Aggressive Tax Avoidance Determinant Factors of Cg Rankings 100 Public Companies by Indonesian Institute for Corporate Directorship

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Abstract

This research aims to obtain empirical evidence of whether there is influence family ownership, foreign ownership, corporate governance, permanent different and temporary different of aggressive tax avoidance. Research data are secondary data form of financial statements information 100 CG rankings of public companies by Indonesian Institute for Corporate Directorship. period 2013 – 2016. The results of this study concluded that foreign, family ownership, and permanent different negatively influence toward, aggressive tax avoidance, but corporate governance and temporary different no influence toward aggressive tax avoidance. The results of this research at showed from Sig value of foreign ownership 0.014 less than 0.05, family ownership 0.22 less than 0.05, permanent different 0.60 less than 0.10. But sig value of corporate governance 0.405 more than 0.05 and temporary different 0.289 more than 0.05.

Keywords: Book Tax Difference, Aggressive Tax Avoidance, Ownership Structure, Permanent Different, Temporary Different

1. INTRODUCTION

The income taxes deposited by the company to the state is a transfer of assets from the company (especially the owners) to the state, so that the payment of income tax is a burden for the company and the owner of the company. This causes the company owners to prefer the company's management to take Aggressive Tax Avoidance (Chen et al., 2010).

Aggressive Tax Avoidance is defined as a management action to minimize income tax through tax planning activities (Richardson.et.al. 2013; Frank.et.al 2009; Chen.et.al, 2010; Lanis and Richardson, 2012; Hanlon and Slemrod, 2009). Therefore, Aggressive Tax Avoidance includes legal tax planning activities and those approaching gray areas, as well as illegal activities (Richardson et al., 2013).

Aggressive tax avoidance practices are still in the gray area, making it choice of interesting and challenging strategies taken by management. There are several motives in the practice of aggressive tax avoidance, one of which is to improve profitability through the reduction of income tax expense. However, not all companies dare to take this strategy. Some of the reasons are the risks to of being fined significant sanctions or expense, charges associated with imaging companies that are always doing business ethically, always upholding good corporate governance, and still assume aggressive tax avoidance is the same as tax evasion. Although not all actions that are done violate the tax law, but the more gaps used by the company, the move it considered aggressive tax avoidance.

Shackelford and Shevlin (2001) called for the investigation of ownership structure as likely determinant of corporate tax avoidance given its importance in the corporate setting. The research by Landry, Deslandes, and Fortin (2013) documented negative relationships between family ownership and corporate tax avoidance in US and Canada, respectively.

Bradshaw et al. (2014) demonstrated shareholders benefited from tax evasion. The results indicated that foreign investment reduces tax evasion in firms. The less income taxes rate is the less tax evasion occurs. In addition, the government makes tax decisions to control shareholders and tax is considered as a cost for them. Equally, findings are conformed to the impact of the ownership structure on tax evasion. Jian et al (2012) found a meaningful relationship between tax evasion and foreign investment.

Corporate governance can influence the decision making of company taxation is the principle of openness and transparency. With the information disclosure, then expected the company would likely act taxation that are not at risk. The principle of disclosure and transparency of information can also reduce problems that arise between company owners and managers. With good corporate governance the public can judge whether the company is obedient in paying taxes or not, and whether the company is also making tax deviations or not. In this study the assessment of good corporate governance was carried out by the Indonesian Institute for Corporate Directorship, (IICD), which is a corporate governance assessment institution that uses the ASEAN Corporate Governance Scorecard reference in assessing CG practices of public companies in Indonesia.

Temporary book tax difference describes the part that will increase or reduce taxes in the future. To calculate it, differed tax expenses data are obtained from the data stream of BTB temp value, then divided by total assets (Hanlon, 2009).

Permanent book tax difference can be calculated by subtracting the temporary different portion from the totally different.

Research on book tax different (BTD) by Blaylock, concluded that book tax different (BTD) caused by three factors, namely earnings management, tax planning strategies, and the difference is normal due to the difference in treatment is the recognition of the burden and revenue according to accounting and taxes (Blaylock, Shevlin, & Wilson, 2012). The third of these factors, the normal difference can be a tool to predict the onset of tax evasion. Whereas factor earnings management and tax planning strategies are more likely to act of opportunistic companies that can give rise to asymmetry of information of financial statements.

This research is expected to benefit the development of science in the research of the theory of agency that is the influence of family and foreign ownership structure, corporate governance, and the impact of actions on BTD aggressive tax avoidance. In addition it is expected to provide input for the Direktorat Jenderal Pajak (DJP) that difference in accounting profit and tax profit can be gap in doing tax evasion, so it can be used as one of the aspects in measuring the level of taxpayer compliance.

2. RESEARCH METHODOLOGY

Data Source

Samples in this research are entire public companies which are classified in 100 CG rangkings of public companies by Indonesian Institute for Corporate Directorship. period 2013 – 2016. Index data of Corporate Governance is sourced from Research Report on Indonesian Corporate Governance Scorecard (IICD), (2013-2016), financial data of companies is obtained from BEI website, www.idx.co.id, price of stock is obtained from OSIRIS data center, and corporate ownership data is gathered from ICMD.

Population and Sampling

The population in this research is 100 CG rankings public companies by Indonesian Institute for Corporate Directorship in 2013-2016. The sample is part of a specific population of concern in research. The selection of the sample using the method of Purposive sampling so that a representative sample is obtained in accordance with specified criteria. Sample selection is shown in Table 1.

Table 1 Sample selection

100 CG rankings public companies by IICD period 2013 -2016	100
The companies have foreign and family ownership	51
Amount of research data period 2013 - 2016	204
Amount of research data have permanent and temporary data	108
Normality of data with case wise diagnostics	4
Amount of research data	102

3. FINDINGS

3.1 Adjusted R Square Test

Tabel 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.372[a]	.139	.094	.4086943365

a. Predictors: (Constant), BT, FOR, BP, CG, FAM

The value of adjusted R Square of 0.094 This means that the variability of the independent variable can be explained by the variability of independent of 9.4% and 90.6% is affected by other variables not examined. The results of the adjusted R square test are shown in the Table 2.

3.2 F Test

Tabel 3. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.582	5	.516	3.091	.012[b]
	Residual	16.035	96	.167		
	Total	18.617	101			

a. Dependent Variable: BTD
b. Predictors: (Constant), BT, FOR, BP, CG, FAM

The results of statistical tests ANOVA be aware that the value of significant value of 0.012. Where is 0.012 more less than 0.05 so that it can be inferred that the model can be accepted. This means the regression model is worthy of further analysis was used to the results of the F test are shown in the table 3.

3.3 T Test

Tabel 4. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.217	.254		.854	.395
	FOR	-.005	.002	-.282	-2.496	.014
	FAM	-.004	.002	-.283	-2.324	.022
	CG	.002	.003	.087	.837	.405
	BP	-2.278	1.199	-.181	-1.900	.060
	BT	4.141	3.883	.103	1.067	.289

a. Dependent Variable: BTD

$$BTD \quad = 0.217 - 0.005Foreign - 0.004Fam + 0.002CG - 2.278BP + 4.141BT + \mathcal{E}_i$$

The results of this study concluded that foreign, family ownership, and permanent different negative significance influence toward, aggressive tax avoidance. The results of this research at showed from Sig value of foreign ownership 0.014 less than 0.05, family ownership 0.22 less than 0.05, permanent different 0.60 less than 0.10. Ccorporate governance and temporary different not significance influence toward aggressive tax avoidance. The results of this research at showed from sig value of corporate governance 0.405 more than 0.05 and temporary different 0.289 more than 0.05. The results of the F test are shown in the table 4.

4. CONCLUSION

Foreign ownership has a significant negative effect on Book Tax Different (BTD). Book Tax Different is a proxy of tax avoidance, which is calculated from the difference between accounting profit and fiscal profit. The higher the foreign ownership, the lower the value of BTD, which means the lower accounting profit against fiscal profit so that the lower BTD value shows that tax avoidance does not occur. This shows that companies whose shares are widely owned by foreigners maintain the reputation of the state and its central companies. Foreign ownership is also expected to encourage companies to implement high corporate governance standards and protection for better minority shareholders (Khanna and Palepu, 2000)

Family ownership has a significant negative effect on Book Tax Different (BTD). Book Tax Different is a proxy of Tax Avoidance, which is calculated from the difference between accounting profit and fiscal profit. The higher the family ownership, the lower the value of BTD, which means the lower accounting profit against fiscal profit so that the lower BTD value indicates that Tax Avoidance does not occur. This shows that family businesses assess the benefits of tax savings obtained from tax avoidance are greater than the potential costs of tax avoidance. The results of this study support the research of Chen et al (2010) which states that the level of tax aggressiveness in family companies is lower than non-family companies.

CG Index which is a proxy of corporate governance does not affect Tax Avoidance. Whatever the CG index value will not affect companies that do Tax Avoidance. The companies included in the CG Index are companies that have been rated well by ASEAN-level assessment institutions namely the Indonesian Institute for Corporate Directorship (IICD). Corporate governance has been used as a tool by the government to combat tax avoidance efforts undertaken by companies (Schon,2008) .In Indonesia, the Minister of Finance Regulation No. 43 / PMK.03 / 2008 (DJP 2008) states that taxpayers who will make an initial offer must include the book value of the company. This is a principle of corporate governance in regulating taxation decisions, namely the principle of openness and transparency. So, avoidance of taxes can be suppressed. Because the company used as a sample is a company included in the CG Score Index, then the practice of corporate governance is a must, so it does not affect tax avoidance.

Permanent differences are the absolute differences exist because taxation set there should be permanent differences and the differences will only affect the amount of the profit period runs. So that it becomes the cause of permanent differences do not influence the profit of a period in the future. Therefore, permanent differences do not require allocation of taxes. The results of the research showed the higher permanent difference then it will the lower taxes evasion. Permanent differences arising as a result of fixed differences occur because of transactions revenue and costs are recognized according to the fiscal and accounting not recognised according to commercial Permanent differences resulted in profit (loss) net according to different accounting (fixed) and earnings (earnings) taxable according to the fiscal.

Temporary differences as the shaper book tax differences cause the fiscal correction of both positive and negative. Positive corrections cause a fiscal profit increase. If fiscal profit increases, then the tax burden tax payable will be even greater. The greater burden of taxes payable then the smaller the net income generated (Rosanti, 2013). Negative correction caused a fiscal profit is reduced so that the burden of the tax to be paid is getting smaller. The tax burden is getting smaller to make net profit becomes increasingly large. Therefore, temporary differences effect with profit growth. This difference is temporary because it will be closed in the period there after.

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