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Research Paper

Tax Avoidance: Evidence of As a Proof of Agency Theory and Tax Planning

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ABSTRACT

Legal tax planning is mostly done by the company with the aim of reducing the amount of tax paid to the government. The results show that the company tax avoidance in various ways such as increasing the number of fixed assets, increasing the amount of debt, reported losses to get fiscal loss compensation, and conduct earnings reporting management. Tax avoidance in its application to agency theory where there is a conflict of interest between managers as executors and investors. From the results of the research shows, that managers try to reduce the amount of tax paid officially so that the amount of tax paid is also small. The importance of knowledge about the recognition of accounting methods and the assessment of debt assets and income provides an opportunity for managers to reduce the amount of tax paid without violating the applicable rules. Therefore, the need for supervision from the government in making the reporting regulation of financial statements to minimize the practice of tax avoidance in the company.

Keywords: Tax Avoidance, Tax Planning, Agency Theory

INTRODUCTION

The company's goals are to maximize profits that ultimately prosper the company owner. In maximizing profit, there are constraints faced by the company that is the expense paid by the company, especially taxes to the government that impact on profits earned by the company. Therefore, companies are looking for ways to make taxes paid less both legally and illegally. As in the case of Panama Papers in 2017 where world public officials, politicians, and upper middle class hide wealth in the tax haven country that has a low tax rate. This affects the state of the taxpayer whose tax revenue is reduced. The concept of tax reduction is divided into two, namely tax avoidance and tax evasion where tax evasion is a tax deduction that is done legally while tax evasion is done illegally.

One side, the government needs taxes as a financing to build the country. In this case, the government established a body / institution that functions to collect taxes from individuals and business entities. According to Kirchler (2007) the government and tax authorities need to continue to be nurtured through the establishment of a fair, credible, accountable and equitable income tax revenue body that aims to ensure the country's development is achieved. From the above, there are two contradictory things where the company tries to reduce the amount of taxes paid while the government maximizes the amount of tax revenue received by the taxpayer. Based on the target achievement of tax revenue, until September 2017 this new tax revenue reached Rp. 770.7 trillion or decreased by 2.79 percent on an annual basis compared to last year (According to the Directorate General of Taxation (DJP) of the Ministry of Finance).

In the case of tax avoidance, firms usually use asset, liability, or equity valuation methods aimed at reducing the amount of tax paid which is legal. As for tax evasion, the company does not publicly report on the wealth and income it earns. In addition, the existence of negative sentiment in the use of taxes made the government to make companies reluctant to pay taxes. As the study by Akinyomi and Okpala (2013) suggests that low quality of services leads to high levels of tax avoidance and tax evasion in Nigeria, as well as a system of taxes and perceptions of justice, transparency and accountability of low public institutions, and high levels of corruption leads companies to avoid and tax evasion so as to recommend to address these issues need to be improved on transparency, accountability and the fight against corruption. Research conducted by Mughal and Akram (2012) shows the reasons why taxpayers make tax evasion and embezzlement. As for the first reasons the lack of socialization of taxes to the public, the lack of tax incentives provided, poor relationships between taxpayers and institutions, tax proliferation, and lack of understanding in tax calculations.

On the one hand, tax evasion and embezzlement are also part of "creative accounting". This statement is supported by Amat, O and Growthorpe, C (2010), Niskanen and Keloharju (2000), Hermann and Inoue (1996), Balaciu and Pop (2008) because it ultimately affects corporate earnings and this occurs in countries such as Finland, Japan, Bangladesh, and other countries. This research looks at how tax planning is done by manufacturing companies in Indonesia. Tax planning here by treating financial statements by not breaking the rules but can reduce the amount of tax paid. Viewpoints are taken in this study by looking at valuations of financial statements such as capital intensity, leverage, fiscal loss compensation, and profitability.

LITERATURE REVIEW

In tax planning, there are different terms of tax avoidance and tax evasion. Both wives are equally explaining the tax planning of the company with the aim of reducing the amount of tax paid. The only difference lies in its legality where tax evasion does not conflict with taxation rules while tax evasion is an attempt to reduce taxes by violating tax laws. Research on tax avoidance is an interesting study for some researchers such as Mills, 1998; Graham and Tucker, 2006; Wilson, 2009; Lisowsky, 2010; Brown, 2011; and Brown and Drake, 2014. The interest is due to the gray position there is tax uncertainty paid due to the reduced tax amount.

Tax evasion is an attempt to reduce the amount of tax paid without violating existing laws (Mardiasmo, 2009). Supported also by Utami (2003) stating that tax evasion is a transaction chaff that aims to minimize the amount of tax paid by exploiting the weaknesses of existing taxation units in a country so it is declared legal. In contrast to tax evasion where according to Richardson (2008) tax evasion is a deliberate illegal behavior or activity that involves a direct violation of the tax regulation so that the amount of tax paid becomes small. This also is supported by Kim (2008) and Sandmo (2004) also explains that tax evasion is reducing the amount of tax to be paid by reducing the tax burden through legislative opportunities.

Tax evasion is at least related to human behavior (Lefebvre et al, 2011). Because, business people or individuals are reluctant to pay taxes to the government in relation to the reduction in the amount of income received. Lefebvre et al (2011) also explained that the people in the Netherlands and France are doing more tax evasion, while tax evasion is mostly done in Flemish, Walloons.

The main object of tax avoidance is income where the amount paid should be lower. Some evidence suggests that income is related to tax avoidance practices (John & Slemrod, (2008) Alm & McKee (1992)). Other researchers also explain that there is a relationship between the amount of income earned by the amount of tax paid (Nor Ghani et al., 2012). So it can be seen that the higher the amount of income a person then the higher also to conduct tax avoidance practices.

Some researchers try to examine what factors affect a person in tax avoidance. The factors that influence tax avoidance practices such as transfer of wealth to other countries (Gupta and Mills, 2002; Dyreng and Lindsey, 2009; Dyreng, Lindsey, and Thornock, 2013), hold government bonds (Erickson, Goolsbee, and Maydew, 2003) , engaging in tax shelters (Graham and Tucker, 2006; Wilson, 2009; Lisowsky, 2010), increasing net operating losses (Erickson, Heitzman, and Zhang, 2013), and engaging in complex financial arrangements (Engel, Erickson, and Maydew, 1999). In addition, firm size (Rego, 2003), political sensitivity (Mills, Nutter, and Schwab, 2013), ownership structures (Chen, Chen, Chen, and Shevlin, 2010; Badertscher, Katz, and Rego, 2013) managerial and incentives (Desai and Dharmapala, 2006; Dyreng, Hanlon, and Maydew, 2010; Robinson, Sikes, and Weaver, 2010; capital intensity, leverage, profitability (Kim and Im, (2017), Wiguna and Teak (2017), Fiscal Loss Compensation (Kurniasih and Sari (2013)) .This study looks from the point of view of tax planning made by the company from the financial side where aspects seen are capital intensity, leverage, fiscal loss compensation and profitability..

MATERIALS & METHODS

This research is to explore tax planning conducted by company to industrial company in Indonesia. The tax planning is done on the measurement and assessment of each part of the financial report. The main focus of this research is on the factors of capital intensity, leverage, fiscal loss compensation and profitability. The population in this study is a manufacturing company listed on the Indonesia Stock Exchange amounted to 143 companies. The samples were chosen by using purposive sampling method to obtain 100 samples. The research data is obtained from the audited financial statements and published on the Indonesia Stock Exchange. Hypothesis testing using multiple linear regression. Before hypothesis testing is done descriptive statistics that explain the description of factors affecting tax avoidance practices in the company.

RESULT

Tax Avoidance

Figure 1 below shows a description of tax avoidance practices in the sample company. Tax avoidance is measured by ETR where the ratio between tax expense and income before income tax (Mills et al. (1998), Rego (2003), and Dyreng et al. (2008)). In Indonesia, the income tax expense is calculated from 25% of total income before tax. If the comparison yields a value below 0.25 then it is possible for the company to practice tax evasion. Below is an overview of tax evasion in manufacturing companies at Indonesia Stock Exchange.

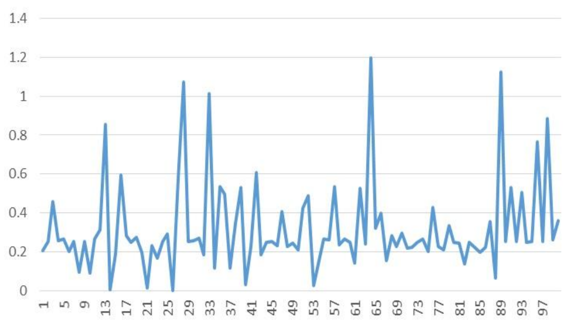

Figure 1. Tax Avoidance Practice

From Figure 1 above it appears that many companies pay taxes below 25% of the established tax rate. So it is possible for these companies to practice tax avoidance

Capital Intensity

Capital intensity shows the composition of assets that will impact the effective tax rate, especially fixed assets that will impact tax deductions from the resulting depreciation expense (Delgado et al, 2014). Besides, according to Kraft (2014) that with companies planning capital intensity, companies will have greater opportunity in tax planning and tax avoidance strategies. Here is a description of the capital intensity contained in the sample company.

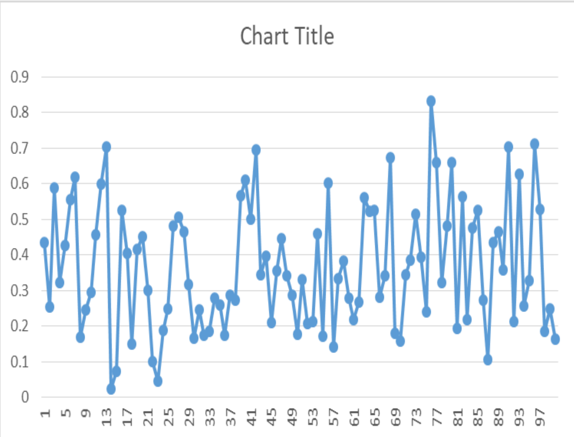

Figure 2. ***Capital Intensity***

In Figure 2 it can be seen that nearly 50% of companies invest their capital in fixed assets. So that in the end will have an impact on the amount of depreciation expense on the company which ultimately reduce the amount of tax paid.

Leverage

Leverage is the amount of debt the company has to finance the investments and assets normally measured by total debt divided by total equity or debt divided by assets (Godfrey, et al, (2010), Kurniasih and Sari (2013), Brigham and Houston (2010)) . The higher this ratio shows the greater the amount of debt the company will ultimately impact on the amount of interest paid. The greater the interest expense paid, the smaller the income earned which ultimately affects the tax paid. The description of the leverage of the sample company is in the following figure:

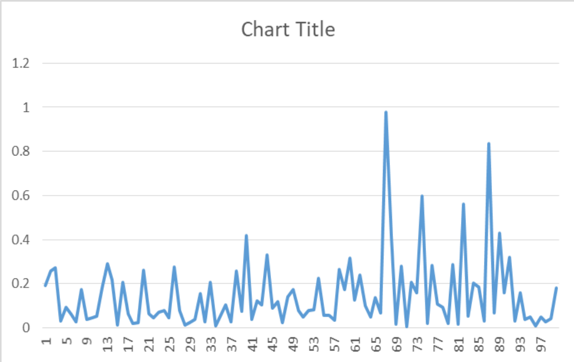

Figure 3 Leverage

In Figure 3 above, the sample company lacks long-term debt in financing its assets or investment. The company reduces the amount of risk generated against the debt in the long term so that the company reduces the use of long-term debt in finance its assets and investments.

Fiscal Loss Compensation

Compensation of fiscal losses shows the compensation given by the government to the company due to loss in one accounting period (UU No. 36 Year 2008). Fiscal loss compensation is measured by dummy variable where if there is fiscal loss compensation it is given a value whereas if not then it is given a value of 0 (Sari & Martani, 2010).

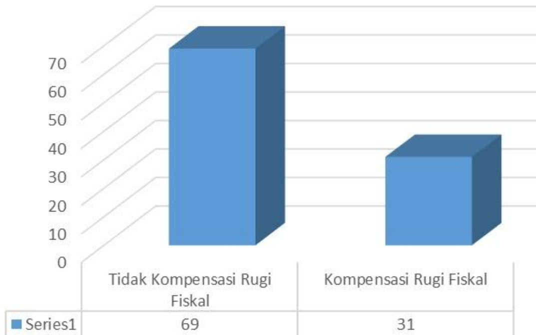

Figure 4 Fiscal Loss Compensation

Based on the picture above it appears that the government's fiscal loss compensation against manufacturing companies amounted to only 31 companies. Pursuant to UU No. 36 of 2008 that the company obtaining fiscal losses due to loss loss during one accounting period so that given the relief in paying taxes.

Profitability

Profitability demonstrates a company's ability to generate profits and is an indicator of corporate success (Cashmere, 2008). This ratio is measured by the ratio of net income to total assets owned (Kabajeh et al., 2012; Zarai, 2013; Damayanti & Susanto, 2015; Rizal, 2016).

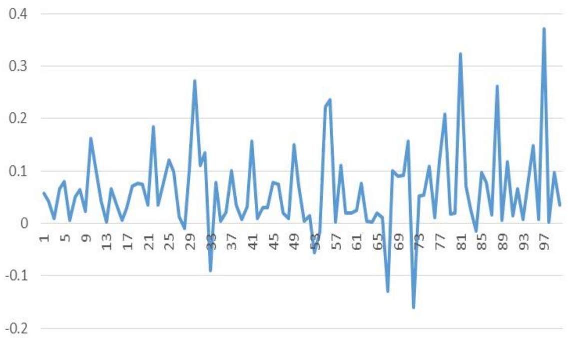

Figure 5 Profitability

In figure 5 can be seen the level of profitability of the sample company. Profitability here is not only measured on companies that earn profits but also companies that gain a loss. With the company getting a loss it is possible that there will be fiscal loss compensation.

Hypothesis testing

Hypothesis testing is using by multiple linear regression. The results of hypothesis testing can be seen as follows:

Table 1 Hypothesis Test

Coefficients[a]			
Independent Variable	Unstandardized Coefficients	t	Sig.
Capital Intensity	.271	2.266	.026
Leverage	-.046	-2.211	.029
Fiscal Loss Compensation	.117	2.597	.011
Profitability	-.907	-3.380	.001

Based on table 1 above that capital intensity, leverage, fiscal loss compensation, and profitability have a significant effect on tax evasion practices.
Source: Data Process

DISCUSSION

This study examines the practice of agency theory and tax planning by a firm for tax avoidance practices. The agency theory indicates an interest between the owner of the company and the manager where the company owner wants a return on his or her capital investment while the manager wants the bonus given by the company (Jensen and Meckling, 1976). Therefore, in the practice of this agency theory the owner asks the manager to minimize the amount of profit paid to the state in the form of taxes. In practice the agency theory, managers will look for ways to use techniques and methods of valuation of assets, liabilities, capital, income, and expenses not inconsistent with government regulations relating to taxation.

In the implementation, managers conduct tax planning where makes tax payment savings by not violating existing taxation regulations. This tax planning is a follow-up action of agency theory practice whereby managers are required by the owner to legally evade taxes so that in the end the amount of net profit paid into taxes is not too large by promising bonuses to be given to managers if returns gained to the large owner.

Based on the results of this study indicates that managers practice tax evasion tax planning by taking advantage of regulatory clearance set by the government and compensation for tax losses. The regulatory leniency in the form of the use of depreciation method, the amount of debt, and recognition of income Noor et al. (2010), Richardson et al. (2016), Ozy (2001), Choi (2003), Mulyani (2013), Kraft (2014), Delgado et al. (2014), and Rizal (2016), while the compensation provided by the government in the form of fiscal loss compensation loss in a tax year compensated in the following year (Kurniasi, 2013).

Companies use their capital to invest in large amounts of fixed assets. Thus, the depreciation expense will affect the amount of reported income. With the reduced amount of revenue received by the company due to the large amount of depreciation expense in the end affect the amount of taxes paid company to the state. (Titman & Wessls, 1988; Chang, 2009; Wald (1999).

In addition, the results of this study also indicate a large amount of debt in the company indicates that the company is conducting tax avoidance practices. The existence of debt will cause the emergence of interest expense that will affect the net income before tax. The greater the amount of interest expense due to the large amount of debt that causes the amount of income before tax will decrease. The impact caused the amount of taxes paid also getting smaller as well. The research conducted by Supramono (2012) explains that debt is used by companies to minimize the tax burden by utilizing the applicable tax laws. This shows a negative influence which means that the firm is willing to pay the price of the long term debt be faced by the company.

Other tax avoidance practices by companies are by utilizing the compensation given by the government against the company due to the losses suffered. By reporting the company incurs losses then the government will compensate the reduction of the amount of tax paid in the next year. This is an opportunity for companies to reduce the amount of tax paid. The results of this study indicate that the existence of the fiscal loss compensation provided by the government through a reduction in the amount of tax paid, used by the company as an attempt to avoid tax practices. But the results of this study contradict the research conducted by Waluyo et al (2015) which shows no significant effect on tax avoidance practices. In the end, in general, the theory of agency within a company is very frequent and one of the efforts to do that is by tax planning where the company uses the method of valuation and recognition of assets, liabilities, capital, income, and expenses aimed at reducing the amount of tax paid without violating regulations set by the government.

CONCLUSION

Conclusion in this research is company still doing tax avoidance practice through tax planning which done by using method and valuation in financial report through regulation gap issued by company. This study shows factors that influence tax avoidance practices such as capital intensity, leverage, fiscal loss compensation and profitability. The importance of renewal of government taxation regulation will reduce the space for companies to do tax planning to reduce the amount of tax paid.

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