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Corporate Financial Performance and Tax Avoidance in High-Tech Industries

Meliani Mukti[1], Khairanis Yulita[1], Mochamad Chairul Ihsan[2].*

[1]Accounting Department, Faculty of Economics and Business, Padjadjaran University, Sumedang, Indonesia.

[2]Management and Business Department, Faculty of Economics and Business, Padjadjaran University, Sumedang, Indonesia.

*Correspondence: khairanis.yulita@unpad.ac.id

ABSTRACT

This study investigated the correlation between tax avoidance, corporate financial performance, and high-tech industries (HTI) characteristics in publicly listed industries in Southeast Asia. The Generalized Least Square (GLS) was administered to test the hypotheses in 666 industry-years from 74 publicly listed industries in Southeast Asia from 2013-2021, including nine from Indonesia, 23 from Malaysia, 11 from Singapore, five from the Philippines, and 26 from Thailand. The results support all the hypotheses by showing a positive influence of corporate financial performance on tax avoidance and was found to be more vital for industries in high-tech industries. It suggested that high-performing sectors in Southeast Asia had more power to influence the political process for their benefit. Profitable high-tech companies are more likely than the industry to use tax system uncertainties to minimize their tax obligations. These results support political power hypotheses rather than political cost hypotheses. Moreover, political power was more pronounced in high-tech industries, which the government saw as more valuable. This study investigated different geographical areas that might be neglected by previous studies and industry characteristics suspected to contribute significantly to the strong effects of corporate financial performance on tax avoidance.

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1. INTRODUCTION

Tax revenue is crucial for governments to maintain social and economic stability, with the corporate tax being a significant source. While businesses naturally aim to minimize taxes to increase profits, this behavior, known as tax avoidance, involves reducing explicit taxes relative to earnings (Kim and Im, 2017). Some factors have been examined in previous research, including profitability (Gupta and Newberry, 1997; Fernandez-Rodriguez and Martinez-Arias, 2012; Cao and Cui, 2017; Kim and Im, 2017), leverage (Cao and Cui, 2017; Rachmad and Yusmita, 2023), liquidity (Kim and Im, 2017), capital and inventory intensity (Richardson and Lanis 2007), innovation (Jing and Li, 2023; Sun et al., 2021), cost of equity (Chun et al., 2020), director diversity (Heryana et al., 2022), and corporate social activities (Mao and Wu, 2019; Abid and Dammak, 2022; Fuadah et al., 2022; Rachmad and Yusmita, 2023), but findings remain mixed. This study expands on existing literature by examining the relationship between financial ratios, particularly profitability, and the high-tech industry's (HTO) characteristics on tax avoidance, aiming for a comprehensive understanding.

Tax avoidance doesn't necessarily indicate improper conduct, given the tax code's complexities that permit lawful tax reduction. However, aggressive tax avoidance strategies can jeopardize government fiscal revenue and lead to penalties and reputational damage (Kim and Im, 2017). The impact of profitability on tax avoidance shows varied results across studies and regions, indicating that higher profits don't always correlate with higher Effective Tax Rates (ETRs), suggesting complex interrelationships between profitability and tax behavior (Fernandez-Rodriguez and Martínez-Arias, 2014; Cao and Cui, 2017). ETR is one of the most common approaches to measuring tax avoidance (Wang et al., 2020), which is widely known as an indicator of tax burden. The difference between ETRs and statutory tax rates (STR) indicated the implementation of specific procedures to reduce taxes borne by industries. Previous studies investigated the determinants of ETRs and supported the theory of political cost hypothesis that booming industries were subjected to government scrutiny. The political cost hypothesis predicts more significant income tax for more extensive and profitable sectors. That implies that the size of industries and profitability are positively associated with ETR, suggesting a lower likelihood of their involvement in tax avoidance. However, there was a negative association found between profitability and ETR in the studies conducted by Kim and Im (2017) in South Korea and Cao and Cui (2017) in China. The findings resuscitated Siegfried's (1972) political power hypothesis, which held that more well-known industries were more likely to influence politics to their advantage. The industries have more political lobbying and planning resources, lowering the tax burden (ETRs). Based on this explanation, this study proposed the first hypothesis that corporate financial performance positively correlates with tax avoidance.

Industry type also influences corporate tax avoidance behaviors, with specific sectors like petroleum and natural gas exhibiting more avoidance while others, like printing and publishing, bear higher tax burdens (Huang et al., 2013). The government's strategic tax incentives for specific industries further affect these dynamics, leading to the hypothesis that the characteristics of high-tech industries moderate the profitability-tax avoidance relationship. More profitable sectors in the high-tech industries might engage in aggressive tax avoidance practices.

The correlation between corporate financial performance and ETRs needs to be clarified. A previous study showed an inconsistent correlation between profitability and tax burden (ETR), affecting the tax regime (Gupta and Newberry, 1997). Gupta and Newberry (1997) reported a significant and positive correlation between profitability and ETRs before the Tax Reform Act of 1986 (TRA86), while an inverse relation arises between profitability and ETRs in the period post-TRA86. The study of Richardson and Lanis (2007) produces results similar to those of Gupta and

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Newberry (1997). Richardson and Lanis (2007) study showed a positive relationship between profitability and ETRs before Australia's Ralph Review of Business Taxation reform. They recorded a negative relation between profitability and ETRs in the period post-reform. In addition, previous studies suggest that the correlation between profitability and ETRs depends on the geographical areas used in the study. Fernandez-Rodriguez and Martinez-Arias (2012) study revealed a positive correlation between profitability and ETRs for industries in the US and China. However, Fernandez-Rodriguez and Martinez-Arias (2014) showed inconsistent results among the sample. The study examined the correlation between profitability and ETRs in BRIC countries (Brazil, Russia, India, and China). The result showed a positive correlation with ETRs in Brazil and China, consistent with previous studies. In Russia, industry profitability appears negatively associated with ETRs, while the relation is insignificant in India. Therefore, this study evaluated various geographical areas that prior investigations might have overlooked. This study also investigates that phenomenon in high-tech industries because only a few studies have investigated the phenomenon of tax avoidance in particular sectors. Wang et al. (2020) showed the factors that influenced tax avoidance, such as industry-level characteristics, ownership structure, characteristics of executives and compensation plans, as well as internal governance. However, Yoon et al. (2023) examined tax avoidance in high-tech industries in China. They showed that high-tech industries tend to engage in more significant tax avoidance because of the numerous tax incentives provided by the government.

This study, utilizing Generalized Least Squares (GLS) and data from 666 industry-year observations across five Southeast Asian countries, investigates the correlation between profitability, industry characteristics, and tax avoidance. The findings contribute to accounting literature about corporate financial performance and tax avoidance, especially in developing countries. Profit firms and being in the high-tech industry significantly increase the likelihood of tax avoidance in Southeast Asia, with high-tech industries showing a stronger tendency. That underscores the role of industry-specific factors and profitability in influencing tax behavior, highlighting the need for nuanced fiscal policies to address these variations and the importance of targeted budgetary policies to mitigate these practices.

2. METHODS

The purpose of this study is to investigate the relationship between corporate financial performance, tax avoidance, and high-tech industry characteristics. Data were collected from publicly listed Southeast Asian sectors from 2013 to 2021. The samples comprise 74 publicly listed industries, with 9 Indonesian, 23 Malaysian, 11 Singapore, 5 Philippines, and 26 Thailand industries. A total of 666 industry-year observations were extracted to test the hypothesis.

Tax avoidance was measured as a dependent variable using BTD following Kim and Im (2017) and Yoon et al. (2023). Previous studies showed a systematic difference in BTD between industries engaging in tax avoidance and those that do not. Industries with greater BTD tend to be audited by the United States (US) Internal Revenue Service (IRS). BTD is not directly observable because of the component of taxable income. Before calculating BTD to estimate taxable income, the ratio of current expenses divided by statutory tax rates is essential. BTD is measured as the differences between accounting and taxable income. The difference between accounting profit and taxable income, scaled by total assets, was used to calculate BTD. BTD can arise from either an uptick in reported earnings or a tax reduction resulting from tax avoidance. Therefore, BTD can serve as a reliable indicator of corporate tax avoidance.

$$BTD_{i,j,t} = \frac{Accounting\ Profit - Taxable\ Income}{Total\ Asset} \quad (1)$$

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An accounting-based measure (Return on Equity/ROE) was used to estimate corporate financial performance. Using a dummy variable coded "1" for high-tech industries and "0" for other businesses, the study sample was categorized as belonging to the high-tech sector. In addition, there were control variables, which were size, leverage, physical assets, cash flow from operations (CFO), and research and development (RandD) costs. GLS was used to test the hypothesis, following Tandean and Winnie (2016). GLS enables the exploration of potential variations in outcomes while addressing issues of heterogeneity and autocorrelation. The following equations were exploited to test the hypothesis.

$$BTD_{i,j,t} = \alpha_0 + \beta_1 ROE_{i,j,t} + \beta_2 LEV_{i,j,t} + \beta_3 SIZE_{i,j,t} + \beta_4 PPE_{i,j,t} + \beta_5 CFO_{i,j,t} + \beta_6 RNDS_{i,j,t} + \varepsilon_{i,j,t} \quad (2)$$

$$BTD_{i,j,t} = \alpha_0 + \beta_1 ROE_{i,j,t} + \beta_2 ROE_{i,j,t} * HTI_{i,j,t} + \beta_3 LEV_{i,j,t} + \beta_4 SIZE_{i,j,t} + \beta_5 PPE_{i,j,t} + \beta_6 CFO_{i,j,t} + \beta_7 RNDS_{i,j,t} + \varepsilon_{i,j,t} \quad (3)$$

3. RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics of the sample. The mean of BTD in this study is -0.0806, which is lower than Kim and Im (2017). BTD is another measure of tax avoidance besides ETR. BTD indicates corporate tax behavior. Corporations with legal disputes, such as tax shelters, have greater BTD than the rest of the sample without such accusations. The mean BTD from 491 publicly listed industries in South Korea from 2005 to 2007 was -0.0105. In this study, the highest BTD comes from CK Power Pcl, Thailand, in 2020, with 1.0875. The maximum was higher than Kim and Im (2017), while the minimum was lower than Kim and Im (2017). The maximum BTD in Kim and Im (2017) was 0.3192, the minimum in Kim and Im (2017) was -0.2595, and the minimum BTD in this study was -5.4925. Furthermore, industries in South Korea seem to engage in more tax avoidance than in Southeast Asia. Interestingly, this study's industry with the lowest BTD has the lowest financial performance. Keppel Reit, an industry in Singapore, had the lowest financial performance and tax avoidance in the same year, 2020.

The mean ROE was 0.0262, significantly lower than Bubanic and Simovic (2021). Bubanic and Simovic (2021) analyzed the factors that influenced the tax burden of telecommunication industries in the Republic of Croatia. The mean ROE in Bubanic and Simovic (2021) is 16.784. The maximum ROE in this study comes from Malaysia, Celcomdigi Bhd, with 0.3318. Interestingly, Celcomdigi Bhd is a telecommunications company that booked a $537,918 profit before tax in 2015.

Table 1. Descriptive statistics

Variable	Mean	Max	Min	Std. Dev
BTD	-0.0806	1.0875	-5.4925	0.5979
ROE	0.0262	0.3318	0.0001	0.0425
Leverage	443.1256	1580.553	30.0031	192.7421
Size	3.1881	4.9817	1.9640	0.5828
PPE	335.2532	829.2215	0.0034	213.3959
CFO	135.7410	1486.0940	1.6786	121.9058
RandD	0.0020	0.0847	0	0.0094

Source: The Processed Primary Data (2023)

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3.1. Corporate Financial Performance and Tax Avoidance

All the hypotheses were supported by tests in this study, answering the research question about the relationship between profitability and tax avoidance. The first hypothesis posits that corporate financial performance positively correlates with tax avoidance. Agency theory asserts that managers, acting as agents of shareholders, may engage in tax avoidance to maximize firm value and incentives (Desai and Dharmapala, 2006). This theory explains why more profitable firms, which generate higher shareholder returns, might have stronger motivations to engage in tax avoidance to preserve earnings and enhance managerial rewards. **Table 2** shows that the independent variable, corporate financial performance measured by ROE, has a statistically significant positive effect on tax avoidance at a significance level of 1%. This result indicates that the more profitable industries shown by the higher ROE tend to engage in more aggressive tax avoidance, defined by the maximum BTD.

Table 2. Regression analysis of hypotheses testing

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Results
(Constant)	0.6822	0.0957	7.1271	0.0000***	
ROE	1.0740	0.3119	3.4426	0.0006***	Significant
ROE*HTI	39.2655	2.7949	14.0486	0.0000***	Significant
Leverage	-0.0001	0.0001	-1.5896	0.1124	Insignificant
Size	-0.1292	0.0282	-4.5698	0.0000***	Significant
PPE	-0.0007	0.0001	-11.4930	0.0000***	Significant
CFO	-0.0006	0.0001	-4.3760	0.0000***	Significant
RandD	-0.9448	1.3457	-0.7021	0.4829	Insignificant
F-statistic				0.0000***	Significant
R-squared	0.4512				
Adjusted R-squared	0.3761				

Source: The Processed Primary Data (2023)

The positive effect of corporate financial performance on tax avoidance is consistent with previous studies by Kim and Im (2017) and Fernandez-Rodriguez et al. (2021). Fernandez-Rodriguez et al. (2021) investigated the determinants of tax avoidance in emerging economies, including nine developing countries. These countries include Brazil, Russia, India, China, South Africa, Mexico, Indonesia, Nigeria, and Turkey. Fernandez-Rodriguez et al. (2021) showed that profitability is negatively associated with tax burden in these countries or positively correlated with tax avoidance. Profitable industries in the emerging economy tend to engage more in tax avoidance. Fernandez-Rodriguez et al. (2021) also explained that the poor institutional quality in developing countries contributed to tax avoidance. Kim and Im (2017) also obtained a positive correlation between profitability and tax avoidance in South Korea. The positive effects of

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corporate financial performance on tax avoidance are unusual in developed countries. However, a few studies in developing countries agree that corporate financial performance positively affects tax avoidance.

Our results didn't support the political cost hypothesis that financial performance is positively associated with ETRs—low ETRs indicating tax avoidance practices. Gupta and Newberry (1997) identified the determinants of ETRs as industries' size, capital structure, and financial performance. Financial performance or profitability is the prominent predictor of income tax burden. Political cost theory shows that industries generating higher profits pay more significant income tax, while those that suffer from loss obtain opportunities to reduce tax liabilities. Moreover, industries that bear losses can compensate for the losses in the previous years (carryback) or bring the losses to subsequent years (carryforward), resulting in lower liabilities. According to Fernandez-Rodriguez et al. (2021), ETRs are affected by micro-level business characteristics and macro-level institutional quality. The study examined how institutional characteristics affected economic freedom, a nation's degree of development, and the effectiveness of its government, the rule of law, and its regulatory framework. The results showed that the institutional factors affected the industry tax burden proxied by CETR and METR. The institutional quality scores of Southeast Asian countries are considered low based on La Porta et al. (1998), except Singapore. In another measure of institutional factors, such as economic freedom, Indonesia is one of the most unfree economic countries. Indonesia also scored negative in institutional quality measured by Fernandez-Rodriguez et al. (2021), indicating poor quality of the rule of law, government effectiveness, and regulatory quality.

Siegfried (1972) posits that large industries exploit abundant resources to influence the political process. The political power hypothesis by Siegfried (1972) might better capture the taxation domain in Southeast Asia. Moreover, Southeast Asia countries are characterized by low institutional factors or negative quality. The high-performing industries in Southeast Asia can easily exert their political power to reduce the tax burden. Studies in Indonesia also find that management is motivated to enter politics to avoid paying taxes and being under constant observation and control (Indarti and Widiatmoko, 2023). It confirmed our first hypothesis that corporate financial performance positively influenced tax avoidance in Southeast Asia.

3.2. High-Tech Industries in Corporate Financial Performance and Tax Avoidance

The second hypothesis proposes the positive effect of high-tech industries on the correlation between corporate financial performance and tax avoidance. **Table 2** shows that the correlation between corporate financial performance and high-tech industries has a significant positive effect on tax avoidance at a significance level of 1%. This result answers the research question, finding that the positive correlation between corporate financial performance and tax avoidance is stronger when the score of industries is one for high-tech industries.

Additional hypotheses testing was conducted using Moderated Regression Analysis (MRA). Three additional empirical models were tested, including corporate financial performance as an independent and control variable. Another model included corporate financial performance and high-tech industries as independent and control variables. The last model consists of corporate financial performance and high-tech industries as the independent variables, correlation between corporate financial performance and high-tech industries, and control variables. The results of additional testing are presented in **Table 3**.

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Table 3. Moderated regression analysis (MRA)

Variable	Model 1		Model 2		Model 3	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
(Constant)	0.8743	0.0000***	0.6387	0.0000***	0.6837	0.0000***
ROE	0.9017	0.0569**	1.1307	0.0016***	1.0908	0.0006***
HTI			0.6365	0.0000***	-0.0388	0.7701
ROE*HTI					41.1120	0.0000***
Leverage	-0.0002	0.0096***	-0.0001	0.2142	-0.0001	0.0953*
Size	-0.1617	0.0000***	-0.1284	0.0000***	-0.1279	0.0000***
PPE	-0.0008	0.0000***	-0.0007	0.0000***	-0.0007	0.0000***
CFO	-0.0006	0.0005***	-0.0006	0.0001***	-0.0006	0.0000***
RandD	2.8687	0.0467**	-1.2267	0.4009	-0.8067	0.5619
F-statistic	3.4238	0.0000***	4.7616	0.0000***	5.8300	0.0000***
R-squared	0.3158		0.3944		0.4471	
Adj.R-squared	0.2236		0.3115		0.3704	

Note: *, **, *** statistically significant at a significance level of 10%, 5%, and 1%.

Model 1

$$BTD_{i,j,t} = \alpha_0 + \beta_1 ROE_{i,j,t} + \beta_2 LEV_{i,j,t} + \beta_3 Size_{i,t} + \beta_4 PPE_{i,j,t} + \beta_5 CFO_{i,j,t} + \beta_6 RNDS_{i,j,t} + \varepsilon_{i,j,t}$$

Model 2

$$BTD_{i,j,t} = \alpha_0 + \beta_1 Prof_{i,j,t} + \beta_2 HTI_{i,j,t} + \beta_3 LEV_{i,j,t} + \beta_4 Size_{i,t} + \beta_5 PPE_{i,j,t} + \beta_6 CFO_{i,j,t} + \beta_7 RNDS_{i,j,t} + \varepsilon_{i,j,t} BTD_{i,j,t}$$
$$= \alpha_0 + \beta_1 ROE_{i,j,t} + \beta_2 HTI_{i,j,t} + \beta_3 LEV_{i,j,t} + \beta_4 Size_{i,t} + \beta_5 PPE_{i,j,t} + \beta_6 CFO_{i,j,t} + \beta_7 RNDS_{i,j,t} + \varepsilon_{i,j,t}$$

Model 3

$$BTD_{i,j,t} = \alpha_0 + \beta_1 ROE_{i,j,t} + \beta_2 HTI_{i,j,t} + \beta_3 ROE_{i,j,t} * HTI_{i,j,t} + \beta_4 LEV_{i,j,t} + \beta_5 Size_{i,t} + \beta_6 PPE_{i,j,t} + \beta_7 CFO_{i,j,t} + \beta_8 RNDS_{i,j,t} + \varepsilon_{i,j,t}$$

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Models 1, 2, and 3 in **Table 3** demonstrated that corporate financial performance—the independent variable—has a statistically significant positive impact on tax avoidance. Statistically speaking, the independent variable of high-tech industries is negligible. The correlation between corporate financial performance and high-tech industries in Model 3 is statistically and positively significant at a significance level of 1%. According to MRA, the variable of high-tech industries is a pure moderator in the correlation between corporate financial performance and tax avoidance.

The positive effects of high-tech industries on the correlation of corporate financial performance and tax avoidance are consistent with previous studies of Huang et al. (2013) and Yoon et al. (2023). Huang et al. (2013) showed lower ETRs in high-tech industries in China. The study was limited to the direct effect of high-tech industries on tax avoidance that was proxied by ETRs. High-tech industries like electronics and communications have the lowest ETRs, following forestry and fishing. Huang et al. (2013) showed that the ETRs of industries in high-tech industries were 22% while the statutory tax rate was 33%. The result was the same as Yoon et al. (2023), who estimated tax avoidance using BTD and another measure developed by Desai and Dharmapala (2006). It was shown that the variable of high-tech industries had a strong positive effect on tax avoidance in China. Furthermore, high-industries tend to avoid tax more than general industries. According to Yoon et al. (2023), high-tech industries have strong incentives to minimize the tax burden besides the numerous incentives, such as reducing income tax rates.

Resource-Based View (RBV) explains that high-tech firms possess unique resources and capabilities, such as advanced technology and intellectual property, which they can leverage to optimize tax strategies (Saragih et al., 2024). These firms are often granted tax incentives and can relocate intangible assets to low-tax jurisdictions, reducing their overall tax burden (Hamilton and Stekelberg, 2017).

Industry can take advantage of many of the gaps found in high-tech industry. The high uncertainty in the tax system in handling income from various jurisdictions offers the opportunity to save money by reducing tax liabilities. High-tech industries sell their product worldwide without physical appearance. Many countries consider high-tech industries more valuable than others. These countries are keen to enhance technology industries and expect rapid economic growth. For example, China provides numerous tax incentives, particularly for technology industries. The government of China offers preferential tax rates that are lower than the statutory tax rates for high-tech industries. Furthermore, high-tech industries in China benefited from 15% and 33% preferential and statutory tax rates, respectively. The government of Thailand also provided a similar tax incentive and offered five years of exemption from corporate income tax for new high-tech industries (Juasrikul and Vandenberg, 2022).

The technology industry is one of the highest-performing industries with the fastest growth. In the US, the Greenlining Institute reported that the IT services and software industries collectively provided 58,844 jobs from 2007 to 2011. Technology industries generate enormous amounts of profit but contribute little to the government's tax revenue (Kang and Ngo, 2012). For example, Apple, as the most valuable industry in the world in 2012, after booking $34 billion in profit in 2011, paid a 9.8% effective tax rate less than the earnings of middle-income households in the US. Google earns revenue from advertising fees worldwide while freeing tax liabilities in its home country. High-tech industries recognize their income based on the jurisdiction of the technology invented and not sold (Yang and Metallo, 2018). Google argues that its foreign income is derived from the US, even though they do not bring back their foreign income to the US. Consequently, tax liabilities were unleashed from any country, including the US.

Kang and Ngo (2012) analyzed 30 tech-oriented industries in the context of trapped cash, referring to money permanently reinvested abroad to evade taxation (Porcano, 1968). Money

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untaxed by the US government due to trapped cash reached $429.7 billion in 2011, which rocketed 21% from the previous year. Two giant high-tech industries, Apple and Microsoft, attained the most significant increase in the cash held offshore by $23 billion and $15 billion, respectively. Apple expanded its operation by establishing a subsidiary, "Apple Operation International/AOI" in Ireland in 1980. The industry aimed to take advantage of lower tax rates by relocating its business to Ireland, which applied a statutory tax rate of 12.5% compared to the US of 35%. Apple successfully minimized its income tax in the US through cash held offshore but did not pay any income tax in Ireland. The European Commission charged nine multinational industries, including three high-tech ones, in the last decades. Apple had highly contentious disputes and imposed €13 billion in penalties in 2016. Microsoft was charged €497 million in penalties in 2004. Google was ordered to repay £130 million in penalties to the UK in 2016. These high-tech industries received tax subsidies from various European governments that were considered illegal by the European Commission. Apple was granted non-taxable status as a foreign corporation by the Irish government (Yang and Metallo, 2018). The revenue of Apple's subsidiary in Ireland originated from the US, and the rest of the European countries were not taxable. This revenue is not taxed in both the US and Ireland. According to the US tax system, income from foreign resources becomes a tax liability only when dividends are disbursed to the US. Since Apple refrained from distributing dividends to the US, it could defer $23.5 billion from $24 billion earned abroad in 2011.

According to Hamilton and Stekelberg (2017), businesses with superior IT systems have cash-effective tax rates that are lower and less erratic than those of businesses with worse IT. These companies have 18.2 percent less volatile ETRs and pay about $6.3 million less in cash taxes yearly. These results come from the ability of good IT to facilitate more effective tax planning, allow for the creation of intangible assets in low-tax jurisdictions, enable complex tax-planning activities that are difficult without robust IT, and facilitate detailed income forecasts. Saragih et al. (2024) documented similar results. Saragih et al. (2024) found that information technology governance (ITG) positively influences tax savings, indicating that companies with better IT governance are likelier to achieve more significant tax savings. Effective ITG aids in using tax technology, enabling companies to gather, analyze, and interpret crucial data and information. That identifies important trends and patterns that can lead to tax savings.

The high-tech industry also possesses numerous tax loopholes that provide greater opportunities for high-tech companies to avoid tax. Some strategies high-tech companies use to leverage tax loopholes include intellectual property location, transfer pricing, controlled foreign corporations, product sales and revenue allocation, and avoidance of repatriation (Yang and Aquillino, 2017). These strategies use the legal framework of international tax law to achieve lower effective tax rat

4. CONCLUSION

In conclusion, corporate financial performance positively affects corporate tax avoidance. These results signify that higher-profit industries must pay more corporate income tax, so they will engage in more aggressive tax avoidance to reduce tax expenses, particularly in emerging economies with poor institutional quality. Profitable industries in Southeast Asia exerted resources to influence the political process and avoid paying taxes. The second conclusion is that the high profitability and tax avoidance correlation was stronger for high-tech industries. This conclusion implies that high-tech industries, motivated by preferential tax rates, tend to reduce the tax burden compared to general industries. These companies utilize legal loopholes and strategic tax planning facilitated by robust IT systems to manage cash effectively and minimize

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tax payments despite generating substantial profits globally. Consequently, the results supported all conjectures and confirmed the political power hypotheses.

This study was not free from limitations as only a tax avoidance measure was used, namely BTD. BTD might be a potentially noisy measure of tax avoidance. BTD depends on certain factors, such as tax laws, earnings management, and accounting standards. Future studies are recommended to use more accurate tax avoidance measures, such as the corporate tax avoidance measure developed by Desai and Dharmapala (2006). Desai and Dharmapala (2006) estimated corporate tax avoidance as a residual of total BTD and accruals regression. Future studies might employ other measures, such as market-based using Tobin's Q scores.

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