

Tax Avoidance : A Policy of a Company

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Abstract - This research has purpose to find out the effect of leverage, return on asset, size of a company, institutional ownership, fiscal disadvantage compensation, multinational company, diversification company toward Tax avoidance of real estate enterprise enlisted in Indonesia stock exchange (BEI). The population consists of real estate enterprises with number 48 enterprises and are enlisted in BEI since 2012-2016 with number 22 enterprises selected using purposive sampling. The findings of hypothesis testing show: return on asset influencing negatively toward Tax avoidance. Leverage, size of company, institutional ownership, fiscal disadvantage compensation, multinational company, and diversification of company do not influence toward Tax avoidance.

Keywords: Leverage; Return on Asset; Size of Company; Institutional compensation; Fiscal Disadvantage Compensation; Multinational Company; Diversification of Company; Tax avoidance

1. INTRODUCTION

Tax has important roles in developing a certain nation and in this case, Indonesia, as a developing country with the hugest income from tax sector. The purpose of tax of a country is to increase incomes, meaning it will be used to support every need of governing. According to Yulianti and Lutfi (2018:1)[11] tax is a strategic and reliable source of a country's income. Therefore, a country will always struggle to optimize incomes in tax sector.

Tax is always assumed as burden hindering an enterprise's development. Currently, in competitive context nationally and internationally, tax has important roles to decide strategic decision of an enterprise, especially in allocating and investing, and it is the main key factor for competitive power in competitive environment (Anouar and Houria, 2017: 57). Tax avoidance as an activity by considering law and economy aspects in which do not breach tax rules so the activity is legal.

Tax avoidance is a complex problem because it is actually not wanted by government but in another side is preferred by an enterprise. An enterprise in fulfilling its duty of paying tax has some factors influence it, such as: leverage, return on asset, size of the enterprise, institutional ownership, fiscal disadvantage compensation, multinational company, and diversification of company.

This research is about Tax avoidance has been done by some previous studies. Findings from Waluyo et al (2015)[10] state *return on asset* influences positively and significantly toward tax avoidance. Meanwhile, research by Anouar and Houria (2017) states *return on asset* does not influence tax avoidance. Study by Anouar and Houria (2017), Waluyo (2015)[10] state *leverage* positively and significantly toward tax avoidance. Findings from

Waluyo et al (2015)[10] states the size of an enterprise influences significantly and positively toward Tax avoidance. Meanwhile, study done by Anouar and Houria (2017) states the size of an enterprise does not influence Tax avoidance. Study by Waluyo et al (2016) states fiscal disadvantage compensation does not influence Tax avoidance. The next study, by Annur et al (2014) states institutional ownership influences Tax avoidance. Meanwhile, Jameri Reza (2017)[7], and Waluyo et al (2015)[10] states institutional ownership does not influence tax avoidance.

Findings by Anouar and Houria (2017) state *multinational company* positively and significantly influences Tax avoidance. Research by Suyan Zheng (2017)[12] states *diversification of company* positively and significantly influences Tax avoidance.

This study is a development done by Waluyo et al (2015)[10]. There are differences in this research compared to the previous ones that is in independent variable. The independent of the previous studies are *return on asset*, *leverage*, institutional ownership, fiscal disadvantage compensation, and institutional ownership. Meanwhile this research adds two more variables: *multinational* and *diversification of company*. The previous studies using samples on manufacturing enterprises enlisted in Indonesia stock exchange (BEI) 2010 – 2013 but this research using *real estate* enlisted in BEI from 2012 – 2016.

2. REVIEW OF RELATED STUDY AND HYPOTHESIS DEVELOPMENT

2.1 Agency Theory

It describes an enterprise as a crossing spot between management as *agent* and enterprise owner as the *principal*. According to Jensen and Meckling (1976) in

Hidayati and Fidiana (2017:1054) *agency theory* is a correlation emerging due to contract between principal and agency parties. The investor is principal party of the enterprise investing asset to the enterprise meanwhile management party is as manager of the enterprise as agency party.

3. TAX AVOIDANCE

Tax avoidance is an effort to decrease tax loan lawfully meanwhile tax evasion is an effort to decrease tax loan unlawfully (Xynas, 2011) in Eksandy, 2017: 1). Tax avoidance is done by breaching rules of tax by maximizing the weaknesses of the rules to decrease tax loan legally (Yulianti and Lutfi, 2018:19)[11].

4. HYPOTHESIS DEVELOPMENT

4.1 The influence of Return on Asset toward Tax Avoidance

Return on Asset describes the effectiveness of an enterprise in earning benefits by managing its asset. According to Anouar and Houria (2017:59), an enterprise with high profits is highly possible involved in tax avoidance practices to decrease their tax liability. Therefore, the higher *return on asset* will cause higher profits of the enterprise and asset management will also increase and also the enterprise also has to do efficiency in paying tax through tax avoidance. Findings from Waluyo et al (2015)[10] states *return on asset* influences tax avoidance. Meanwhile, Anouar and Houria (2017) states *return on asset* does not influence tax avoidance. According to the statements and the findings, it can be hypothesized:

H1: *Return on Asset* influences Tax avoidance.

4.2 The Influence of Leverage toward Tax avoidance

Leverage is a ratio showing how effective an operation is – funded by loan. An enterprise with operational activities from higher loan will have lower effective tax level because this enterprise using interest to decrease the amount of loan. Study done by Anouar and Houria (2017) and Waluyo et al (2015)[10] state *leverage* influences tax avoidance. Based on the statements and findings, it can be hypothesized:

H2: *Leverage* influences toward Tax avoidance.

4.3 The Influences of Size of the Enterprise toward Tax Avoidance

The size of enterprise is a scale describing the amount of enterprise by referring the numbers of selling, active total, average of selling, and average of active (Puspita and Febrianti, 2017:40). Large enterprise involved in commercial activities and with fewer financial transaction will have significant opportunity to significantly decrease tax of the company (Anouar and Houria, 2017:58). By greater incomes, an enterprise will have opportunity to decide tax avoidance. A study done by Waluyo et al (2015)[10] states the size of an enterprise influences tax

avoidance. Meanwhile, a study by Anouar and Houria (2017) states it does not influence tax avoidance. According to the statements and findings, it can be hypothesized:

H3: The Size of an Enterprise Influences Tax avoidance.

4.4 The Influences of Fiscal Disadvantage Compensation toward Tax avoidance

According to Rules Number 36. Year 2009. Article 6, chapter 2 about income tax that an enterprise in which has been in disadvantage in one accounting period will be given remission to pay the tax. The disadvantage can be compensated for the next five years and the profits gained by the enterprise can be used to decrease the number of disadvantage compensation (Fadila, 2017:1673). Fiscal disadvantage compensation can be used by the enterprise as tax avoidance because those companies with compensations will be free from higher tax burden. The findings from Waluyo et al (2015)[10] states the compensation of fiscal disadvantage does not influence tax avoidance. Based on the statement and findings, it can be hypothesized:

H4: Fiscal disadvantage compensation influence toward Tax avoidance.

4.5 The Influences of Institutional Ownership toward Tax avoidance

Institutional ownership is stock ownership owned by an institution outside of an enterprise such as financial institution, law institution, foreign institution, government and other institutions. The more institutional ownership, it will make controlling power and supervision done by externals toward an enterprise. IT will decrease tax avoidance. Study by Jamei Reza (2017)[7] and Waluyo et al (2015)[10] state institutional ownership does not influence tax avoidance. Based on the statements and findings, it can be hypothesized:

H5 : Institutional ownership influences Tax avoidance.

4.6 The Influences of Multinational Company toward Tax avoidance

Multinational Company is an enterprise operating in many countries, having offices or branch offices, and factories in many countries. Multinational company usually has a central office to coordinate the management of the offices across countries. According to Anouar and Houria (2017: 59), multinational company always struggles to optimize its tax management through effective tax plan from all branch of group companies. An enterprise with foreign profit from its branches will have more opportunities to involve in tax avoidance. Study by Anouar and Houria (2017) states multinational company has positive impact toward tax avoidance. Based on the explanation and the findings, it can be hypothesized:

H6: *Multinational Company* influences Tax avoidance.

4.7 The Influences of Diversification Company toward Tax avoidance

Diversification company is an effort to find out or create new product or market with purpose to pursue

development, sale growth, profitability, and flexibility of the enterprise. According to Suyan Zheng (2017:2)[12] verified enterprise can have opportunity to transfer price into some different segments and business areas. Therefore, by involving the enterprise can involve in tax avoidance practice. A study done by Suyan Zheng (2017)[12] states *diversification of company* positively influences tax avoidance. Based on the explanations and findings, it can be hypothesized:
H7: *Diversification of Company* influences toward Tax avoidance.

5. METHODOLOGY

5.1 Population and Samples

Real Estate enterprises enlisted in Indonesia stock exchange (BEI) are the population. This research to select the samples uses *purposive sampling* with some criteria. At the beginning, there were 48 enterprises enlisted in BEI for 2012 until 2016 period. Then the samples are reduced into 22 after being disqualified because they do not fit to the criteria.

5.2 Types of the Data

The data types used in this research are secondary data with qualitative method referring to information gained from existed sources. The data used is financial report of Real Estate enterprises enlisted in BEI from 2012 – 2016.

5.3 Method of Analyzing the Data

Data analysis is done using multiple linear analysis. According to Ghozali (2013: 57)[6], the analysis is used

to test two or more variable way impacts toward an independent variable and is stated in this equation:
$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + e$$

Notes :

Y = Score of the enterprise

α = Constanta

b1, b2, b3, b4, b5, b6, b7 = Regression Coefficient

X1 = *Return on Asset*

X2 = *Leverage*

X3 = *Size of the Company*

X4 = *Fiscal disadvantage compensation*

X5 = *Institutional Ownership*

X6 = *Multinational Company*

X7 = *Diversification of Company*

E = Error

6. FINDINGS AND DISCUSSION

6.1 Multiple Linear Regression

The analysis is used to test the impacts of two or more independent variables toward one dependent variable (Ghozali, 2013:57)[6]. In this research, it analyzes the influences of *return on asset*, *leverage*, size of the Enterprise, fiscal disadvantage compensation, institutional ownership, and *sales growth* toward Tax avoidance in 2012 – 2016 period of the Real Estate enterprises in which the equations are shown below:

Table 1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.177	.221		.800	.426		
	ROA	-.617	.227	-.269	-2.721	.008	.893	1.120
	DER	.188	.120	.221	1.568	.120	.439	2.279
	SIZE	-.001	.005	-.023	-.174	.862	.504	1.984
	KOMPENSASI RUGI FISKAL	-.035	.033	-.102	-1.058	.293	.942	1.061
	KEPEMILIKAN INSTITUSIONAL	.066	.097	.108	.673	.503	.335	2.981
	MULTINASIONAL COMPANY	.022	.030	.083	.754	.453	.720	1.389
	DIVERSIFIKASI PERUSAHAAN	-.062	.050	-.121	-1.230	.222	.899	1.112

a. Dependent Variable: CETR

Based on the data, the regression equation is:

$$Y = -0,269X_1 + 0,221X_2 - 0,023X_3 - 0,102X_4 + 0,108X_5 + 0,083X_6 - 0,121X_7 + e$$

It can be concluded that:

- 1) The coefficient of *Return on Asset* (ROA) is 0.269, states that by assuming the other variables' emptiness, ROA will increase and tax avoidance tend to decrease.
- 2) The regression coefficient of *leverage* (DER) is 0,221 states that by assuming the other variables' emptiness, DER will increase and tax avoidance tend to increase.
- 3) The coefficient of size of the enterprise (*SIZE*) is -0.023, states by assuming the others' variable emptiness, when the *SIZE* is higher, tax avoidance will tend to decrease.
- 4) The coefficient of fiscal disadvantage compensation is -0.102, stating by assuming the other variables' emptiness, when fiscal disadvantage compensation increases, tax avoidance will tend to decrease.
- 5) The coefficient of institutional ownership is 0.018, stating that by assuming the other variables' emptiness, when institutional ownership increases,

tax avoidance will tend to increase.

- 6) The coefficient of *multinational company* is 0,083 stating that by assuming the other variables' emptiness, when *multinational company* increases, tax avoidance will tend to increase.
- 7) The coefficient of *diversification of company* is -0,121 stating that by assuming of the other variables' emptiness, when the diversification increases, tax avoidance will tend to decrease.

6.2 The Test of Determination Coefficient (R^2)

The test of determination coefficient is to measure how far the model explaining the dependent variable. The coefficient in regression model equation is to find out how ROA, leverage, DER, *SIZE*, fiscal disadvantage compensation, institutional ownership, and *sales growth* to explain tax avoidance (CETR) in the enterprises. According to SPSS program calculation, it is gained as presented in detail in the Table 2 given below:

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.383 ^a	.147	.086	.122087	2.099

a. Predictors: (Constant), DIVERSIFIKASI PERUSAHAAN, KOMPENSASI RUGI FISKAL, SIZE, ROA, MULTINASIONAL COMPANY, DER, KEPEMILIKAN INSTITUSIONAL

b. Dependent Variable: CETR

According to the calculation of regressive equation, it is gained determining coefficient score (*Adjusted R Square*) is 0,086. It means the variation score of tax avoidance variable (CETR) in the enterprises can be explained by *return on asset* (ROA), *leverage* (DER), size of the enterprises (*SIZE*), fiscal disadvantage compensation, institutional ownership, *multinational company* and *diversification of company* is 8,6 percent meanwhile the

rest is 91.4 percent affected by external variables of the research model.

The test has purpose to find out whether the model used in this research is reliable to test the data and hypothesis. The criteria used in this test is when *Sig.* fewer 0,05, then the model is said reliable to test. In contrast, when *Sig.* greater 0,05, the model is not reliable to test. Below, it is the results of F significance test in this research:

Table 3
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.252	7	.036	2.413	.025 ^b
	Residual	1.461	98	.015		
	Total	1.712	105			

a. Dependent Variable: CETR

b. Predictors: (Constant), DIVERSIFIKASI PERUSAHAAN, KOMPENSASI RUGI FISKAL, SIZE, ROA, MULTINASIONAL COMPANY, DER, KEPEMILIKAN INSTITUSIONAL

Based on the table of first F statistic test, it can be seen the probability score = 0,025 fewer than $\alpha = 0,05$, it can be concluded the regressive coefficient of *return on asset*, *leverage*, size of company, fiscal disadvantage compensation, institutional ownership, and *sales growth* simultaneously influence toward the values of the enterprises.

T statistic test in multiple regression is used to find whether the model of regressive independent variables is partially significant toward the dependent variable. The criteria of concluding upon the test results are *probability value (sig)-t* fewer than 5%, it can be concluded the independent variables influence dependent variable meaning the proposed hypotheses are accepted and supported by the research data. In contrast, when *probability value (sig)-t* greater than 5%, it can be said the independent variables do not influence the dependent variable and the proposed hypotheses are denied or not supported by the research data.

For Ciputra Development Tbk (CTRA) had score of *return on asset* was as 0,070 in 2013 and increased until 0,077 in 2014. In the same year, tax avoidance (CETR) was 0,096 and increased until 0,178. The variable, *return on asset* (ROA) influenced Tax avoidance (CETR).

Bumi Serpong Damai Tbk (BSDE) had score *leverage* (DER) was as 0,371 in 2012 and increased until 0,406 in 2013. In same year, the score of Tax avoidance (CETR) was as 0,131 and decreased until 0,105. The variable, *leverage* (DER) did not influence Tax avoidance (CETR).

Duta Anggada Realty Tbk (DART) had (*SIZE*) 22,180 in 2012 and increased until 22,285 in 2013. In the same year, the score of Tax avoidance (CETR) was 0,404 and decreased 0,278. The variable, (*SIZE*) did not influence Tax avoidance (CETR).

Summarecon Agung Tbk (SMRA) had fiscal disadvantage compensation 0 in 2013 and was equal to 0 in 2014. In the same year, the score of Tax avoidance (CETR) was 0,080 and increased 0,090. The variable, fiscal disadvantage compensation did not influence variable Tax avoidance (CETR).

Jaya Real Property Tbk (JRPT) had institutional ownership 0,774 in 2015 and increased 0,787 in 2016. In the same year, the score of Tax avoidance (CETR) was 0,148 and decreased 0,118. The variable, institutional ownership did not influence Tax avoidance (CETR).

Intiland Development Tbk (DILD) had score of *multinational company* 1 in 2012 and deceased 0 in 2013. In the same year, the score of Tax avoidance (CETR) was 0,273 and decreased 0,283. The variable, *multinational company* did not influence Tax avoidance (CETR).

Bekasi Fajar Industrial Estate Tbk (BEST) had score of *diversification of company* 0 in 2014 and increased 1 in 2015. In the same year, the score of Tax avoidance (CETR) was 0,149 and decreased 0,119. The variable,

diversification of company did not influence Tax avoidance (CETR).

7. CONCLUSION

Return on asset influences tax avoidance. *Leverage*, size of the enterprise, fiscal disadvantage compensation, institutional compensation, *multinational company*, and *diversification of company* did not influence the values of enterprises. The determination coefficient test gains Adjusted R square 0,086. It shows the influences given by *return on asset*, *leverage*, size of the enterprises, fiscal disadvantage compensation, institutional ownership, multinational company, and diversification of company toward tax avoidance is 8.6%. Meanwhile, 91.4% is affected by other variables.

7.1 Research Limitation

Sample selection in this research only uses real estate so the findings cannot be generalized for all kind of enterprises. This research has small determination coefficient (*Adjusted R Square*) 0,085; it means 8,5 percent is affected by the variables inside the research model meanwhile 91.5% is affected from external variables.

7.2 Future Research Planning

Based on the limitation of the research, the future agenda of the research is expected to use larger samples to generalize for all types of enterprises. In future researches, it is expected to add more variables, such as external factors of enterprises affecting tax avoidance such as: independent commissioner, audit quality, audit committee, executive characters, asset intensity as independent variables to make future researches better.

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