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Factors Affecting Tax Aggressiveness

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Abstract

The Purpose of this research was to obtained an empirical evidence about the influence of Firm Characteristic and Corporate Governance towards Tax Aggressiveness. This study used manufacturing companies listed in Indonesian Stock Exchange from the year 2012 until 2015. The result of this study showed that firm characteristic which measured by leverage and firm size, and corporate governance which measured by controlling interest, proportion of independent boards, audit committee size have not significant influence toward tax aggressiveness. Meanwhile, firm characteristic which measured by profitability has significant influence toward tax aggressiveness

Keywords: Firm Characteristic, Corporate Governance, Tax Aggressiveness

INTRODUCTION

Taxes are the largest source of state revenue. Therefore, the government encourages companies and individuals to pay taxes with various socializations. In practice there are still many companies and individuals who have not carried out their obligations to pay taxes. Many companies and individuals are also trying to minimize their tax payments through tax aggressiveness activities. If done properly, tax aggressiveness can provide significant benefits, especially for corporate taxpayers.

According to Frank et.al. (2009) aggressive tax action is an action that aims to engineer a company's taxable profit through tax planning, either using legal (tax avoidance) or illegal (tax evasion) means. Tax aggressiveness can be measured in various ways, namely by using the Effective Tax Rate (ETR), Book Tax Difference (BTD), Residual Tax Difference (RTC), and Cash Effective Tax Rate (CETR). This study measures tax aggressiveness by using ETR.

There are many motivations that drive companies to tax aggressiveness. One of them is the characteristics of the company in this study is proxied with profitability (Return on Assets = ROA), leverage (Debt to Equity Ratio = DER), and firm size. The existence of corporate governance (corporate governance) can also be a motivation for companies to do tax aggressiveness. In this study, corporate governance was proxied by controlling ownership, the proportion of independent commissioners, and the size of the audit committee.

In a company, shareholders want the company they own to make the most profit. While the management of the company, the party appointed by the shareholders to manage the company's operations, requires a large compensation from the company. This condition causes a difference in interests between shareholders and company management known as agency theory.

According to Jensen and Meckling (1976), an agency relationship occurs when a shareholder (principal) authorizes the agent (management) to take decisions in running the company. This relationship between principal and agent can lead to information asymmetry. This can be because the agent has more information about the condition of the company than the principal.

The definition of information asymmetry according to Brigham and Houston (2014) is as follows: “asymmetric information is the situation where managers have different (better) information about firms ' projects than investors."Suhendah and Imelda (2012) explained that information asymmetry as a situation where the management has access to information about the company that is not owned by outside the company where this will cause an imbalance of ownership of information between the two. Agency problems not only occur between shareholders and agents, but also occur between controlling shareholders and non-controlling shareholders.

According to Danny and Darussalam in Midiastuty and Suranta (2016) there is no clear definition between tax avoidance, tax evasion, and tax aggressiveness. According to Frank et.al. (2009) aggressive tax action is an action that aims to engineer a company's taxable profit through tax planning, either using legal (tax avoidance) or illegal (tax evasion) means.

Company characteristics are the characteristics or inherent properties of a business entity that can be reviewed from various aspects, including: type of business or industry, liquidity level, profitability level, company size, investment decisions, and so on (Surbakti, 2010 in Wijayanti, Wijayanti and Samrotun, 2016). In this study, the characteristics of the company are proxied with profitability (Return on Assets = ROA), debt level (Debt to Equity Ratio = DER) and company size.

There are many motivations that drive companies to tax aggressiveness. Midiastuty and Suranta (2016) mentioned that one of the motivations for tax aggressiveness is incentives, which are divided into tax incentives and non-tax incentives. In this study, the characteristics of companies that are proxied with profitability (Return on Assets = ROA) are tax incentives; while the characteristics of companies that are proxied with the level of Debt (Debt to Equity Ratio = DER) and company size are non-tax incentives.

For the first time the term Corporate Governance was introduced by the Cadbury Committee in 1992 in the Cadbury Report, which is seen as a report that became a turning point that determined the practice of Good Corporate Governance (GCG) around the world.

According to Agoes (2006) in Agoes and Ardana (2009: 101) defines good corporate governance as a system that regulates the relationship of the role of the Board of Commissioners, the role of Directors, shareholders, and other stakeholders. Good corporate governance is also referred to as a transparent process of determining company goals, achieving them, and assessing their performance.

Surya and Yustiavandana (2007) in Agoes and Ardana (2009: 106-107) said that the objectives and benefits of the implementation of Good Corporate Governance are: facilitate access to domestic and foreign investment; obtain cheaper cost of capital; provide better satisfaction in improving the economic performance of the company; increase confidence and trust of stakeholders to the company; protect directors and commissioners from lawsuits.

To reduce the company's aggressive tax actions and balance the interests between controlling and non-controlling shareholders, Corporate Governance is needed as a supervisory mechanism, such as the presence of independent commissioners and audit committees (Midiastuty and Suranta, 2016).

According to Watts (1986), a company that has a high level of profitability will be a concern among the public and the government as a regulator where this will cause high political costs, one of which is the imposition of higher tax costs.This will cause companies to tend to use accounting methods that can reduce profits and ultimately minimize the tax costs that must be borne by the company.

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According to Napitu and Kurniawan (2016), companies that have the ability to earn profits must prepare taxes to be paid in the amount of income earned. So, the greater the profit of a company, the amount of tax to be paid will also be greater so that tax aggressiveness will be higher by minimizing the value of the Effective Tax Rate. Several previous studies on the effect of profitability on tax aggressiveness have been conducted by Napitu and Kurniawan (2016) and Luke and Zulaikha (2016). Based on the above description, the effect of profitability on tax aggressiveness can be hypothesized as follows:

Ha1: profitability has a positive effect on tax aggressiveness

According to Richardson and Lanis (2007), funding decisions within a company can also affect the amount of tax.According to Modigliani and Miller (1958) if a company uses debt then there will be interest charges as a tax shield (tax deduction). So the higher the company uses debt, the higher the interest costs which will reduce the company's tax burden. Several previous studies on the effect of debt levels on tax aggressiveness have been conducted by Nurfadilah et al. (2016) and Anita (2015).

Siefgried (1972) in Midiastuty and Suranta (2016) stated that according to the theory of political power, the larger the size of a company, the more quality resources that the company can move it to manipulate political processes, engage in tax planning and organize activities that can minimize the tax burden.

According to Rodriguez and Arias in Ardyansah (2014) companies that have a large size will have greater space for good tax planning and can adopt effective accounting practices to lower the company's Effective Tax Rate. Some previous research on the effect of company size on tax aggressiveness has been conducted by Rusyidi (2013) and Midiastuty et al.

According to Chen, et al (2010) controlling shareholders can influence the company's management policies such as forcing managers to reduce corporate tax costs. Several previous studies on the effect of company size on tax aggressiveness have been conducted by Midiastuty et al. (2016).

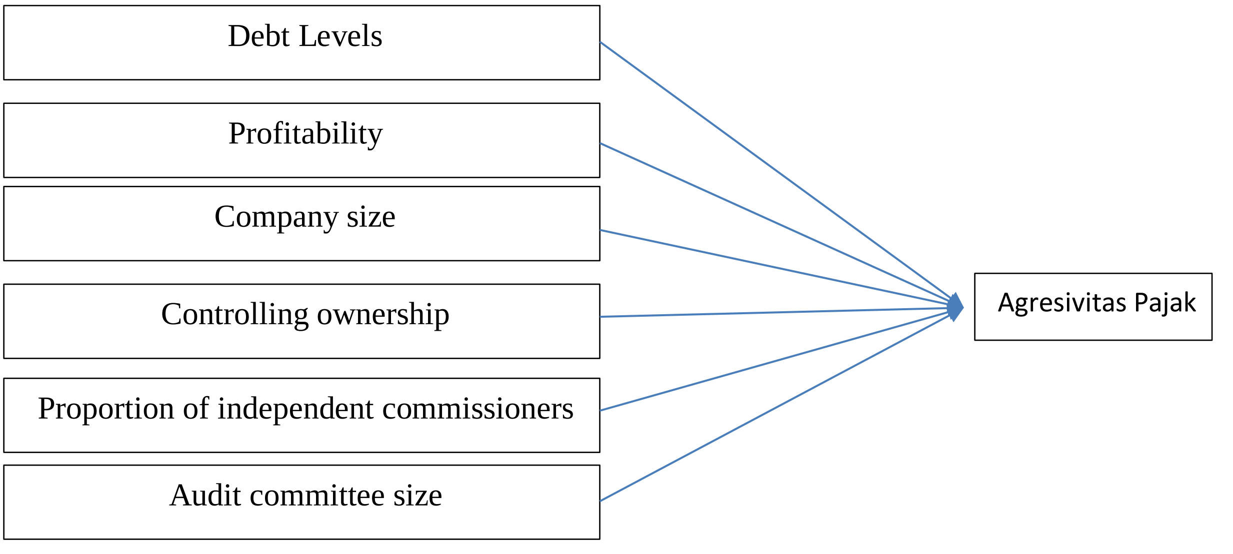
According to Lanis and Richardson (2011), the existence of independent commissioners should be able to increase supervision of management and improve company compliance with tax rules. So, the greater the number of independent commissioners in a company, this will reduce tax aggressiveness.

Prakosa (2014) stated that if the number of independent commissioners increases, tax avoidance will also decrease. With the presence of independent commissioners as a supervisory tool within the company, it is expected to contribute to a decrease in tax aggressiveness. Several previous studies on the effect of the proportion of independent commissioners on tax aggressiveness have been conducted by Midiastuty et al. (2016) and Maharani and Suardana (2014).

According to Midiastuty and Suranta (2016) the audit committee has duties and responsibilities so that the company complies with regulations including tax regulations. With a sufficient size of the audit committee in a company, it is expected to be able to reduce profit management practices and tax aggressiveness aimed at reducing the tax burden.

Maharani and Suardana (2014) stated that the keberdaan audit committee can be perceived as an indication of supervision and influence in the provision of more information for users of the company's financial statements.

RESEARCH METHODS



Picture 1. Research Model

This study uses secondary data. The Data used in the form of samples that represent the existing population because the population is too large. Sinambela (2014) states that the population is an object or subject that has a certain quantity and characteristics set by the researcher to be studied, and then drawn conclusions. Understanding the sample according to Sugiyono (2012) is part of the number and characteristics possessed by the population. The samples in this study were taken using the following criteria: (1) manufacturing companies listed on the Indonesia Stock Exchange during the year 2012-2015; (2) companies that present financial statements in Rupiah currency; (3) companies that do not suffer losses during the observation period; (4) companies that have ownership of shares above 50%; (5) companies that present financial statements as of December 31 during the observation period; (6) companies that have.

This study uses multiple linear regression analysis. Before doing hypothesis testing, normality test will be done by using normality Image by using P-P Plot image. Furthermore, multicollinearity, autocorrelation and heteroskedasticity tests were carried out.

Hypothesis testing using multiple linear regression analysis, with regression equation model as follows:

$ETR = \alpha + ß1ROA + ß2DER + ß3SIZE + ß4KP + ß5PKI + ß6UKA + e$

Description: ETR = Effective Tax Rate (tax aggressiveness); α = constants; ROA = Return on assets(profitability); DER = Debt to Equity Ratio(debt level); SIZE = company size; KP = controlling interest; PKI = proportion of independent commissioners; UKA = Audit Committee size; e = error

RESULTS AND DISCUSSION

The number of samples in this study is as many as 27 companies. Because the period of this study is for four years (2012-2015), the amount of data processed is as much as 108 data.

Table 1. Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Standard Deviation*
ROA	108	0.0008	0.3947	0.104841	0.0797391
DER	108	0.1502	13.9604	0.868502	1.3729503
SIZE	108	23.3863	34.0376	2.8832E1	2.0455537
KP	108	0.5007	0.9975	0.711895	0.1574596
PKI	108	0.1667	0.8333	0.393228	0.0883010
UKA	108	1.0000	5.0000	3.1203E0	0.7452979
ETR	108	0.0598	0.5322	0.248106	0.0687125
Valid N (listwise)	108				

This study has met the test of classical assumptions, namely normality, multicollinearity, autocorrelation and heteroskedasticity.

Table 2. F Test Result

Model	F	Sig.
Regression	1.949	0.080

From the results of the F test shows a value of 0.08 which is smaller than 0.1 which means that all the independent variables in the regression model have a significant effect together on the dependent variable.

Table 3. T test results

	t	Sig.
ROA	-2.751	0.007
DER	-0.266	0.791
SIZE	-0.888	0.376
KP	-0.092	0.927
PKI	0.193	0.847
UKA	-0.141	0.888

From the t test results in Table 3 above shows that only the variable ROA significant effect on tax aggressiveness, while the other independent variables are DER, SIZE, KP, PKI, and UKA no significant effect on tax aggressiveness.

Test results R and Adjusted R2. Based on the results of the R Test, obtained a value of 0.322. This means that there is a weak relationship between the independent variable to the dependent variable shown from the value of R which is between 0.20–0.399.

Adjusted R2 test results showed a value of 0.051. This small value of R2 indicates that the ability of the independent variables in explaining the variation of the dependent variable is very limited, which is 5.1%.

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CONCLUSION

The results showed some findings. First, profitability as measured by ROA has a significant effect on tax aggressiveness. These results are in line with the research of Napitu and Kurniawan (2016) and Luke and Zulaikha (2016). Secondly, the level of debt does not significantly affect the aggressiveness of taxes. This indicates that the level of debt is not a determining factor for the company to do tax evasion or not. Companies with high debt levels are supervised by lenders, so companies with low or high debt levels both have a tendency to tax aggressiveness.

the size of the company has no significant effect on measures of tax aggressiveness. The results show that there is a possibility that medium and small companies also carry out tax aggressiveness. So it's not just big companies that do it. This is due to the fact that taxes are still considered a burden both for companies and by private individuals.

Controlling ownership has no significant effect on acts of tax aggressiveness. This suggests that controlling ownership is not a factor that pushes the company's management to tax aggressiveness. The results of this study are not in line with the theory of agency in which the agency theory explained that the existence of controlling shareholders will cause agency problems between controlling shareholders and non-controlling shareholders. Agency problems that arise is the encouragement of controlling shareholders to force managers to take aggressive tax action so as to reduce the tax burden of the company.

the proportion of independent commissioners has no significant effect on tax aggressiveness measures. These results provide an indication that independent commissioners from outside the company have not carried out their supervisory duties properly so that their presence does not affect the company's decision to conduct tax aggressiveness. The results of this study are in line with research conducted by Midiastuty et al.

the size of the audit committee had no significant effect on measures of tax aggressiveness. This means that the increasing number of audit Committees does not reduce the aggressiveness of the sample companies. The theory that the greater the number of audit committees will decrease the aggressiveness of the company is not proven. The increasing number of audit committee members should cause the level of supervision to be tighter so that the company increases the efficiency of the tax burden which will ultimately encourage the company to make tax savings.

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