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The Effect Of Digital Transformation And Audit Quality On Tax Avoidance In Manufacturing Companies

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Abstract This study aims to examine the effect of profitability, digital transformation, fixed asset intensity, leverage, audit committee, and audit quality on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. Tax avoidance is proxied by the Effective Tax Rate (ETR). This study uses a quantitative approach with secondary data obtained from annual reports and audited financial statements. Samples were selected using purposive sampling, resulting in 142 companies with a total of 426 observations. Hypothesis testing was conducted using multiple linear regression analysis with IBM SPSS Statistics 25. The results show that profitability has a positive effect on tax avoidance, whereas fixed asset intensity has a negative effect on tax avoidance. Digital transformation, leverage, audit committee, and audit quality have no effect on tax avoidance. These findings indicate that profitability and fixed asset intensity remain associated with tax avoidance practices in manufacturing companies

Keywords Tax Avoidance, Digital Transformation, Agency Theory, Effective Tax Rate, Audit Quality.

INTRODUCTION

Tax is a source of state revenue that plays a major role in financing development. According to the Ministry of Finance, the substantial contribution of taxes to the State Budget (APBN) is reflected in tax revenue, which on average reaches approximately 70 percent of total state revenue. In recent years, the issue of tax avoidance has received increasing attention in Indonesia. Many companies engage in tax avoidance by exploiting loopholes in laws and regulations so that tax burdens can be reduced without violating applicable legal provisions (Kusufiyah and Anggraini, 2023). These loopholes are used to reduce corporate tax obligations, although under Law Number 28 of 2007 concerning General Provisions and Tax Procedures, taxes are obligations that must be paid by individuals and entities to the state in accordance with legal provisions. The implementation of tax collection, services, and supervision in Indonesia is carried out by the Directorate General of Taxes.

Companies conduct tax avoidance as part of a tax planning strategy to reduce the tax burden that must be paid. The methods used remain within legal boundaries, namely by utilizing loopholes available in tax regulations (Sulaeman, 2021). Such practices may reduce state revenue and therefore disrupt national economic development. Ambiguity in tax regulations is also one of the reasons companies carry out tax avoidance to reduce the amount of tax payable (Parowa, 2021). The self-assessment system implemented by the Directorate General of Taxes gives taxpayers the authority to calculate and report their tax obligations independently, thereby creating opportunities for companies to engage in tax avoidance. This condition requires attention in order to understand the factors that influence tax avoidance practices, particularly among manufacturing companies in Indonesia (Kusufiyah and Anggraini, 2023).

Digital transformation can influence how companies manage their tax obligations (Zhang and She, 2024). Digital transformation not only affects how companies operate, but also changes the tax system through the use of technology aimed at improving tax compliance and reducing the possibility of tax avoidance. Tax reporting, which was previously conducted manually, is now carried out automatically through integrated digital platforms, thereby reducing tax administration costs (Majidah and Falikhatun, 2024). Despite providing various benefits, the implementation of digital technology still faces challenges, especially in developing countries with inadequate technological infrastructure. Therefore, studies examining the effect of digital transformation on tax avoidance remain relatively limited (Majidah and Falikhatun, 2024). The Indonesian government has also implemented various digital systems, such as e-Faktur and e-Billing, to improve tax compliance and reduce the potential for tax avoidance through more transparent and integrated transaction reporting.

Audit quality is another factor assumed to influence tax avoidance practices. Audit quality reflects the auditor's ability to detect errors or fraud in financial statements, thereby serving as supervision over report manipulation practices used to avoid taxes (Auliana et al., 2023). The use of auditors from reputable Public Accounting Firms is expected to strengthen external supervision of corporate tax policies (Siregar et al., 2022).

The phenomenon of tax avoidance in Indonesia can be observed in the case of PT Toyota Motor Manufacturing Indonesia (TMMIN). After the separation from PT

Toyota Astra Motor (TAM), the Directorate General of Taxes found a revenue discrepancy of IDR 1.5 trillion from the revenue reported by the company, amounting to IDR 32.9 trillion. This finding indicated alleged tax avoidance of IDR 500 billion. The practice was carried out through transfer pricing manipulation between TAM and TMMIN and the shifting of profits to countries with lower tax rates to reduce the company's tax obligations (Maulidya and Purwaningsih, 2023).

Previous studies show that tax avoidance practices are influenced by various company characteristics, such as firm size, profitability, and financial management methods (Sulistyawati and Kiswanto, 2024). This study develops previous research by adding audit committee and audit quality variables, which are still relatively limited in studies on tax avoidance (Lastri et al., 2023). This study is a development of Lestari and Kholid (2024), who examined the effect of profitability, digital transformation, CFO co-optation, fixed asset intensity, institutional ownership, independent commissioners, leverage, and firm size on tax avoidance. The difference lies in the research object, which is focused on manufacturing companies, whereas the previous study used the basic materials and energy sectors. This study also adds audit committee and audit quality variables. According to Siregar et al. (2022), the audit committee supervises company operations, particularly in the preparation of financial statements, and therefore has the potential to prevent tax avoidance. Meanwhile, Randyantini and Shieto (2021) state that audit quality is positively correlated with tax avoidance practices, meaning that companies audited by high-quality auditors do not always demonstrate better tax compliance. These variables are expected to provide broader information about the effect of internal and external monitoring mechanisms on tax avoidance practices in manufacturing companies. Based on the background explanation above and the addition of several variables from various journals, the researcher is motivated to conduct a study entitled "The Effect of Digital Transformation and Audit Quality on Tax Avoidance in Manufacturing Companies

METHODS

This study examines manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. Using purposive sampling based on predetermined criteria, the study obtained 142 companies or 426 firm-year observations from an initial population of 269 companies. The criteria included consistent listing, availability of audited financial statements and annual reports, December 31 financial year-end, Rupiah reporting, positive pre-tax and after-tax income, and ETR values within 0–1. Tax avoidance is measured using the Effective Tax Rate (ETR), profitability using Return on Assets (ROA), digital transformation using the natural logarithm of the frequency of the phrase "digital transformation" in annual reports, fixed asset intensity using the proportion of fixed assets to total assets (FAI), leverage using the Debt to Equity Ratio (DER), audit committee using the number of active members (AUC), and audit quality using a dummy variable indicating whether the company is audited by a Big Four accounting firm (AUQ). Hypothesis testing employs multiple linear regression at a 5% significance level

FINDINGS AND DISCUSSION

Descriptive statistics are used to describe the characteristics of the data for each research variable. This study uses 426 observations consisting of one dependent variable and six independent variables. Descriptive statistics present the minimum, maximum, mean, and standard deviation values for all research variables.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
ETR	426	1.7427%	94.2923%	23.8344%	9.5085%
ROA	426	0.0638%	33.1943%	7.9897%	6.4206%
DTT	426	0	3.9120	0.5243	0.8333
FAI	426	0.0324%	85.5721%	34.8243%	19.2882%
DER	426	-1.7686	10.4417	2.7013	0.8904
AUC	426	2	5	3.02	0.251
AUQ	426	0	1	0.36	0.480

Source: Results of statistical data processing.

The tax avoidance variable proxied by ETR has a minimum value of 1.7427%, a maximum value of 94.2923%, a mean of 23.8344%, and a standard deviation of 9.5085%. Profitability proxied by ROA has a minimum value of 0.0638%, a maximum value of 33.1943%, a mean of 7.9897%, and a standard deviation of 6.4206%.

Digital transformation (DTT) has a minimum value of 0.0000, a maximum value of 3.9120, a mean of 0.5243, and a standard deviation of 0.8333. Fixed asset intensity (FAI) has a minimum value of 0.0324%, a maximum value of 85.5721%, a mean of 34.8243%, and a standard deviation of 19.2882%.

Leverage (DER) has a minimum value of -1.7686, a maximum value of 10.4417, a mean of 2.7013, and a standard deviation of 0.8904. Audit committee (AUC) has a minimum value of 2, a maximum value of 5, a mean of 3.02, and a standard deviation of 0.251.

Audit quality (AUQ) is the only dummy variable in this study, with a value of 0 for companies not audited by a Big Four Public Accounting Firm and a value of 1 for companies audited by a Big Four Public Accounting Firm. This variable has a minimum value of 0, a maximum value of 1, a mean of 0.36, and a standard deviation of 0.480. Of the 426 observations, 273 companies (64.1%) were not audited by Big Four Public Accounting Firms, while 153 companies (35.9%) were audited by Big Four Public Accounting Firms.

t-Test

The results of hypothesis testing through the t-test are presented in Table 3.

Table 3. t-Test Results

Variable	Beta	Sig.	Conclusion
Constant	22.474	0.000	
ROA	-0.419	0.000	H1 accepted
DTT	0.616	0.256	H2 not accepted
FAI	0.049	0.037	H3 accepted
DER	0.683	0.175	H4 not accepted
AUC	0.759	0.676	H5 not accepted
AUQ	0.241	0.807	H6 not accepted

Source: Results of statistical data processing.

Based on the t-test results in Table 3, the regression equation used in this study is: ETR = alpha - 0.419 ROA + 0.616 DTT + 0.049 FAI + 0.683 DER + 0.759 AUC + 0.241 AUQ + epsilon.

The t-test results show that profitability proxied by ROA has a significance value of 0.000, which is less than 0.05, so H1 is accepted. The coefficient value of -0.419 indicates that profitability has a negative effect on ETR, meaning that profitability has a positive effect on tax avoidance practices. Every increase in profitability lowers the ETR value, indicating a higher level of tax avoidance. This result is consistent with Jonathan and Yohanes (2022).

Digital transformation (DTT) has a significance value of 0.256, which is greater than 0.05, so H2 is not accepted. This result indicates that digital transformation has no effect on tax avoidance.

Fixed asset intensity proxied by FAI has a significance value of 0.037, which is less than 0.05, so H3 is accepted. The coefficient value of 0.049 indicates that fixed asset intensity has a positive effect on ETR, meaning that fixed asset intensity has a negative effect on tax avoidance practices. Every increase in fixed asset intensity increases the

ETR value, indicating a lower level of tax avoidance. This result is consistent with Rindiani and Asalam (2022).

Leverage proxied by DER has a significance value of 0.175, which is greater than 0.05, so H4 is not accepted. This result indicates that leverage has no effect on tax avoidance and is consistent with Faradilla and Bhilawa (2022).

Audit committee (AUC) has a significance value of 0.676, which is greater than 0.05, so H5 is not accepted. This result indicates that the audit committee has no effect on tax avoidance and is consistent with Siregar et al. (2022). Audit quality (AUQ) has a significance value of 0.807, which is greater than 0.05, so H6 is not accepted. This result indicates that audit quality has no effect on tax avoidance and is consistent with Andharini and Kanti (2021).

CONCLUSION

This study aims to obtain empirical evidence regarding the effect of profitability, digital transformation, fixed asset intensity, leverage, audit committee, and audit quality on tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period.The results show that profitability has an effect on tax avoidance, while leverage, audit quality, digital transformation, and audit committee have no effect on tax avoidance. Fixed asset intensity also has an effect on tax avoidance

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