

FACTORS AFFECTING TAX AVOIDANCE IN NON-FINANCIAL COMPANIES THAT REGISTERED ON IDX

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ABSTRACT

The purpose of this research is to determine foreign board of commissioners, foreign ownership, leverage, company size, audit committee, company risk, and profitability in affecting tax avoidance. The population of this research is non-financial companies listed in Indonesia Stock Exchange from the year 2019 to 2021. Samples were obtained through purposive sampling method in which 31 companies were taken as sample. Multiple linear regression analysis was used as the strategy for data analysis. The findings of this study indicated that foreign ownership, leverage, company size, audit committee, and profitability have no bearing on tax avoidance, whereas foreign board of commissioners and company risk do.

Keywords: Tax Avoidance, Leverage, Company Risk, Profitability

INTRODUCTION

Taxes are a source of income for the state, while tax companies are a burden that will reduce the company's net profit. The difference between the interests of the two parties where those who want large tax revenues and companies who also want to pay taxes to a minimum. Tax Avoidance is a way to legally avoid paying tax owed without violating the rules (Pamungkas 2021).

Some of the world's biggest technology companies such as Google and Facebook have avoided taxes. Technological developments that continue to develop allow companies to operate domestically without the company's physical presence. The current tax system allows an internet technology company to set up its headquarters in a country with low tax rates, whereas internet technology companies benefit from several different countries. For example, Google and Facebook make their earnings from advertising available to everyone around the world.

According to reports, the US technology giant Google used a Dutch shell company to avoid paying 19.9 billion euros (\$22.7 billion) in taxes to Bermuda in 2017. According to filing documents, the action was a component of an agreement that enabled Google to reduce its international tax liability. The sum moved through Google Netherlands Holdings BV was approximately 4 billion euros greater than in 2016, according to the documents released on December 21.

For more than a decade, the deal has allowed Alphabet, the company that owns Google, to apply an effective single-digit tax rate on its profits outside the United States. This is about a quarter of the average rate in foreign markets. The Dutch subsidiary normally remits non-US royalty income to Google Ireland Holdings, its Bermuda subsidiary, where it pays no income tax. "Double Irish, Dutch Sandwich" is a legal strategy that allows Google to avoid paying US income taxes or European withholding taxes on the fund, which accounts for the majority of the fund's overseas profits. However, under pressure from the European Union and the United States and Ireland, they decided to terminate the agreement in 2014 when Google's tax benefits expired in 2020. Google Netherlands Holdings BV paid 3.4 million euros for taxes in the Netherlands in 2017, while gross profit is 13.6 million euros. www.cnbindonesia.com (accessed July 15, 2017 at 18.21).

The differences in the results of the studies with each other and the reasons that have been described have made the researchers interested in conducting another study by adding the variables leverage, company size, audit committee, company risk, and profitability. The purpose of this study is to obtain empirical evidence that foreign boards of commissioners, foreign ownership, leverage, company size, audit committee, company risk, and profitability influences tax avoidance.

Agency Theory

Meckling, et.al (1976) states that agency theory, issues will arise between stakeholders, who act as principals, and firm management, who act as agents. Thus, knowledge asymmetry between businesses and the government makes tax evasion one of the agency challenges. However, while businesses seek higher profits by simplifying the burden that will be borne by them, including the tax burden, the government wants high tax revenues through tax collection so that the treasury grows. The dispute between the government (tax collectors) and businesses (taxpayers) is brought on by this.

Signaling Theory

Spence (1973) cite the signaling theory, which holds that businesses with higher debt levels are viewed as having promising futures. Therefore, debt will convey to third parties that the corporation is likely to be able to fulfill its obligations going forward. According to the trade-off theory, businesses can use debt financing for tax planning strategies because they might go bankrupt. This hypothesis takes into account a number of variables, including personal taxes, corporate taxes, and bankruptcy expenses (Pamungkas 2021).

Legitimacy Theory

An understanding of O'Donovan's (2002) legitimacy theory, which states that organizations must continue to ensure that their companies comply with standards such as societal norms, and ensure that outsiders can accept corporate actions. According to the legitimacy hypothesis, businesses continue to make efforts to guarantee that they operate within the constraints and social standards. They also collaborate with and pay attention to the company's local environment, as the company works to ensure that outsiders view its operations as legitimate.

Ghozali (2018) states that the theory behind legitimacy is a social contract between business and the society in which businesses will operate and use resources. According to this theory, basically, society was served by the company. This can be done through paying taxes in accordance with statutory regulations. With benefits offered openly, companies can receive feedback from society in the form of legitimacy.

It is believed that paying corporate income tax satisfies the company's obligation to the community in which it works. There is a conflict between the firm's value system and society's value system according to the theory of legitimacy relating to social and economic efficiency. Tax evasion like this is against the law and not the Directorate General of Taxes specifically. According to this viewpoint, the legitimacy theory is particularly pertinent when examined in light of problems with corporate compliance and tax evasion.

Tax Avoidance

Tax Avoidance is an effort to reduce taxes by complying with the provisions of tax regulations, for example using exemptions and withholding that are allowed or deferred taxes that are not regulated by applicable tax regulations.

Brown (2012) argues that the gap between acceptable mitigation (tax planning) and unacceptable avoidance is a variable that depends on the basic principles of a country's tax laws. In general, courts in all constitutional countries are, under certain circumstances, empowered to determine whether a transaction meets the literal requirements of the law. Corporate tax avoidance presents a major challenge to the effective implementation of tax laws.

Foreign Board of Commissioners and Tax Avoidance

According to Frijns et al. (2016), board diversity is important for the following reasons: (1) Due to their increased independence, committee members and directors with diverse backgrounds are better able to control directors, (2) Diversity enhances board decision-making through the differentiation of fresh viewpoints, improved creativity, and unconventional approaches. (3) Because the board of directors provides distinctive information that is dispersed, diversity strengthens the information offered by the board of directors of the organization. (4) Due to the decentralized nature of the organization, the board of directors provides the company with access to relevant outside parties and resources. (5) The officials' operational diversity. and the board of directors send out strong indications of improvement in the money, commodities, and labor markets, and Diversity among commissioners

Ha1: Foreign board of commissioners influence tax avoidance.

Foreign Ownership dan Tax Avoidance

According to legitimacy theory, businesses continue to work to ensure that they operate in accordance with the rules and standards that are prevalent in the area where they are based and that outsiders carry out their actions in a way that is consistent with the law (Deegan et al. 2002). According to the legitimacy argument, because Indonesian tax laws have given businesses special tax treatment or relief, international corporations are fundamentally required to contribute to society by paying taxes in compliance with current rules and regulations. Income tax on foreign corporations (PMKno. 159/PMK.010/2015). By paying this tax, the business is able to get honest feedback from the general population public.

Ha2: Foreign ownership influences tax avoidance.

Leverage dan Tax Avoidance

Leverage shows the extent to which investment or company assets are financed by funds from third parties in the form of debt, according to Ngadimani and Puspitasari in Faizah and Adhivinna (2017). Irianto et al. (2017) stated that when interest costs reduce a company's gross income, companies tend to choose foreign debt financing activities to minimize the taxes paid by the company.

Ha3: Leverage influences tax avoidance.

Company Size and Tax Avoidance

Company size is a size, reference, or scale where a company can be classified as large or small (Faizah and Adhivinna 2017). Large companies usually carry out tax planning to minimize costs and tax obligations. Large companies can manage their assets and use them to reduce their taxable income by writing off assets owned by company's assets (Permata et al. 2018)

Ha4: Company size influences tax avoidance.

Audit Committee and Tax Avoidance

Audit Committee according to Sudaryo et al. (2018) is a committee that operates professionally and independently and whose committee is formed in such a way that its role strengthens the board's role in carrying out the control function or reporting, review and enforcement processes. Corporate governance. The Audit Committee, if empowered, is expected to be able to prevent all incorrect and abnormal behavior related to the Company's financial reporting, so that the existence of an Audit Committee in the Company can help minimize tax evasion practices (Diantari and Ulupui 2016).

Ha₅: The audit committee influences tax avoidance.

Company Risk and Tax Avoidance

Debt-to-Equity Ratio (DEBT) is utilized in this study to quantify Company Risk (DER). Leverage is a financial ratio that, according to Syamsuddin (2007), indicates the proportion of a company's debt to its capital and assets. The source of working capital the corporation uses is referred to as leverage. The company's risks are also shown via leverage. In this study, DER was chosen as the leverage ratio. The debt-to-equity ratio (DER), according to Napitupulu et al. (2021), is a ratio that contrasts a company's total debt and equity.

Ha₆: Company risk influences tax avoidance.

Profitability and Tax Avoidance

Profitability describes a company's ability to generate profits within a certain period of time at the level of total assets, equity and sales. (Faizah and Adhivinna 2017). In a study conducted by Irianto et al. (2017) It is said that high profits also indicate high profits earned by the company, this causes high taxes to be paid by companies and managers because company managers try to minimize the taxes paid.

Ha₇: Profitability influences tax avoidance

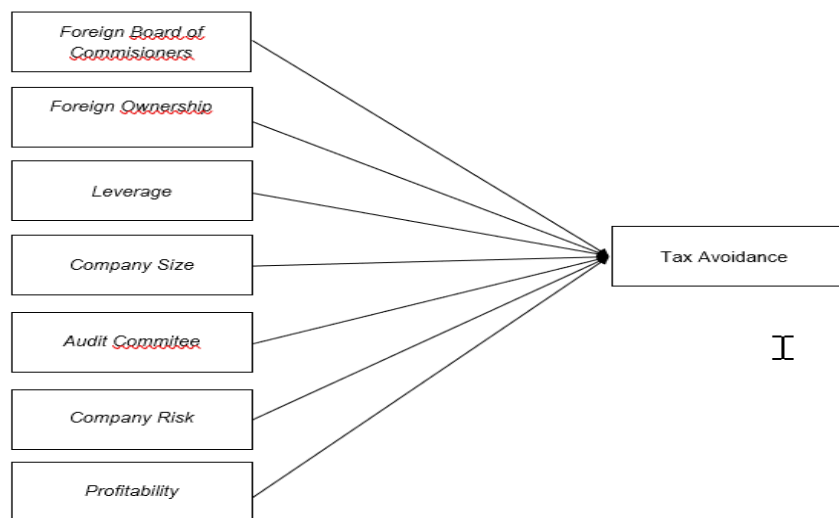


Figure 1 Research Model

RESEARCH METHODS

Sample Selection and Data Collection

Non-financial company listed on the Indonesia Stock Exchange (IDX) are used for the research object for this study. The research period will last for three years starting in 2019-2021 with a company analysis unit. This study used a purposive sampling method in selecting the sample. The criteria considered in this study are: (1) Non-financial companies consistently listed on the Indonesia Stock Exchange (IDX) from 2019-2021, (2) Non-financial companies using December 31 as the final period for audited financial statements 2019-2021, (3) Non-financial companies that use the Rupiah currency in audited financial statements for the 2019-2021 period, (4) Non-financial companies that have positive profits during the 2019-2021 period, (5) Non-financial companies that have foreign ownership during the 2019-2021 period, (6) Non-financial companies that have foreign commissioners during the 2019-2021 period, (7) Non-financial companies that have an ETR value of 0-1 during the 2019-2021 period.

Operational Definition and Variable Measurement

Tax avoidance

Companies whose ETR % is higher than the current rate have not taken full advantage of any tax benefits that may be available. Companies, and vice versa, with a low ETR percentage showing that the company is utilizing its tax-intensive, then the percentage of tax payments from commercial earnings is also decreasing. According to Meilina and Sugiyarti (2017), corporate tax consists of both current and deferred taxes.

$$ETR = \frac{\text{Total Tax Expense}}{\text{Total Income Before Tax}}$$

Foreign Ownership

According to Salihi et al. (2015), the foreign ownership structure refers to the percentage of all company shares held by foreign investors. This concept allows for the ownership of a corporation's shares by both foreign institutional investors and foreign individual investors.

$$FI = \sum \frac{\text{Total shares owned by foreign investors}}{\text{Total outstanding shares}}$$

Foreign Board Commissioners

To quantify foreign commissioners, the percentage of foreign commissioners (commissioners are foreign citizens or foreigners on the company's board structure) is used (Salihi et al. 2015).

$$FC = \frac{\text{Number of Foreign Commisioners}}{\text{Total Number of Commisioners}}$$

Leverage

Financial ratios that show how a company's debt and assets are related to one another (Salihi et al. 2015).

$$LEV = \frac{\text{Total Long Term Debt}}{\text{Total Assets}}$$

Company Size

This study analyse to the company's total assets. This total asset proxy also refers to Noor et.al (2010)

$$\text{Size} = \ln (\text{Total Asset})$$

Audit Committee

The Audit Committee is a group of people selected by a larger group to do certain work or to carry out special tasks or a number of members of the client company's Board of Commissioners who are responsible for assisting the auditor in maintaining its independence from management (Tugiman, 1995).

$$\text{Audit Committee} = \frac{\begin{array}{c} \text{The number of audit committees} \\ \text{outside the independent} \\ \text{commissioners} \end{array}}{\begin{array}{c} \text{Number of audit committees} \\ \text{in the company} \end{array}}$$

Company Risk

The Leverage Ratio (DER) is used to measure Company Risk. In another word, leverage is a financial ratio to describe the interaction between a company's debt to capital and asset (Syamsuddin, 2007). Thus, the leverage ratio is used to describe the source of operational funds used by the company and shows the risk faced by the company, either. DER (Debt-to-Equity-Ratio) is used on this study. According to Napitupulu et al. (2021) the debt-to-equity ratio (DER) is a ratio that compares a company's debt to total equity.

$$DER = \frac{\text{Company's total liabilities}}{\text{Shareholder Equity}}$$

Profitability

According to Riyanto (2010:35), a company's profitability is determined by its capacity to turn a profit within a specific time frame. Profitability ratios are used to assess management performance, which is indicated by returns and returns on investment from sales activities (Palupi et al., 2020). In this study, the profitability metric is ROA. The capacity to generate returns on invested capital is measured by ROA, which assesses overall efficacy in creating profits using accessible assets. As a result, the method for determining ROA is net profit after tax divided by total assets (Riyanto 2010:35).

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Data Analysis Method

The research data were analyzed using statistical methods. This study examines the causal relationship between several independent variables and one dependent variable, therefore the multiple regression method is used in analyzing the data. The analysis performed included descriptive statistical tests, data quality tests, classical assumption tests and hypothesis testing.

$$ETR = \beta_0 + \beta_1(FC) + \beta_2(FI) + \beta_3(LEV) + \beta_4(SIZE) + \beta_5(AC) + \beta_6(DER) + \beta_7(ROA) + e$$

Explanation:

ETR : Tax Avoidance
 FI : Foreign Ownership
 FC : Foreign Board Commissioners
 LEV : Leverage
 SIZE : Firm Size
 AC : Audit Committee
 DER : Company Risk
 ROA : Profitability
 β_0 : Constant
 $\beta_{1,2,3,4,5,6,7}$: Variable Coefficient
 e : Residual of Error

RESEARCH RESULT

Table 1 Sample Selection Procedure

Sample Criteria	Number of Companies	Amount of Data
1. Non-financial companies that are consistently listed on the Indonesia Stock Exchange during the period 2019 to 2021.	557	1671
2. Non-financial companies that do not end a period in their financial statements on December 31 during the period 2019 to 2021.	(41)	(123)
3. Non-financial companies that do not consistently use the Rupiah currency in their financial statements from 2019 to 2021.	(78)	(234)
4. Non-financial companies that do not consistently have positive profits from 2019 to 2021.	(235)	(705)
5. Non-financial companies that do not consistently have foreign commissioners from 2019 to 2021.	(168)	(504)
6. Non-financial companies that do not consistently have an ETR of 0-1 during the period 2019 to 2021.	(1)	(3)
7. Non-financial companies that do not consistently have foreign ownership values during the period 2019 to 2021.	(3)	(9)
Total samples obtained	31	93

Source : Indonesia Stock Exchange

Table 2 Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
ETR	93	2,67E-05	0,7399	0,261473	0,1425719
FC	93	0,1429	0,7500	0,422184	0,1669005
FI	93	2,72E-05	0,9949	0,36156	0,3452499
LEV	93	0,0005	0,6065	0,159735	0,1453171
SIZE	93	26,5528	33,4945	29,438395	1,3510371
AUDIT-COM	93	0,3333	0,7500	0,637097	0,1010551
DER	93	0,0007	4,2279	0,931280	0,8366751
ROA	93	0,0005	0,6857	0,088655	0,1002698

Source: SPSS 25 Data Processing Output

Table 3 Test Results t

Variabel	Unstandardized B	Sig.	Conclusion
(Constant)	0,030	0,927	
FC	-0,244	0,017	Ha ₁ accepted
FI	0,066	0,154	Ha ₂ rejected
LEV	-0,007	0,946	Ha ₃ rejected
SIZE	0,008	0,394	Ha ₄ rejected
AUDIT_COM	0,077	0,607	Ha ₅ rejected
DER	0,053	0,004	Ha ₆ accepted
ROA	-0,255	0,094	Ha ₇ rejected

Source: SPSS Data Processing Output 25

According to the test results, the foreign board of commissioners' variable's significant value is 0.017. The hypothesis (Ha₁) is accepted since the foreign board of commissioners' variable has a significance value less than 0.05. With a coefficient value of -0.244, foreign boards of commissioners have a detrimental impact on tax evasion. This implies that the diversity will expand with the number of foreign boards of commissioners, increasing the information that the board of the company provides to managers as the board's distinctive information spreads. Managers will learn more about tax avoidance strategies as a result. Based on the test results, the significance value of the foreign ownership variable is 0.154. The foreign ownership variable has a significance value greater than 0.05, therefore, the hypothesis (Ha₂) is not accepted. This shows that foreign ownership has no effect on tax avoidance. According to the test results, the significance value of the leverage variable is 0.946. The leverage variable has a significance value greater than 0.05, therefore, the hypothesis (Ha₃) is not accepted. This shows that leverage has no effect on tax avoidance.

According to the test results, the significance value of the company size variable is 0.394. The company size variable has a significance value greater than 0.05, therefore, the hypothesis (Ha₄) is not accepted. This shows that company size has no effect on tax avoidance.

According to the test results, the significance value of the audit committee variable is 0.607. The audit committee variable has a significance value greater than 0.05, therefore, the hypothesis (Ha₅) is not accepted. This shows that the committee of audit has no effect on tax avoidance.

According to the test results, the significance value of the company risk variable is 0.004. The company risk variable has a significance value of less than 0.05, therefore, the hypothesis (Ha₆) is accepted. A coefficient value of 0.053 means that the effect of company risk on tax avoidance is positive. This means that high corporate risk has a negative impact on company performance because a higher debt level means that interest expenses will increase more, which means reducing profits.

According to the test results, the significance value of the profitability variable is 0.094. The profitability variable has a significance value greater than 0.05, therefore, the hypothesis (Ha₇) is not accepted. This shows that profitability has no effect on tax avoidance.

CONCLUSION

According to the results of this study, it can be concluded that the foreign board of commissioners has a positive effect on tax avoidance. Company risk has a negative effect on tax avoidance. Meanwhile, foreign ownership, leverage, company size, audit committee, and profitability have no effect on tax avoidance.

This study has several limitations that need to be considered and considered for future researchers. The limitations are as follows: (1) the residual data in this study are not normally distributed, and (2) this study has heteroscedasticity problems.

According to the limitations previously described, recommendations that can be considered to overcome the problem of normality of residual data and heteroscedasticity are to increase the number of samples by extending the research period, adding industries, and transforming the data.

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