THE IMPACT OF *RETURN ON ASSET, DEBT TO EQUITY RATIO* AND INVENTORY TURNOVER ON EFFECTIVE TAX RATE WITH FINANCIAL DISTRESS AS INTERVENING VARIABLE

(Case Study on Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange 2013-2020)

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ABSTRACT

The purpose of this study was to determine the effect of Return on Assets, Debt to Equity Ratio, and Inventory Turnover on the Effective Tax Rate with Financial Distress as an Intervening Variable. The research uses quantitative methods with descriptive and verification approaches. Testing the data in this study using the classical assumption test, as well as testing the hypothesis using path analysis, correlation coefficient tests, determination coefficient tests, and multiple correlation tests. Data processing using IBM SPSS 26.0 program.

Based on the results of this study indicate that (1) Return on Assets has an effect on the Effective Tax Rate. (2) Debt to Equity Ratio has no effect on Effective Tax Rate. (3) Inventory Turnover has no effect on the Effective Tax Rate. (4) Return on Assets has no effect on Financial Distress. (5) Debt to Equity Ratio has an effect on Financial Distress. (6) Inventory Turnover has an effect on Financial Distress. (7) Financial Distress has no effect on the Effective Tax Rate. (8) Return on Assets, Debt to Equity Ratio and Inventory Turnover have a simultaneous effect on the Effective Tax Rate with Financial Distress as an intervening variable.

Keywords: *Return on Assets, Debt to Equity Ratio, Inventory Turnover, Effective Tax Rate, Financial Distress*

INTRODUCTION

The textile and textile product (TPT) industry is one sector that plays an important role because it makes a significant contribution to the national economy. The textile industry, Agus added, has been able to generate significant foreign exchange (source: https://idnfinancials.com,2021).

Director General of Industry Chemical, Textiles and Pharmaceuticals (IKFT) Ministry of Industry Muhammad Khayam, said that the growth of the IKFT industry throughout 2020 experienced a contraction of minus 1.49 percent. Although the IKFT sector experienced a contraction, Khayam said there was one sub-sector of the textile and chemical chemical industry with good growth, namely plus 9.3 percent throughout 2020. Furthermore, Khayam said in detail, the contribution of the IKFT sector to Indonesia's economic growth in 2020 was 4, 48 percent. Then the export value of IKFT reached 33.99 percent of the total national exports. (source:https://liputan6.com, 2021).

Although there is good growth in one IKFT sub-sector where IKFT's contribution to Indonesia's economic growth in 2020 is 4.48 percent, this year there are problems that occur in textile sub-sector companies related to tax avoidance by one of the textile sub-sector companies in Indonesia. Indonesia. The Investigation Team of the Directorate of Law Enforcement of the Directorate General of Taxes (DGT) confiscated land and factory buildings belonging to a textile company suspected of evading taxes of around Rp. 61.25 billion. This textile company is suspected of having committed a crime in the field of taxation by issuing tax invoices that are not based on actual transactions or fictitious tax invoices. Throughout 2014 to 2016, this Textile Company was suspected of having switched or transferred tax invoices from the actual buyer to another party who did not conduct a sale and purchase transaction with the company. (source:https://pajakonline.com, 2021)

Tax aggressiveness is very common among large corporations around the world. This action aims to minimize corporate taxes which are now a public concern because they are not in line with people's expectations and are also detrimental to the government. The way to measure companies that carry out tax aggressiveness is to use the Effective Tax Rate proxy.

Therefore, *Effective Tax Rate*can be used to regulate tax aggressiveness. There are several factors that have an influence on tax aggressiveness or Effective Tax Rate with Financial Distress as an intervening variable in the company, including Return on Assets, Debt to Equity Ratio, and Inventory Turnover.

REVIEW OF LITERATURE

Taxation

Based on Constitution The Republic of Indonesia Number 16 of 2009 Article 1 paragraph 1 concerning the fourth amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures, the meaning of tax is "Compulsory contributions to the state owed by individuals or entities that are coercive in nature based on the law. the law by not receiving direct compensation and being used for the state's purposes for the maximum benefit

the prosperity of the people."

According to SI Djajadiningrat in the Official (2019) the definition of tax is:

"Taxes are an obligation to surrender part of the wealth to the state treasury due to circumstances, events and actions that give a certain position, but not as a punishment, according to regulations set by the government and can be forced, but there is no direct reciprocal service from the state. For maintaining general well-being."

Based on the above understanding, it can be concluded that taxes are people's contributions to the state based on laws that are coercive and are used for public purposes for the greatest prosperity of the people.

***Effective Tax Rate*(ETR)**

According to Rist and Pizzica (2014), the translated Effective Tax Rate is: "Explains the varying degrees to which corporate income is taxed as a result of different domestic and international tax jurisdictions. Companies also use strategy for minimize tax. For calculate the effective tax rate (average per year) of total tax burden divided by income before tax."

According to Rist and Pizzica (2014) the Effective Tax Rate can be calculated by the formula:

$$\text{ETR} = \frac{Tax\ Expense}{PreTax\ Income}$$

Information:
Effective Tax Rate= Effective Tax Rate
Tax Expansion = Tax Expense
PreTax Income = Income Before Tax

Financial Distress

According to Sirait (2019) Financial Distress is

"A situation where a company experiences financial difficulties caused by economic and financial failures. Financial failure includes failure to meet cash in the company's routine operations, while economic failure is the company's inability to obtain income to cover routine expenses.

According to Hery (2018) Financial distress is "a situation where a company experiences financial difficulties". For fulfill liabilities, a situation where the company's revenue cannot cover the total costs and suffer losses. For creditors, this situation is an early symptom of debtor failure."

Financial distress occurs before the bankruptcy of a company. Therefore, every company must predict financial distress because this financial distress condition may help the company determine the company's health condition, namely the company's bankruptcy condition. One of the factors that can cause a company to go bankrupt is the economic condition of a country.

***Return on Assets* (ROA)**

According to Sirait (2019) Return on Assets is "The ratio of earnings power (earnings power ratio), describing the company's ability to generate profits from available resources (assets). This ratio can be

It is known by comparing net income after tax (EAT) to assets, it also means how much profit is earned to add assets.

According to Sujarweni (2019): "Return on Assets is a ratio used to measure the ability of the capital invested in overall assets to generate net profits."

Based on several notions of Return on Assets, the author can conclude that Return on Assets is a profitability ratio used to measure the company's effectiveness in producing profit with take advantage of the assets owned by the company. Return on Assets is a company's financial ratio to measure the company's strength in obtaining profits or profit before tax at the level of income, assets and also share capital.

Debt to Equity Ratio (DER)

According to Hery (2018) Debt to Equity Ratio is "the ratio of debt to equity, the ratio used to measure the ratio between total debt and total equity."

According to Kasmir (2018) Debt to Equity Ratio is "the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt with all equity.

Based on the above understanding, it can be concluded that the Debt to Equity Ratio is to assess debt with equity. This ratio is useful for knowing the amount of funds from the borrower (credit) with the owner of the company. Debt to Equity Ratio is used to measure the company's ability in covering part or all of its debts, both long-term and short-term with funds originating from total capital compared to the amount of debt. The lower the debt to equity ratio, the higher the company's ability to pay all its obligations. The greater the proportion of debt, the greater the number of obligations.

***Inventory Turnover*(ITO)**

According to Sujarweni (2019), inventory turnover is "the ability of funds embedded in inventory to rotate within a certain period, or liquidity from inventory and the tendency for overstock."

According to Hery (2018), inventory turnover is "a ratio used to measure how many times the funds embedded in inventory will rotate in one period or how long in the average day the inventory is stored in the warehouse until it is finally sold."

Based on some of the definitions above, it can be concluded that inventory turnover is a ratio used to measure inventory turnover how many times it occurs during an accounting period.

METHODOLOGY

In this research, the data analysis technique used is quantitative analysis. Quantitative analysis is done by analyzing a problem that is realized quantitatively. In this study, quantitative analysis was carried out by quantifying research data so as to produce

information needed for analysis.

The definition of qualitative research methods according to Sugiyono (2019) is as follows:

"The research method, which is based on the philosophy of postpositivism, is used to examine the condition of natural objects, (as opposed to an experiment) where the researcher is the key instrument, the data collection technique is done by triangulation (combined), the data analysis is inductive/qualitative, and the results are study
Qualitative research emphasizes understanding meaning and constructing phenomena rather than generalizations.

FINDINGS AND DISCUSSIONS

Descriptive Analysis

Descriptive Statistics					
	N	Min.	Max.	mean	Std. Dev.
X1	56	-1.45	4.38	0.2796	1.03479
X2	56	-17.81	1.97	-2.6021	6,19593
X3	56	-0.29	0.08	-0.0233	0.07744
Y	56	-7.72	8.59	0.2915	2.48155
Z	56	0.67	7.95	4.3033	1.48316

Verification

Analysis Classical

Assumption Test

a. Normality test

Normality test was carried out using the Kolmogorov Smirnov test. The test results can be seen in the following table:

One-Sample Kolmogorov-Smirnov Test		
		UnstandardizedResidual
N		48
Normal Parameters[a,b]	mean	.0000000
	Std. Deviation	.98647800
Most Extreme Differences	Absolute	.293
	Positive	.293
	Negative	-.152
Test Statistics		.293
asymp. Sig. (2- tailed)		.000c

The results of the Kolmogorov-Smirnov Test show that the significant value obtained is less than 0.05 or 0.000 <0.05 and the points are scattered but do not follow the diagonal line.
on the normal PP graph of regression standardized residuals. So the data processed above is not normally distributed.

b. Multicollinearity Test

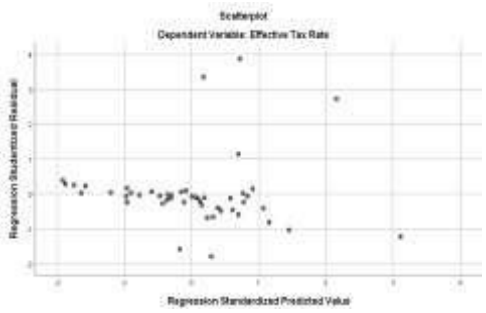
Coefficientsa

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1	.736	1.359
	X2	.587	1,704
	X3	.641	1,560
	Z	.507	1974

The results of the calculation of the VIF value show that all independent variables have results less than
10. In addition, the results of the calculation of the tolerance value show that all independent variables have more results

of 0.1, so it can be concluded that there is no multicollinearity between independent variables in the regression model.

c.



From the picture above, it can be seen that the dots are random, not forming a pattern. As well as the points spread both above and below zero on the Y axis. It can be concluded that there is no heteroscedasticity in the regression model, so the regression model is feasible to be used for subsequent analysis.

d. Autocorrelation Test

Model Summaryb

Model	R	R Square	Durbin-Watson
1	.277a	.077	2.280

Based on table on could obtained the Durbin-Watson value of 2.280. Based on the criteria below, the value is between du obtained from the table, namely 1.6708 and 4-du, which is 2.3292, so it can be concluded that there is no autocorrelation. Based on all the results of the tests that have been carried out, it can be concluded that the data in this test did not obtain a violation of the regression assumption

Path Analysis

a. Multiple Linear Regression Analysis Model 1

Coefficientsa

Model		UnstandardizedCoefficients		StandardizedCoefficients
		B	Std. Error	Beta
1	(Constant)	3.458	2,357	
	X1	19,174	11,140	.240
	X2	.727	.348	.291
	X3	-1.353	.515	-.324

a. Dependent Variable: Z

From the regression results obtained, the following equation can be made:

$$\mathbf{Z = 0,240X_1 + 0,291X_2 - 0,324X_3 + \varepsilon_2}$$

Conclusion of Multiple Linear Regression Analysis Model 1:

1. The addition of 1 unit of X1 affects Z by 0.240
2. The addition of 1 X2 unit has an effect on Z of 0.291
3. The addition of 1 X3 unit affects Z by - 0.324

b. Multiple Linear Regression Analysis Model 2

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-2.675	1,652	
	X1	-2,904	7.255	-.091
	X2	-.744	.307	-.618
	X3	1,837	1.065	.421
	Z	.431	.700	.169

a. Dependent Variable: Y

$$\mathbf{Y = 0,240X_1 + 0,291X_2 - 0,324X_3 - 0,091X_1 - 0,618X_2 + 0,421X_3 + 0,169Z + s_1 + s_2}$$

Conclusion of Multiple Linear Regression Analysis Model 2:

1. The addition of 1 unit of X1 affects Y by -0.091
2. Addition of 1 unit X2

effect on Y by - 0.618

3. The addition of 1 X3 unit affects Y by 0.421
4. The addition of 1 unit Z has an effect on Y of 0.169

Test Coefficient *Product Moment* (*Pearson Correlation)*

Correlations

		Y	X1	X2	X3	Z
Y	Pearson Correlate ion	1	.287	-.182	.277	-.436
	Sig. (2-tailed)		156	.373	171	.092
X1	Pearson Correlate ion	.287	1	.468**	-.020	.243
	Sig. (2-tailed)	156		.001	.894	.231
X2	Pearson Correlate ion	-.182	.468**	1	.003	.738**
	Sig. (2-tailed)	.373	.001		.981	.000
X3	Pearson Correlate ion	.277	-.020	.003	1	-.433*
	Sig. (2-tailed)	171	.894	.981		.027
Z	Pearson Correlate	-.436	.243	.738**	-.433	1

Based on the calculation of the table above, it can be seen that the correlation between X1 and Y is 0.287. This shows that there is a weak positive correlation between X1 and
Y. The correlation between X2 and Y is -0.182. This shows that there is a very weak negative correlation between X2 and Y. The magnitude of the correlation between X3 and Y is 0.277. Thing it shows that there is a weak positive correlation between X3 and Y. The magnitude of the correlation between Z and Y is -0.436. This shows that there is a moderate negative correlation between Z and Y.

Coefficient of Determination Test (R2)

The coefficient of determination test is a tool to measure how far the model's ability to explain the variation of the dependent variable is. The following are the results of the coefficient of determination test using SPSS 26:

Model Summary

Model	R	R Square	AdjustedR Square
1	.277a	.077	-.099

a. Predictors: (Constant), X1, X2, X3, Z
b. Dependent Variable: Y

$$Kd = R2 \times 100\%$$
$$= (0.277)2 \times 100\%$$
$$= 7.67\%$$

Thus, the coefficient of determination is 7.67% which means that X1, X2 and X3 against Y through Z as variable
interventiongive a very weak simultaneous (together) effect of 7.67%. While the remaining 92.33% is influenced by other factors that are ignored in this study such as Capital Intensity, Cash Turnover, Accounts Receivable Turnover and Asset Turnover.

Hypothesis Testing t

. test

XY . t test results

Coefficientsa

Model		StandardizedCoefficients Beta	T	Sig.
1	(Constan)		-2,558	.018
	X1	.604	2,903	.008

	X2	-.255	-1.143	.265
	X3	.411	1,891	.072

a. Dependent Variable: Y

a. Hypothesis Testing Return On Assets (X1)

From the calculation of the table above, the value of is obtained t_{count}*Return on Asset* of 2,903 and t_{table} 2.01290 with a significance value of 0.008. Due to value $t_{count} > t_{table}$ and a significance value of <0.05, meaning that Return on Assets has an effect on the Effective Tax Rate.

b. Debt to Equity Ratio (X2) Hypothesis Testing

From the calculation in the table above, the value $-t_{count}$ *Debt to Equity Ratio*of -1.143 and $-t_{table}$ -2.01290 with a significance value of 0.265. Due to value $t_{count} < t_{table}$ and a significance value of > 0.05, meaning that the Debt to Equity Ratio has no effect on the Effective Tax Rate.

c. Inventory Turnover Hypothesis Testing (X3)

From the calculation of the table above, the value of is obtained t_{count} *Inventory Turnover* of 1.891 and t_{table} 2.01290 with a significance value of 0.072. Due to value t_{count} $< t_{table}$ and a significance value of > 0.05, meaning that Inventory Turnover has no effect on the Effective Tax Rate.

XZ . t Test Results

Coefficientsa

Model		Standardized Coefficients Beta	T	Sig.
1	(Constan)		1,467	.149
	X1	.240	1,721	.092
	X2	.291	2,091	.042
	X3	-.324	-2,627	.012

a. Dependent Variable: Z

a. Hypothesis Testing Return On Assets (X1)

From the calculation of the table above, the value of is obtained t_{count} *Return on Asset* of 1.721 and t_{table} 2.01290 with a significance value of 0.092. Due to value $t_{count} < t_{table}$ and a significance value > of 0.05, meaning that Return on Assets has no effect on Financial Distress.

b. Debt to Equity Ratio (X2) Hypothesis Testing

From the calculation of the table above, the value of is obtained t_{count} *Debt to Equity Ratio* of 2,091 and t_{table} 2.01290 with a significance value of 0.042. Due to value $t_{count} > t_{table}$ and a significance value of <0.05, meaning that the Debt to Equity Ratio has an effect on Financial Distress.

c. Inventory Turnover Hypothesis Testing (X3)

From the calculation in the table above, the value $-t_{count}$ *Inventory Turnover* of -2,627 and $-t_{table}$ -2.01290 with a significance value of 0.012. Due to value t_{count} $> t_{table}$ and a significance value of < 0.05, meaning that Inventory Turnover has an effect on Financial Distress.

ZY . t test results

Coefficientsa

Model		Standardized Coefficients Beta	T	Sig.
1	(Constan)		-3.079	.008
	Z	-.436	-1.811	.092

a. Dependent Variable: Y

a. Testing the Financial Distress (Z)

Hypothesis

From the calculation in the table above, the value –t_{count} *Financial Distress* of -1,811 and -t_{table}- 2.01290 with a significance value of 0.092. Due to value $t_{count} < t_{table}$ and a significance value > of 0.05, meaning that Financial Distress has an effect on the Effective Tax Rate.

F Uji test

In the simultaneous test will be tested the effect of all independent variables together on the dependent variable. The results of simultaneous hypothesis testing are as follows:

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11,676	4	2,919	3.807	.035 b
	Residual	8,435	11	.767		
	Total	20111	15			

a. Dependent Variable: Y

b. Predictors: (Constant), X1, X2, X3, Z

Based on the table data above, it is known F_{count} of 3.807 with a p-value (sig) of 0.035. with = 5% and degrees of freedom with df numerator k (number of independent variables = 4) and denominator df = (nk-1) = (48-4-1) with an error level of 0.050, the obtained value F_{table} of 2.59. Due to value $F_{count} > F_{table}$ (3.807 > 2.59), meaning that the variables Return On Assets, Debt to Equity Ratio, and Inventory Turnover have a simultaneous effect on the Effective Tax Rate through Financial Distress as an intervening variable.

CONCLUSION

1. There is an effect of Return On Asset to the Effective Tax Rate at Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange 2013-2020. This is indicated by the correlation coefficient of Return On Assets of 0.287 and a significance value of 0.008 which is smaller than 0.05 which means that Return on Assets has an effect on the Effective Tax Rate of Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020.
2. There is no effect of the Debt to Equity Ratio on the Effective Tax Rate of Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020. This is indicated by the correlation coefficient value of 0.291 and a significance value of 0.265 which is greater than 0.05. which means that the Debt to Equity Ratio has no effect on the Effective Tax Rate of Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020.
3. There is no influence of Inventory Turnover on the Effective Tax Rate of Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020. This is indicated by the correlation coefficient value of - 0.324 and a significance value of 0.072 which is greater than 0.05 which is This means that Inventory Turnover has no effect on the Effective Tax Rate of Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020.
4. There is no effect of Return on Assets on Financial Distress in Textile Sub-Sector Companies and Garments Listed on the Indonesia Stock Exchange 2013-2020. This is indicated by the correlation coefficient value of

0.604 and a significance value of 0.092 which is greater than 0.05, which means that Return on Assets has no effect on Financial Distress in Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020.

5. There is an effect of Debt to Equity Ratio on Financial Distress, this is indicated by the correlation coefficient value of -0.255 and a significance value of 0.042 which is smaller than 0.05 which means that the Debt to Equity Ratio has an effect on Financial Distress in Textile and Garment Sub-Sector Companies that Listed on the Indonesia Stock Exchange 2013-2020.
6. There is an effect of Inventory Turnover on Financial Distress in Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020. This is indicated by the correlation coefficient value of 0.411 and a significance value of 0.012 which is smaller than 0.05 which means Inventory Turnover Affects Financial Distress in Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020.
7. There is no effect of Financial Distress on the Effective Tax Rate of Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020. This is indicated by the correlation coefficient value of -0.436 and a significance value of 0.092 which is greater than 0.05 which means *Financial Distress*does not affect the Effective Tax Rate on Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020.
8. There is a simultaneous effect of Return on Assets, Debt to Equity Ratio and Inventory Turnover on the Effective Tax Rate with Financial Distress as an intervening variable in Textile and Garment Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2013-2020. This is indicated by a significance value of 0.035 which is smaller than 0.05 which means Return on Assets, Debt to Equity Ratio and Inventory Turnover simultaneously on the Effective Tax Rate with Financial Distress as an intervening variable in Textile and Garment Sub-Sector Companies Registered in Indonesia Stock Exchange 2013-2020.

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