THE EFFECT OF TAX AVOIDANCE ON TIMELINESS WITH MANAGERIAL OWNERSHIP AS A MODERATING VARIABLE

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ABSTRACT

Tax avoidance is typically defined in the literature to include a broad range of tax-reduction activities, ranging from benign tax advantaged investments (e.g., tax-exempt municipal bonds) to aggressive strategies that might not be upheld if challenged. Tax authorities may challenge tax avoidance and ultimately prevail, resulting in the loss of the tax savings that initially came with the tax avoidance. Managers expect incentives from companies to decide when to announce financial statements. The manager has information about the company's condition and company's prospects in the future, so they can manipulate the time of the announcement of the financial report to transform the news that was released into the market and/or exploit the news for individual gain. Explanation alternative to the result of this is the extent to which tax avoidance companies have an impact on the time of the announcement of the report finance. Meaning, managers are possibly involved in earnings management activities. Tax avoidance is designed to permanently reduce the accountability of taxes of the company. The population observed in this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX), which registered in 2013 to 2017. The sample companies used were 83 with a total observation of 220. The samples will be analyzed using multiple linear regression in SPSS. From the results of the study, the following conclusions are tax avoidance proxied by ETR has a positive effect on timeliness, and managerial ownership as a moderating variable can strengthen the influence of tax avoidance on timeliness.

Key words: tax avoidance, timeliness, managerial ownership

INTRODUCTION

Background

Tax avoidance is typically defined in the literature to include a broad range of tax-reduction activities, ranging from benign tax advantaged investments (e.g., tax-exempt municipal bonds) to aggressive strategies that might not be upheld if challenged. Tax authorities may challenge tax avoidance and ultimately prevail, resulting in the loss of the tax savings that initially came with the tax avoidance (Dyreng, Hanlon, Maydew, 2018).

Managers expect incentives from companies to decide when to announce financial statements. The manager has information about the company's condition and company's prospects in the future, so they can manipulate the time of the announcement of the financial report to transform the news that was released into the market and/or exploit the news for individual gain. Explanation alternative to the result of this is the extent to which tax avoidance companies have an impact on the time of the announcement of the report finance. Meaning, managers are possibly involved in earnings management activities. Tax avoidance is designed to permanently reduce the accountability of taxes the company, the increase in earnings after tax that could help the company to meet the expectations of the market. These activities may require extra time at the end of the fiscal year to evaluate the extent to which tax avoidance will help the company to meet the expectations and formulate a response to the parties outside the company. (Crabtree and Kubick, 2014).

Managerial ownership is stock ownership that is owned by the manager or the company management. This ownership will align the interests of management with shareholders. The manager is not a party external companies who are paid to improve the company but also as a shareholder, so that the manager can experience direct benefit from decisions were taken and bear losses as a consequence of making the wrong decision. Their ownership of managerial will suppress the behavior of opportunistic managers in making decisions, thus reducing the practice of tax avoidance, which considered do not have benefit for shareholders (Mulianingsih and Sukartha, 2018).

Based on a literature review, we conclude that there are only a few studies that study the effect of tax avoidance on timeliness. Research by Crabtree and Kubick (2014) previously did not account for managerial ownership. This study wants to contribute by studying the effect of tax avaoidance on the time of publication of financial statements (timeliness) and also consider managerial ownership as a moderating variable.

Purposes

1. Does tax avoidance have a significant effect on the timeliness?
2. Does managerial ownership moderate the relationship between tax avoidance and timeliness?

Benefits

1. For Investors
   Help investors in making decisions.

2. For companies
   Give an overview of the company about the importance of the quality of the financial report, so it does not experience delays in the delivery of financial statements.
3. For Science
   Give an overview and contribute to the advancement of science in the field of accounting, especially finance and tax.

LITERATURE REVIEW AND HYPOTHESES

Agency Theory

Jensen and Meckling (1976) state that agency theory appears related to the phenomenon of separation of corporate ownership (principal) from company managers (agents), especially in modern companies. Agency theory explains the conflict between management as an agent and owner as a principal. Principals want to know all information about management activities, which related to their investment or their funds in the company, by requesting an accountability report from the agent (management). Agency theory explains the various conflicts of interest within a company either between shareholders, managers, and creditors or between shareholders. Other than that, agency theory also implies the existence of information asymmetry between the agent and the principal. Information asymmetry arises when managers know more about internal information and prospects for the company in the future than the information obtained by the principal. Concerning this matter, financial reports that submitted immediately or on time will be able to reduce the asymmetry of the information.

Tax Avoidance

According to Hanlon and Heitzman (2010), there is no definition of tax avoidance that is accepted globally because the definition of tax avoidance will be different for different people. Hanlon and Heitzman define tax avoidance as the reduction of tax. Tax avoidance involves the relationship between stockholders, management, and the government. The traditional view on the company's tax avoidance indicates that the value of shareholders should increase with their activities of tax avoidance. A direct effect of tax avoidance is to increase the value after tax, the effect is potentially offset, especially at companies that have good governance. Therefore, the effect on the value of the company should be significant for companies with good governance (Desai and Dharmapala, 2009).

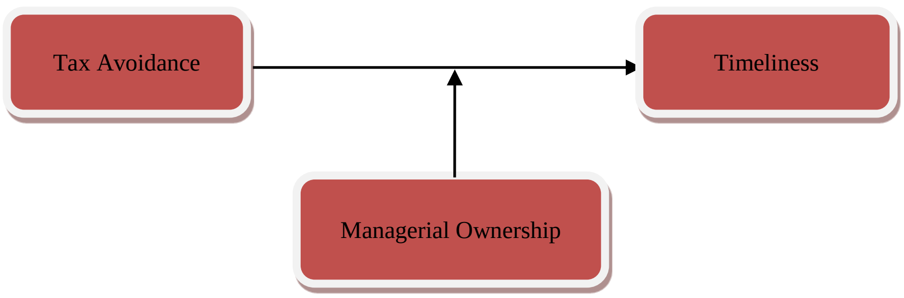
Timeliness

Timeliness of the delivery of financial statements can affect the quality of financial statements because the timeliness indicates that the information provided is new and the information indicates that the quality of the financial statements is good. The relevance of a financial statement can be obtained if the financial statements can be presented in a timely manner. Timeliness does not guarantee relevance, but relevance is not possible without punctuality. Therefore, timeliness is an important limitation in the publication of financial statements (Putri, Purnamasari and Utomo, 2015).

Managerial Ownership

Managerial ownership is the percentage of ordinary shares owned by management who are actively involved in corporate decision making. Managerial ownership treats managers not only as external parties who are paid by the company but also as shareholders. Managerial ownership is a shareholder as an owner in a company from management who actively participates in decision making concerning company management (Mulianingsih dan Sukartha, 2018).

Research Model



Hypothesis

The effect of tax avoidance on timeliness

Desai and Dharmapala (referenced in Crabtree and Kubick, 2014) stated that incentives can help reduce the level of tax avoidance because it can equalize the objectives of managers and shareholders, especially for companies with weak governance structures. Crabtree and Kubick (2014) state that in companies that show a higher level of tax avoidance, the announcement of

financial statements becomes less timely. Therefore, investors can receive earnings announcements that are less timely because of the complementary nature of tax avoidance and managerial opportunism.
H_1: Tax avoidance has a positive effect on timeliness.

The effect of managerial ownership as a moderating relationship between tax avoidance and timeliness

Managerial ownership will determine the policies taken by a company concerning what accounting methods they apply. This can help companies speed up the delivery of their financial statements (Toding and Wirakusuma, 2013). Managerial ownership can suppress the opportunistic behavior of managers. This is due to the sense of ownership of the company so that it will affect management performance. Management will be more responsible for the task of managing the company. Every decision taken by management will also affect him as a shareholder of the company. Also, the existence of share ownership by the manager will motivate managers to increase businesses that produce optimal profits. Managers with good performance will be able to submit financial statements in a timely manner to avoid negative responses from investors (Mulianingsih and Sukartha, 2018).
H_2: Managerial ownership can strengthen the influence between tax avoidance and timeliness.

RESEARCH METHODS

Research Samples and Data Collection

The population observed in this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX). The sample used is a manufacturing company registered in 2013 to 2017 using the purposive sampling method, which is the method of determining the sample that provides the data needed in this study. Sample selection includes companies that publish data or information needed to calculate all the variables needed. The sample selection criteria are first, companies listed on the Indonesia Stock Exchange from 2013 to 2017. Second, companies that publish annual reports and financial reports. The sample companies used were 83 with a total observation of 220. The samples will be analyzed using multiple linear regression in SPSS

Definition of Variable Operations

Dependent Variable

The dependent variable in this study is timeliness which is measured using measurements that are measured based on delays in the company's financial reporting. The company is required to submit annual financial statements no later than end of third month after date of yearly financial report. (Bapepam dan LK, 2011)

Independent Vareiable

The independent variable in this study is tax avoidance which is measured using the effective tax rate (ETR) obtained from dividing the income tax burden by accounting income before tax. (Hanlon and Heitzman, 2010).

Moderating Variable

The moderating variable is a variable that influences (strengthens or weakens) the relationship between the independent and dependent variables. The moderating variable in this study is managerial ownership. Managerial ownership is measured by dividing the number of shares owned by the board of directors and the board of commissioners by the number of shares outstanding.

Regression Equation Formula:

$$\mathrm{LN}\frac{\mathrm{TL}}{1\text{-}\mathrm{TL}} = \alpha + \beta_1\mathrm{ETR} + \beta_2\mathrm{ETR}{*}Z_1 + e$$

Where :

$$\mathrm{LN}\frac{\mathrm{TL}}{1\text{-}\mathrm{TL}} = \textit{Timeliness}$$

α = Constant
$\beta_{1\text{-}2}$ = Regression coefficient of each factor
ETR = Tax Avoidance
Z_1 = Managerial ownership
e = Error

Data Analysis Technique

The analysis used in this study is multiple linear regression analysis with SPSS macro Hayes because it uses moderating variables. Before regression, the quality of the data was tested using a classic assumption test consisting of a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test.

RESULTS AND DISCUSSION

Normality Test

The normality test uses the Kolmogorov Smirnov test. This test is to determine whether the research data is normally distributed.

Table 4.1. Kolmogorov Smirnov Test

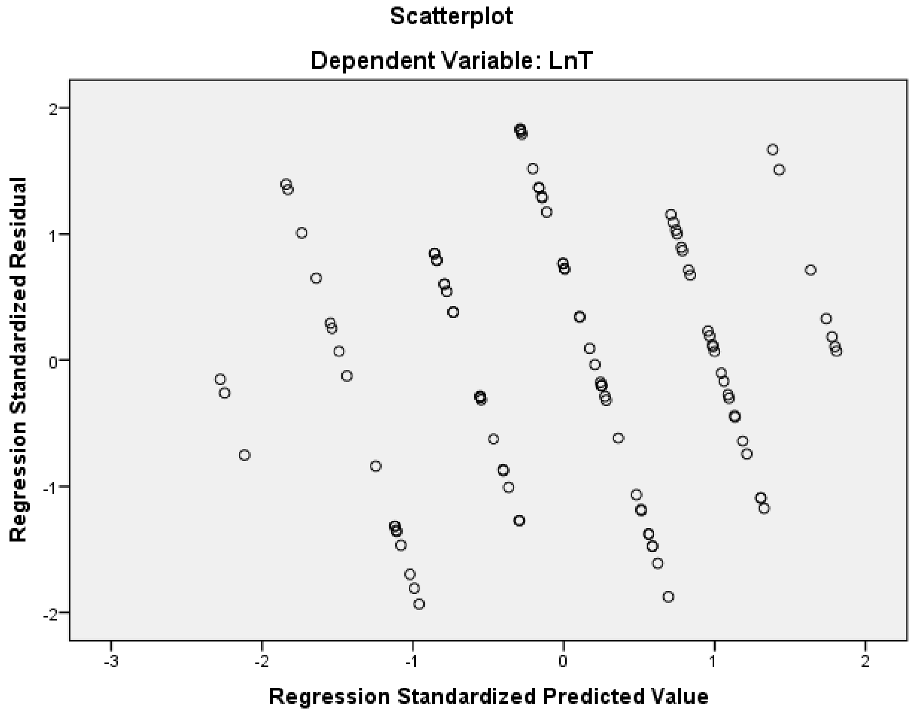
		Unstandardized Residual
N		104
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.00352331
Most Extreme Differences	Absolute	.072
	Positive	.072
	Negative	-.066
Test Statistic		.072
Asymp. Sig. (2-tailed)		.200[c,d]

From table 4.1. above shows that the significance of 0.2> 0.05 which states that the data is normally distributed.

Autocorrelation Test

The autocorrelation test uses the Durbin Watson test. From the data processing, the Durbin Watson (DW) value is 2,134, while the Durbin Watson table is obtained the Durbin Upper (du) value of 1.7665, Durbin Lower (dl) of 1.6678, 4-du of 2.2335. From these values, it can be seen that du (1.7765) <DW (2.134) <4-du (2.2335) which states that there is no autocorrelation.

Heteroscedasticity Test



Picture 4.1. Scatterplot

From picture 4.1. above it appears that the points are scattered, not gathered in 1 place, this states that there is no heteroscedasticity.

Multicollinearity Test

Multicollinearity occurred in this research data. This happens because the independent and moderating variables have a strong correlation. With centering, it will reduce problems in multicollinearity (Frazier, Tix, and Barron, 2004). After centering, there will be no multicollinearity.

Discussion

Table 4.2. Regression Results

	Coeff	se	t	p
Constant	89,6244	,0451	1989,2076	,0000
TA	,4761	,1647	2,8912	,0047
MO	,3563	,0371	9,6099	,0000
TA*MO	,0613	,0137	4,4860	,0000

The Effect of Tax Avoidance on Timeliness

From table 4.2 we get the result that p-value tax avoidance is 0.0047> significance level (0.05) with a positive constant. This states that H_1 is accepted, namely tax avoidance has a positive effect on timeliness, which means that the higher the tax avoidance, the higher the timeliness will be. In other words, if a company carries out tax avoidance then the submission of financial statements will be less timely. This is in line with research conducted by Brian and Martani (2014), which states that the greater the tax avoidance carried out by companies, the longer the time of the announcement of its annual report. In addition, Crabtree and Kubick (2014) state that in companies that show a higher level of tax avoidance, the announcement of financial statements becomes less timely. Frms exhibiting higher levels of tax avoidance face incrementally greater demands on the information production within the firm resulting in a less timely annual earnings announcement.

The Effect of Managerial Ownership as a Moderation Variable on the relationship of Tax Avoidance and Timeliness

From table 4.2 we get the result that the p-value of moderation is 0,000> significance level (0.05) with a positive constant from the original 0.0047. This states that H_2 is accepted, namely managerial ownership reinforces the positive effect of tax avoidance on timeliness. In other words, the existence of managerial ownership can reduce tax avoidance so that the submission of financial statements becomes timelier. This research is in line with Sari and Martani's research (2010, referred to in Pramudito and Sari, 2015) which states that an increase in managerial ownership will make the company tend to lower tax avoidance. While the results of the previous hypothesis state that the lower the tax avoidance, the financial statements will be submitted in a timely manner.

CONCLUSIONS AND SUGGESTIONS

Conclusion

From the results of the study, the following conclusions are obtained:
1. Tax Avoidance proxied by ETR has a positive effect on timeliness.
2. Managerial ownership as a moderating variable can strengthen the influence of tax avoidance on timeliness.

Limitation

Limitations of this study are as follows:
1. The companies that are sampled in this study are only manufacturing companies so they cannot be generalized.
2. The independent variables used in this study are very limited.
3. The observation period is only 5 years.

Suggestion

Suggestions that researchers can give to future researchers based on the above limitations are as follows:
1. Increase the sample of companies, if possible, the samples taken are all companies listed on the IDX so that research results can be generalized.
2. Use other variables that can affect timeliness, such as profitability, the reputation of public accounting firms, and company size.
3. The observation period is extended so better research results can be obtained.

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