Determinant of Tax Avoidance Behavior

(An Empirical Studies of Manufacturing Sector listed on Indonesia Stock Exchange)

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Abstract. One of the biggest revenues in a country comes from taxes. Therefore the government always trying to increase tax revenue from year to year so that state revenues also increase. But in this case there are differences in interests between the Government and the taxpayer. For the government, taxes are a source of state revenue, otherwise for taxpayers, tax is a burden that can reduce a company's operating profit. This study aims to look at the determinants that influence tax avoidance behavior.

This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018. Data analysis was performed on 20 sample companies with various sub-sectors such as the food and beverage sub-sector, industrial and chemical sub-sectors, pharmaceutical sub-sectors, cosmetics sub-sectors using multiple regression analysis with SPSS software.

The results showed that fiscal loss compensation had no effect on tax avoidance while sales growth affects tax avoidance. Some suggestions that can be given by the author include 1) Investors or potential investors should consider financial information, because the ratio is a very important indicator to measure the company's ability to meet obligations or generate profits; 2) Companies should better utilize and process their resources to increase business growth, so that investors are more confident in investing.

Keyword: determinants, behaviour, tax avoidance, multiple regresssion, SPSS

1. INTRODUCTION

Tax is one of the biggest government revenues (Prasetyo,2016). The government revenue from tax is targeted to increase from year to year, hence government trying to improve and create perfect Tax and General Regulation in Indonesia to increase tax revenue.

Therefore, in implementation, the taxpayer and government take different interest about tax payment. According to taxpayer, tax is one way to reduce profits or revenue, resulting in taxpayer taking advantage of anything to gain minimum tax payment. Meanwhile, the government want tax revenue to increase every year. The difference in interest causes taxpayer prone to reduce tax payment.

Based on agency theory, there is a conflict of interest between the government and the taxpayer, which creates a conflict about the practice of tax avoidance carried out by taxpayers in the framework of their tax burden. If viewed from the other side, the main purpose of the company is to get the maximum profit to achieve the welfare of the company's shareholders, so that it becomes the basis of the company in carrying out tax avoidance.

Tax avoidance actions are carried out with the intention that the company can achieve its main goal of optimizing profits which are expected to have an impact on increasing the competitiveness of the company. It is also to be able to fulfill its responsibilities as a taxpayer to the government, as being one of the company's stakeholders.

Pohan (2013) explains that tax avoidance are strategy and technique that is carried out legally and safely for taxpayers because it does not conflict with tax regulation. According to Suryani and Tarmudji (2012), they revealed that tax avoidance is an effort to reduce tax burden by avoiding taxation through transactions that are not taxable, so that if companies do so, the company can obtain tax savings between 3% and 5%.

One factor affecting tax avoidance is fiscal loss compensation. The presence or absence of fiscal loss compensation will not affect tax avoidance, because if a fiscal loss is found for the previous tax year, the company will still cover the loss with the net profit obtained by the company in the following year. This indicates that the existence of compensation for losses does not fully declare the company gets relief for not paying taxes at all to avoid the tax burden, but the company still pays the tax debt if the following year obtained sufficient net profit and can be used as compensation for fiscal losses.

Another factor is sales growth, namely changes in sales in the financial statements per year which can reflect the company's prospects. If the company's sales growth increases, profitability will also increase and the company's performance will be better. It is because with the increasing profitability of the company, the profit of a company will also increase which can encourage increased sales growth from year to year. This study aims 1) to determine and analyze the effect of fiscal loss compensation on tax avoidance, and 2) to find out and analyze the effect of sales growth on tax avoidance.

2. LITERATURE REVIEW

Agency theory is a cooperative relationship in a contract where one or more people as the owner (principal) and company management (agent). It is where the principal delegates authority to the agent to manage the company and make decisions. Meanwhile, agency theory according to Anthony and Govindarajan (2011) is a theory that explains the relationship or contract between principal and agent. The relationship between the principal and agent is called the agency relationship that occurs when one party, in this case the owner of the company as the principal, hires and delegates authority to the other party, namely the manager as an agent to carry out a service. The manager of the company as an agent performs certain tasks for the principal, while the principal, the company owner or shareholder has an obligation to reward agents.

Agency relationships that occur sometimes cause problems between the principal and agent or are usually called conflicts of interest. The problem arises because both the principal and agent try to maximize their respective interests. The shareholders as the owner of the company acting as the principal want a greater and quickest return on the investment they invest while the manager as an agent wants the maximum rewards for his performance in running the company in the form of compensation or incentives, promotions or others.

There is information asymmetry between agents and principals, where managers are more aware of internal information and company prospects in the future than shareholders and other stakeholders (Kurniasih and Sari, 2013). Information asymmetry is a condition where company management sometimes conceals true information from shareholders to protect their own interests so that it interferes with the interests of shareholders who are supposed to get real information (Permana and Zulaikha, 2015).

According to Law Number 36 of 2008 article 6 paragraph 2 which discloses that fiscal losses can be compensated for the next five years in a row after the company suffers, so the next year's company profits will be used to reduce the amount of compensation for losses. Therefore, for five years, successive tax burden paid by the company will be less and less.

Compensation for fiscal losses received by the company will definitely reduce the tax burden that must be paid by the company. Even if the company does not pay taxes at all, the profits earned by the company the following year have to cover the company's fiscal losses in the previous year. Thus, it can be interpreted that the company that received compensation fiscal losses does not need to take tax avoidance measures to produce the minimum tax burden.

Based on research conducted by Milhanudin (2017) on fiscal loss compensation, it proves that fiscal loss compensation has no effect on tax avoidance. This means that the presence or absence of fiscal loss compensation will not affect tax avoidance, because if a fiscal loss is found for the previous tax year, the company will still cover the loss with the net profit obtained by the company in the following year.

Companies that have lost money in one accounting period are given relief to pay their taxes. The loss can be compensated for the next five years and company profits will be used to reduce the amount of compensation for the loss. As a result, during these five years, the company will avoid the tax burden, because taxable profits will be used to reduce the amount of compensation for the company's losses. Therefore, the first hypothesis in this study is:

H_1: The Effect of Fiscal Loss Compensation on Tax Avoidance

Sales growth reflects the manifestation of past investment success and can be used as a prediction of future growth. By using the measurement of sales growth, the company can predict how much profit will be obtained by the size of sales growth. The greater sales volume of a company shows that the company's sales growth is increasing.

If sales growth increases, the profit generated by the company is assumed to have increased. Increased corporate profits means the tax that must be paid by the company will be even greater so that companies will tend to take tax avoidance.

According to Ridho (2016) sales growth is one of the factors that can affect tax avoidance activities. Afterwards, Ridho (2016) explained that sales growth has a significant role in CETR which is an indicator of tax avoidance activity in manufacturing companies listed on the IDX.

According to Nafis, et al (2017) sales growth partially influences tax avoidance. Logically, when sales growth increases, companies tend to get large profits as well. Therefore, companies will tend to do tax avoidance in order to minimize taxes that must be paid to the government. Based on the description, the third hypothesis in this study is as follows:

H_2: The Partial Effect Sales Growth on Tax Avoidance

3. RESEARCH METHODS

The sample in this study were 20 manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018. This study was analyzed by multiple regression using the SPSS program. The variables in this study consisted of independent and dependent variables. The independent variables are fiscal loss compensation and sales growth.

According to Law No. 36 of 2008 article 6 paragraph 2, fiscal loss compensation is for a company that suffered a fiscal loss in a period. Then, the company will be given relief by the government to pay its usual tax. Fiscal loss compensation is calculated using a dummy variable with the regulation of fiscal loss compensation, 1 if there is a fiscal loss compensation, and 0 if there is no fiscal loss compensation.

According to Andriyanto (2015) sales growth is a change in sales in the financial statements per year that can reflect the company's prospects and profitability in the future. Sales growth is calculated by:

$$Sales\ Growth = \frac{Current\ Period\ Net\ Sales\ -\ Prior\ Period\ Net\ Sales}{Prior\ Period\ Net\ Sales}$$

The dependent variable in this study is tax avoidance. Pohan (2013) states that tax avoidance is an effort done legally and safely for taxpayers because it does not conflict with tax regulation, where the methods and techniques used tend to exploit the weaknesses (gray area) contained in the tax laws themselves to reduce the amount of tax owed. Tax avoidance is calculated using the formula:

$$ETR = \frac{Tax\ Expense}{Net\ Income\ Before\ Tax}$$

4. RESULTD AND DISCUSSION

The summary of the descriptive statistics result attachment can be seen in Table 1.

Table 1 Summary of Descriptive Statistics Result

	N	Minimum	Maximum	Mean	Std. Deviation
Fiscal loss compensation	81	0.00	1,00	0,4000	0,49237
Sales growth	81	0.00	0,33	0,0832	0,07292
Tax avoidance	81	0.00	0,88	0,2674	0,10184

Source: processed secondary data, 2020

Descriptive statistical results regarding fiscal loss compensation show that the highest value (maximum) is 1.00 and the lowest value (minimum) is 0.00. Because fiscal loss compensation is a dummy variable, where if there is a fiscal loss compensation then the value is 1.00 and if there is no fiscal loss compensation then the value is 0.00. One example of a company that has the highest value (maximum) 1,00 is PT. Mandom Indoesia, Tbk (TCID) in 2015. While one of the examples of companies that have the lowest value (minimum) 0.00 is PT. Unilever Indonesia, Tbk (UNVR) in 2014 - 2018.

Descriptive statistics sales growth results show the highest value (maximum) of 0.33 obtained by PT. Akasha Wira Internasional, Tbk (ADES) in 2016. While the lowest (minimum) value of 0.00 was obtained by PT. Siantar Top, Tbk (STTP) in 2018.

Descriptive statistical results regarding tax avoidance show that the highest value (maximum) of 0.88 is obtained by PT. Bantoel Internasional Investama, Tbk (RMBA) in 2018.

While the lowest (minimum) value of 0.00 was obtained by PT. Kedaung Indah Can, Tbk (KICI) in 2017.

After the descriptive analysis, the classical assumption test is then performed consisting of a normality test, a multicollinearity test, and an autocorrelation test. Here are the results of testing classic assumptions:

Table 2 Classical Assumptions Test Result

Parameter test	Normality Test	Multicollinearity Test		Autocorrelation Test
	Asymp. Sig. (2-tailed)	**Tolerance**	**VIF**	**DW**
Fiscal loss compensation	0,209	,919	1,088	2,041
Sales growth		,994	1,006	

Source: processed secondary data, 2020

Based on the results of normality testing with Kolmogorov-Smirnov, the Asymp values are obtained. Asymp Sig. (2-Tailed) of 0.209 is greater than the significance level of 0.05 (5%). The results of this test indicate that the residuals in the regression model are normally distributed.

In the multicollinearity test results table above, the tolerance values of all independent variables > 0.10 and the value of Variance Inflation Factor (VIF) < 10 are obtained so that it can be concluded that there is no multicollinearity in the regression model and the test can proceed to the next stage.

The Durbin Watson value in the results of this study showed a value of 2,041 so that it was stated that there was no autocorrelation problem with the criterion that if the test obtained the statistical DW value of between -2 to 2 then autocorrelation did not occur.

Table 3 Regression Multiple Linear Analysis Test Results

Variable	Beta Value		Significant
Statistics Test- t			
(Constant)	-0,413		
Fiscal loss compensation	-0,24		0,535
Sales growth	0,152		0,000
Determination Coefficient Test			
R Square		0,171	
Adjusted R Square		0,139	

Source: processed secondary data, 2020

The first hypothesis shows the result that partial fiscal loss compensation has no effect on tax avoidance. This means that the presence or absence of fiscal loss compensation will not affect tax avoidance, because if a fiscal loss is found for the previous tax year, the company will still cover the loss with the net profit obtained by the company in the following year. This indicates that the existence of compensation for losses does not fully declare the company gets relief to not pay taxes at all in order to avoid the tax burden, but the company still pays the tax debt if in the following year a sufficient net profit is obtained and can be used as compensation for fiscal losses (Waluyo et al., 2015).

If the value of fiscal loss compensation in a company is high, then that does not mean the company is doing tax avoidance. Companies that have better profitability and companies that have high fiscal loss compensation values, appear to have a low tax avoidance value. This is in accordance with the income tax law No. 36 of 2008 which states that compensation for losses is only permitted for five consecutive years. If at the end of the fifth year there are still remaining losses, the remaining losses cannot be compensated. The results of this study are in line with the results of research conducted by Milhanudin (2017) which states that fiscal loss compensation has no effect on tax avoidance.

The second hypothesis is accepted so that sales growth partially influences tax avoidance. Logically, when sales growth increases, companies tend to get large profits as well, therefore companies will tend to do tax avoidance in order to minimize taxes that must be paid to the government.

This study is in line with Nafis et al. (2017) and Dewinta and Setiawan (2016) who show that sales growth partially influences tax avoidance. But these results are not in line with Swingly and Sukartha's (2015) study which states that sales growth does not affect tax avoidance.

5. CONCLUSION

Based on the results of the analysis that has been done, fiscal loss compensation has no effect on tax avoidance. Fiscal loss compensation is compensation made by taxpayers who have recorded a loss and compensation will be made in the following year. Sales growth affects tax avoidance. If sales growth in a company increases, tax avoidance measures taken by the company also tend to increase.

For investors or potential investors, they should consider financial information because the ratio is a very important indicator for shareholders or potential investors to measure the company's ability to meet obligations or generate profits. While the advice for companies should be more utilizing and processing all the resources they have and are entrusted to increase business growth, so that investors are more confident to invest.

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