took the form of funding that did not come from the company, but rather funding by utilizing loans from various financial institutions. It turns out that apart from borrowing, industrial players also end up withholding VAT, in order to obtain capital for operations. They withhold this tax so that they can get working capital back to run and operate their business. Other factors that can be influenced by capital structure include company size, which explains the size of a business unit. Among other indicators, it can be influenced by the capital structure of a business unit, namely size. Capital structure can indicate the financial health of a company, so company managers should create a capital structure policy regarding the composition of debt, preferred shares and common shares.

## **LITERATURE REVIEW**

### **Understanding Capital Structure**

Capital structure is a combination of the use of debt and equity which is represented in the company's financial balance sheet (Giovanni, 2015). says that capital structure describes the company's long-term permanent financing which consists of long-term debt and own capital. If the realization of the proportion of debt used is below the target that has been set, then the company is deemed necessary to increase the proportion of debt and when the company's debt ratio exceeds the target that has been set, the company will issue shares.

### **Financial Performance**

Financial performance (organizational performance) is how efficient and effective a company is or how well the company achieves its goals. Financial performance is a description of a company's financial condition in a certain period, both regarding aspects of raising funds and distributing funds, which is usually measured by indicators of capital adequacy, liquidity and profitability. A company's performance is often measured based on financial ratios during a certain period, in this case researchers will use the sales growth ratio and profitability ratio as indicators to measure how a company's financial performance relates to its capital structure.

### **Tax Avoidance**

Tax avoidance is an official and legal method whose aim is to eliminate the burden of paying taxes through loopholes and opportunities in tax instructions. From a perceptual perspective, the tax avoidance sketch is legal and permissible because it does not contradict tax requirements (Marpaung & Hutabarat, 2020). This can reduce the rate of increase in the capital structure required to make tax payments.

### **Sales Growth**

Sales growth is an increase in sales over time. A company is in an industry that has a high growth rate, so it must provide sufficient capital to fund the company. Large or stable sales growth has a positive impact on company profits, so it becomes a consideration for company management in determining capital structure (Houston., 2006).

### **Tax Expense**

Tax burden according to (Lukiana & Hartono, 2014) that the higher the tax rate of a company, the greater the benefits obtained from debt due to interest payments. the higher a company's tax rate, the greater the benefits it obtains from debt. Tax expense is the aggregate amount of current tax and deferred tax which is taken into account in calculating accounting profit or loss at one time or in the current period as an expense or income (Herawan & Waluyo, 2014).



**METHODS**

The type of data used in this research is descriptive quantitative data and the data source in this research is secondary data using the Properties and Real Estate sectors for 2018-2022 on the BEI

Based on the population of Property and Real Estate companies listed on the BEI in the year of observation that will be used as observations in this research, there are 92 companies, which will later be adjusted to the sample criteria that have been determined. So below are the number of samples from property and real estate companies obtained, including:

**Table 1 Sample Selection Criteria**

No	Sample Selection Criteria	Violation Criteria	Accumulation
1	Property and Real Estate Companies listed on the IDX during the 2018-2022 period.		92
2	The listed Property and Real Estate Companies were not delisted during the observation period.	(31)	61
3	Property and Real Estate Companies that are listed on the IDX and report their annual reports consecutively during the observation period.	(3)	58
4	The listed Property and Real Estate Companies did not experience losses during the observation period.	(45)	13
5	Companies that do not use the Rupiah currency.	0	13
Total sample size during the research period (5 years)			65 data

Source: Secondary data processed by the author, 2024

**Variables**

**Capital Structure**

The dependent variable is a variable that is influenced by the independent variable. In this research the variable used is capital structure. Capital structure is part of the financial structure in the form of a balance between total debt and own capital, so it is important for companies to monitor the debt percentage. In this research, capital structure can be calculated using one of the proxies for the leverage ratio, namely the debt to equity ratio (DER).

$$DER = \frac{\text{Liabilities}}{\text{Equities}}$$

Information : DER = Debt to Equity Rasio

**Profitabilitas**

In this research. Profitability describes a company's ability to generate profits (profit) at the level of sales, assets and equity in a certain period. A low level of profitability can affect the capital structure.

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Asset}} \times 100\%$$

Information: ROA = Return On Asset

**Likuiditas**

Liquidity is the company's ability to meet its short-term obligations with the current assets it owns. Companies that can immediately repay their debts will gain the trust of creditors to issue large amounts of debt (Hasan et al., 2014). States that the level of liquidity is measured using a ratio scale using the formula:

$$CR = \frac{\text{Total Current Asset}}{\text{Total Current Liabilitas}}$$

Information: CR = Current Ratio



**Tax Avoidance**

Tax avoidance is an effort to reduce or even eliminate the tax debt that must be paid without violating existing regulations. To determine the score or value of a company's tax avoidance behavior, use the CETR calculation with the following calculation formula:

$$\text{CETR} = \frac{\text{Payment Tax}}{\text{Profit Before Tax}}$$

Information: CETR = Cash Effective Tax Rate

**Sales Growth**

The measurement is to compare the difference between total sales from the current year and the previous year divided by the previous year. By using the following formula:

$$\text{PP} = \frac{\text{Current Year Sales Growth} - \text{Sales Growth Last Year}}{\text{Sales Growth Last Year}} \times 100\%$$

Information: PP = Sales Growth

**Tax Expense**

In this research, the amount of the tax burden is measured by the comparison between the tax costs paid and profit before tax (EBIT). The measurement of this variable refers to research (Lukiana & Hartono, 2014).

$$\text{ETR} = \frac{\text{Income Tax Expense}}{\text{Profit Before Tax}}$$

Information: ETR = Effective Tax Rate

**RESULTS AND DISCUSSION**

**Descriptive Statistical Analysis**

The table below presents a summary of overall descriptive statistics for each variable that researchers used over a 5 year period as follows:

**Table 2 Descriptive Statistical Analysis**

	DER	ROA	CR	CETR	PP	ETR
Mean	0.856084	0.054130	2.722535	0.214995	0.029653	0.071479
Median	0.591944	0.035613	2.433888	0.110898	0.039300	0.013901
Maximum	3.788211	0.718076	7.147089	1.683713	0.976519	0.922869
Minimum	0.156785	0.000140	0.936335	0.000337	-0.584403	0.000492
Std. Dev.	0.738984	0.089755	1.448947	0.354647	0.266556	0.166309

Source: Secondary data processed by the author, 2024

**Panel Data Regression Method**

After carrying out the Chow test, Hausman test, and Lagrange Multiplier test, the regression model chosen in this study uses the random effect model (REM).

**Table 3 Estimated Results Random Effect Model (REM)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DER	1.040887	0.216657	4.804304	0.0000
ROA	-0.246004	0.355465	-0.692062	0.4916
CR	-0.097321	0.041558	-2.341833	0.0226
CETR	0.749377	0.140079	5.349661	0.0000
PP	0.287831	0.102925	2.796498	0.0070
ETR	-1.065706	0.340259	-3.132040	0.0027

Effects Specification

S.D.      Rho

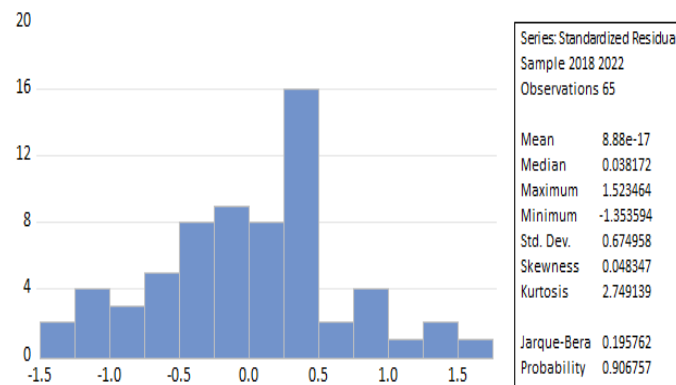


Cross-section random		0.652859	0.9080
Idiosyncratic random		0.207854	0.0920
Weighted Statistics			
R-squared	0.365441	Mean dependent var	0.120674
Adjusted R-squared	0.311665	S.D. dependent var	0.250395
S.E. of regression	0.207742	Sum squared resid	2.546257
F-statistic	6.795605	Durbin-Watson stat	1.282818
Prob(F-statistic)	0.000046		

Source: Secondary data processed by the author, 2024

**Classic assumption test**  
**Normality test**

**Picture 1 Normality Test Results**



Source: Secondary data processed by the author, 2024

The graphic image above shows a normally distributed graphic pattern. The normality test results above show a probability value of 0.906757, which means that the data exceeds the significance level of 0.05. So the conclusion is that the data is normally distributed.

**Multicollinearity Test**

**Table 4 Multicollinearity Test Results**

	ROA	CR	CETR	PP	ETR
ROA	1.000000	-0.219308	-0.191980	0.043974	-0.178241
CR	-0.219308	1.000000	0.336274	0.067074	0.471209
CETR	-0.191980	0.336274	1.000000	-0.149953	0.764712
PP	0.043974	0.067074	-0.149953	1.000000	-0.087026
ETR	-0.178241	0.471209	0.764712	-0.087026	1.000000

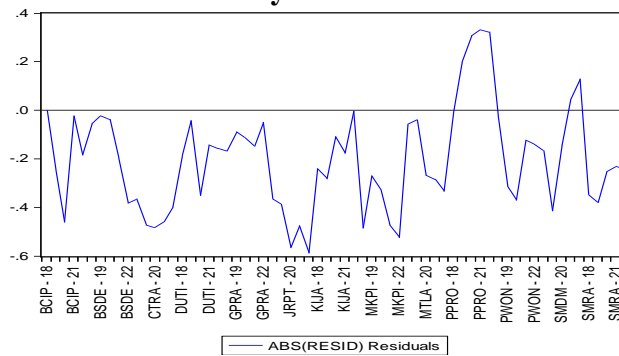
Source: Secondary data processed by the author, 2024

The correlation coefficient X1 and X2 is  $-0.219308 < 0.80$ , X2 and .80, then it can be concluded that it is free from multicollinearity and passes the multicollinearity test (Napitupulu et al., 2021).



Heteroscedasticity

Picture 2  
Heteroscedasticity Test Results



Source: Secondary data processed by the author, 2024

From the residual graph (blue) it can be seen that it does not exceed the limits (500 and -500), meaning that the residual variance is the same. Therefore, there are no symptoms of heteroscedacity or passing the heteroscedacity test (Napitupulu et al., 2021).

Autocorrelation Test

Table 4 Autocorrelation Test Results

Weighted Statistics			
R-squared	0.365441	Mean dependent var	0.120674
Adjusted R-squared	0.311665	S.D. dependent var	0.250395
S.E. of regression	0.207742	Sum squared resid	2.546257
F-statistic	6.795605	Durbin-Watson stat	1.282818
Prob(F-statistic)	0.000046		

Source: Secondary data processed by the author, 2024

Based on the table, it shows that the Durbin-Watson value is 1.282818 which is between -2 and 2. The conclusion is that this regression model does not have autocorrelation.

Panel Data Regression

Table 5 Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,047023	0,252835	0,185981	0.8531
ROA	-0,051205	0,035404	1,446277	0.1534
CR	-0,190156	0,079546	2,390506	0.0200
CETR	0,035743	0,021633	1,652240	0.1038
PP	0,086712	0,064028	1,354274	0.1808
ETR	0,036608	0,022593	1,620296	0.1105

Source: Secondary data processed by the author, 2024

Based on the table above, the panel data regression analysis is as follows:  
 $DER = \alpha + \beta_1X_1 \text{ proksi } 1 + \beta_2X_1 \text{ proksi } 2 + \beta_3X_2 + \beta_3X_3 + \beta_3X_4 + e$



**Coefficient of Determination Test**

**Table 6 Coefficient of Determination Test Results**

R-squared	0,264665
Adjusted R-squared	0,202349
S.E. of regression	0,125850
F-statistic	4,247112
Prob(F-statistic)	0,002298

Source: Secondary data processed by the author, 2024

The Adjusted R Square value is 0.202349 or 20.2349%. The coefficient of determination value shows that the independent variables consisting of ROA, CR, CETR, PP, and ETR are able to explain the DER variable in Properties and Real Estate by 20.2349%, while the remaining is 70.7651% (100-adjusted r square value ) is explained by other variables not included in this research model.

**Simultaneous Test (F Statistical Test)**

**Table 7 Simultaneous Test Results (F Statistical Test)**

R-squared	0,264665
Adjusted R-squared	0,202349
S.E. of regression	0,125850
F-statistic	4,247112
Prob(F-statistic)	0,002298

Source: Secondary data processed by the author, 2024

The calculated F value is 4.247112 > F table, namely 2.525215 and the sig value. 0.002298 < 0.05 then H0 is rejected and Ha is accepted, meaning that the ROA, CR, CETR, PP and ETR variables have an effect on DER.

**Partial Test (t Statistical Test)**

**Table 8 Partial Test Results (t Statistical Test)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,047023	0,252835	0,185981	0.8531
ROA	-0,051205	0,035404	1,446277	0.1534
CR	-0,190156	0,079546	2,390506	0.0200
CETR	0,035743	0,021633	1,652240	0.1038
PP	0,086712	0,064028	1,354274	0.1808
ETR	0,036608	0,022593	1,620296	0.1105

Source: Secondary data processed by the author, 2024

The results of the hypothesis test show that ROA has no significant effect because it has a t value of -1.446277 with a significance level of 0.1534 (greater than 0.05), which means there is not enough statistical evidence that ROA influences capital structure. Hasil uji hipotesis menunjukkan bahwa CR berpengaruh signifikan dikarenakan memiliki nilai t sebesar 2,390506 with a significance level of 0.0200 (smaller than 0.05), which means there is sufficient statistical evidence that CR influences capital structure.

The results of the hypothesis test show that CETR has no significant effect because it has a t value of 1.652240 with a significance level of 0.1038 (greater than 0.05), which means there is not enough statistical evidence that CETR influences capital structure.



The results of the hypothesis test show that PP has no significant effect because it has a t value of 1.354274 with a significance level of 0.1808 (greater than 0.05), which means there is not enough statistical evidence that PP influences capital structure. This is in line with previous research stating that sales growth has no effect on capital structure (Perwira & Mulyati, 2022).

The results of the hypothesis test show that ETR has no significant effect because it has a t value of 1.620296 with a significance level of 0.1105 (greater than 0.05), which means there is not enough statistical evidence that ETR influences capital structure. This is in line with previous research stating that the tax burden has no effect on capital structure (Linda et al., 2023).

## **CONCLUSION**

From the results of this research, it can be concluded that there is an impact of financial performance on capital structure. Meanwhile, the variables tax avoidance, sales growth and tax burden do not show any impact on capital structure. This research shows that choosing the right capital structure can significantly influence the cost of capital and company value. This emphasizes the importance of careful analysis of the combination of debt and equity.

### **Suggestion**

There is a need for more in-depth research regarding the relationship between companies' capital structure and their financial performance, including profitability, liquidity and leverage.

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