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THE DETERMINANTS OF CORPORATE TAX AGGRESSIVENESS IN INDONESIA

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Abstract

This study aims to examine the effect of corporate governance on corporate tax aggressiveness in Indonesia during the year 2013-2015. This study adds related parties' transactions as a moderator variable to answer the results of previous studies that are not consistent. The population in this study uses manufacturing companies that are listed on the Indonesia Stock Exchange. The selection of manufacturing companies as subjects is based on the tendency that manufacturing firms are more aggressive with taxes. Research data obtained from the annual report which is on the official site idx.co.id, then analyzed using the hierarchy analysis technique or hierarchy regression technique. The results show that corporate governance can reduce the tendency of corporate tax aggressiveness. In addition, related parties' transactions are proven to lead to the implementation of corporate governance to prevent tax aggressiveness from becoming ineffective.

***Keywords**: Corporate Governance, Tax Aggressiveness, Related Parties Transactions*

1. INTRODUCTION

The Company as one of the taxpayers has an obligation in paying taxes of magnitude calculated from the net profit earned, no wonder if the tax factor here becomes a big concern for companies in managing their finances. For a company, tax is considered a cost, so it is necessary to make certain efforts or strategies to reduce it (Mangoting, 1999). The company will constantly look for ways to reduce tax costs to improve its after-tax earnings. Therefore, it is possible that the company will become aggressive in taxation (Chen, Chen, Cheng, & Shevlin, 2010).

Corporate tax aggressiveness is an act of reverse the taxable income of a company through tax planning action, either using legal actions (tax avoidance) or illegal actions (tax evasion) (Frank, Lynch, & Rego, 2009). Although not all acts are in violation of the rules, the more gaps are used the company is considered more aggressive with taxes. Tax aggressiveness is of particular concern to the tax authorities because it risks causing the state tax revenue target not to be achieved.

The Ministry of Finance (Kemenkeu Indonesia) noted that Indonesia's tax ratio is still lagging behind countries in the ASEAN region with a tax ratio of 15-17% (Hadi, 2012). The Indonesian tax ratio for 2006 was 13.02%, 13.06% in 2007, 14.06% in 2008, 11.83% in 2009, 12.00% in 2010, and in 2011 Amounted to 12.59%. The low tax ratio of Indonesia indicates that taxpayer compliance in Indonesia is low, there are still many taxpayers in Indonesia are aggressive against taxes.

The tax aggressive action by firms in Indonesia indicates tax authorities' goal of maximizing tax revenues will not be achieved, this is due to the taxpayer's non-taxable behavior by conducting unlawful tax planning efforts. Problems arising from a conflict of interests between the government in this case represented by tax authorities and the company called agency problem. Type III agency relationships explain the relationship between insider and outsider/ third parties or in other words the relationship between the company as an insider and outside parties as third parties' (in this case tax authorities as government representation) (Armour, Hansmann, & Kraakman, 2009). The government legally has the right to collects taxes from companies, but often companies do not perform their obligations to pay taxes.

The opportunistic actions of this company are difficult to detect by the tax authorities, this is because the company as a party in having more control and information than the outsider is the tax authorities. The problem of information imbalance between firms and tax

authorities raises asymmetry information. The asymmetry of this information causes the management of the company to undertake profitable enterprises such as tax planning to minimize its tax burden. There needs to be a mechanism to overcome the agency problem between the company as an insider and the tax authorities as to the third parties, corporate governance mechanism can be a solution to solve this problem. Corporate governance is a mechanism that explains the relationship between the various participants in the company that determine the direction of the company's performance (Monks, Robert, A & Minow, 2011).

This research refers to previous research conducted by Desai & Dharmapala (2004), which is research about tax avoidance. The results show that corporate governance (which is proxied using the governance index) negatively affects tax avoidance (which is proxied using the book-tax difference). Good corporate governance is a system that regulates and controls companies to create value-added for all stakeholders (Desai & Dharmapala, 2004). Sandy & Lukviarman (2015) also conducted a study on tax avoidance, the results showed that the proportion of independent commissioners, audit quality, and audit committee had a negative effect on tax evasion while institutional ownership had no effect on tax evasion. The research on tax avoidance has also been studied by Annisa & Kurniasih, (2012). The result of the research shows that audit quality and audit committee have a negative effect on tax evasion while the board structure and institutional ownership have no effect on tax avoidance

Researchers are interested in examining more deeply about tax aggressiveness because as far as the researcher has known there is no research that discusses corporate governance and tax aggressiveness conducted by researchers in Indonesia. Tax avoidance can not be used to describe tax planning actions undertaken by the company. Because in fact the business tax planning that can be done by the company not only uses a legal way that is tax avoidance but the company will also conduct tax planning business in an illegal way that is tax evasion.

2. LITERATURE REVIEW

2.1. Agency Theory

The problems that arise in this research can be explained by agency theory. Agency theory explains the agency relationship between the principal and the agent (Jensen & Meckling, 1976). The agency relationship can lead to conflict when there is a difference of interest between shareholders and managers. Managers will make policies that will benefit unilaterally and ignore the interests of shareholders. The conflict between shareholders and managers is called agency conflict type 1.

Agency conflict type 2 occurs in companies with concentrated ownership structures. Conflict is between the controlling shareholder and the non-controlling shareholder. This conflict occurs when the controlling shareholder who has the right to control the company makes a policy that ignores the interests of non controlling shareholders. The concentrated ownership structure takes place in the state of Indonesia which is civil law with the protection of investor rights which tend to be weak. Research conducted by Claessens, Djankov, & Lang (2000).

The agency conflict does not only happen within the company's scope, but agency conflict can also occur between the company side and other parties the company such as creditors and government (Armour et al., 2009). The government which in this case is represented by tax authorities as a third party and the company as the insider, the government through tax authorities has the right to collect tax on profits earned by the company. But companies often do not meet their tax obligations by doing tax planning efforts that violate tax regulations. The agency conflict between companies and other parties is called agency conflict type III.

The type III agency relationship between the tax authorities and the firm can lead to information asymmetry. Tax authorities as an outsider of the company have no power to control the opportunistic acts of the company, such as tax aggressiveness. To reduce the asymmetry of information that occurs between the tax authorities and the company, there needs to be a corporate governance mechanism. Given the corporate's governance mechanisms will create good corporate governance, where

corporate governance goes according to the expectations of the stakeholders

2.2. Corporate Governance

The principles of corporate governance have been consistently proven to improve the quality of financial statements (Beasley, 1996). Increased earnings quality in a company's financial statements indicates that the company's financial statements describe the true financial condition of the company, thereby reducing the company's risk of taking aggressive action against taxes. Good corporate governance is a system that regulates and controls the company to create value-added for all stakeholders (Desai & Dharmapala, 2004).

Corporate governance in this study uses measures developed by For Corporate Governance in Indonesian (FCGI) which is a self-assessment of whether corporate governance in a company is good or not with a score scale of 0-100. FCGI calls the tool the GCG Self Assessment Questionnaire or "FCGI Corporate Governance Self-Assessment Checklist". In the FCGI questionnaire, the weighting is done in five areas: Shareholder Rights, Corporate Governance Policy, Corporate Governance Practices, Disclosures, and Audit Functions.

2.3. Related Parties Transactions

The results of previous studies show inconsistent results, corporate governance has been identified as an important variable explaining the variation of tax aggressiveness (Armstrong, Blouin, Jagolinzer, & Larcker, 2015; James & Igbeng, 2014). However, empirical research results show that the influence between corporate governance and tax aggressiveness is still not conclusive. Some previous researchers found that corporate governance variables have no effect on tax aggressiveness (Dewi & Jati, 2014; Khaoula, 2013; Kurniasih & Sari, 2013; Maharani & Suardana, 2014; Rego & Wilson, 2008), meanwhile, other researchers found that corporate governance had a negative effect on tax aggressiveness (Armstrong et al., 2015; Darmawan & Sukartha, 2014; Desai & Dharmapala, 2004; Fernandes, Martinez, & Nossa, 2013; James & Igbeng, 2014; Minnick & Noga, 2010).

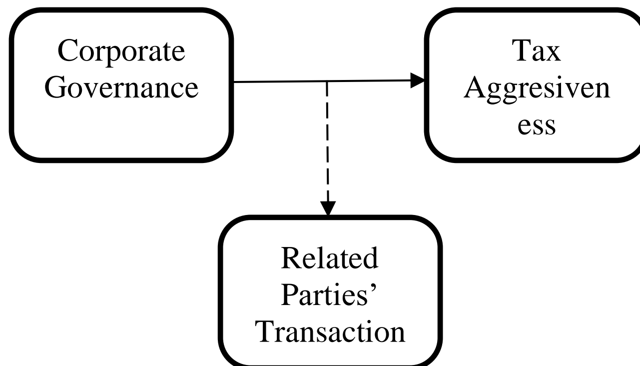
The researcher here adds the related parties' transaction variable as a moderating variable. Current parties' transactions receive serious attention both within the business community and from the tax authorities. Basically, transactions conducted with related parties are an agreement or business arrangement by parties that are not independent of each other for certain purposes. Understanding related parties are persons or entities related to the entity that prepares its financial statements (Statement of Financial Accounting Standards (PSAK) No. 7 on Related Party Disclosures). The element of agreement in determining the transaction price is the most concern, as the agreement in pricing can bring both profit and loss for the stakeholders. Stakeholders who need to obtain transparent information from the above transactions, among others, investors, creditors, shareholders (shareholder).

Asymmetric information is the most important concept in financial accounting theory (Scott, 2009:114). Quality accounting information is useful for reducing information asymmetries. Transactions with related parties will positively affect the information asymmetry, that the existence of related party transactions will increase the information asymmetry because its truth is considered to be doubtful (Chaghadari & Shukor, 2011). The emergence of this asymmetry information will lead to the implementation of corporate governance in reducing tax aggressiveness to be ineffective. Because the truth about transactions on a related party is often questionable, thus indicating the company's financial reporting is not transparent.

2.4. Tax Aggressiveness

Tax aggressiveness is a management action to decrease corporate taxable income through tax planning, tax management is an important part of a manager's job since taxes are considered to be a significant cost to the company and shareholders (Frank et al., 2009). Tax aggressiveness is closely related to the activity of resistance to the tax. Companies can take tax aggressiveness in a legal manner that is tax avoidance or in an illegal way that is tax evasion.

Based on the description of the research model literature from the theoretical framework can be described as follows:



Picture 1. Theoretical Framework

Problems arising from a conflict of interests between the government in this case represented by tax authorities and the company called agency problem. Type III agency relationships that occur between companies as insider and parties outside the company as third parties (in this case tax authorities as government representation) (Armour et al., 2009). The government legally has the right to levy taxes from companies, but often companies do not perform their obligations to pay taxes. The company's opportunistic action in conducting tax aggressiveness is due to the asymmetry of information between tax authorities and corporate. There is a need for corporate governance mechanisms to reduce asymmetry information. Corporate governance can control the company to create value-added for all stakeholders (Desai & Dharmapala, 2004). Desai & Dharmapala, 2004 conducted a study on tax aggressiveness, the results showed that corporate governance effect tax avoidance.

The implementation of corporate governance principles has been consistently proven to improve the quality of financial statements (Beasley, 1996). Increased earnings quality in a company's financial statements indicates that the company's financial statements describe the true financial condition of the company, thereby reducing the company's risk of taking aggressive action against taxes. Based on the hypothesis in this study are:

H_1: Corporate governance negatively affects tax aggressiveness.

The concern about transactions with related parties is that the transaction may not be made at market price but may be affected by the relationship between the two parties, resulting in the price of the transaction being irrelevant. Often transactions on a related party are utilized to benefit companies (McCahery & Vermeulen, 2005). The existence of a related party transaction will increase the information asymmetry because its validity is considered doubtful (Chaghadari & Shukor, 2011). The emergence of this information asymmetry will lead to the implementation of corporate governance in reducing tax aggressiveness to be ineffective. Previous research results show that companies often make earnings management through transactions on related parties (Aharony, Wang, & Yuan, 2010). Therefore, the truth about transactions on related parties is often questionable, thus indicating the company's financial reporting is not transparent. Based on the second hypothesis of this research are:

H_2: Transactions on related parties undermine the influence of corporate governance on tax aggressiveness.

3. RESEARCH METHODS

This research uses a quantitative approach. The research method chosen is to test the influence of the independent variable with the dependent variable. The population of this study is a manufacturing company listed or listing on the Indonesia Stock Exchange (BEI) for the period of 2013-2015. The population of this study consists of 146 manufacturing companies listed on the Indonesia Stock Exchange (BEI). Sample selection in this research using purposive sampling method by determining the sample based on certain criteria, among others 1) Manufacturers are listed for during the period 2013-2015 2) Companies conducting sales transactions with related parties 3) Companies that have profit during this year research 4) Companies that disclose financial statements in the rupiah currency.

Based on the criteria used in the sample selection procedure, a sample of 43 (forty-seven) companies was obtained. This study uses the data in the period 2013-2015, so the total data of research is as much as 129 (one hundred and twenty-nine) research data. Research secondary data used in this study were obtained from annual reports of manufacturing companies listed on the BEI based on the

criteria specified during the year 2013-2015 and published on the official website of BEI (www.idx.co.id).

3.1. Research Variable

a. Dependent Variable

The dependent variable in this research is tax aggressiveness, in this research use ETR (Effective Tax Rate) as a proxy of tax aggressiveness. ETR (Effective Tax Rate) is an outcome measure based on the income statement that generally measures the effectiveness of the tax reduction strategy and leads to high after-tax profits. Measurement of tax aggressiveness using proxy ETR (Effective Tax Rate) ever used in research Richardson & Lanis, 2007. ETR (Effective Tax Rate) formulated as follows:

$$ETR = \frac{TaxExpense}{EarningBeforeTax}$$

b. Independent Variable

The independent variables in this study are Corporate Governance (X1), Related Party Transaction as moderating variable (X2), Firm Size as a control variable (X3), Profitability as a control variable (X4), and Leverage as a control variable (X5). All four variables (X1, X3, X4, X5) are considered to affect the tax aggressiveness.

Corporate Governance (X1)

The corporate governance index is a measure used to describe whether corporate governance is well implemented or not. Several aspects must be met to realize the implementation of good corporate governance. There are several tools that can be used as a self-assessment whether corporate governance in a company is good. One tool for conducting independent assessments was developed by FCGI (Forum for Corporate Governance in Indonesia). The tool is a set of checkable checklists that will then be used as an assessment in the implementation of corporate governance within the company (FCGI, 2006). Through the checklist, an assessment or assessment can be conducted on several areas of corporate governance, in which each field is weighted with the value of each item checklist item 0-5 which will become an index of corporate governance implementation in each company.

Related Party Transaction (X2)

The proxy used for RPT (Related Party Transactions) using RPT sale (Related Party Transactions) based on research Lo, Wong, & Firth (2010). The amount of RPT (Related Party Transactions) sales formulated as:

$$RPT = \frac{Sales\ RealtedParties}{TotalSales}$$

Firm Size (X3)

Company size describes the size of a company that can be expressed by total assets or total net sales (Bujaki & Richardson, 1997). The size of a company is a characteristic of a company that contributes to the result of income tax to be paid. The size of the company directly reflects the high and low operating activities of a company. In general, the greater the company will be the greater the company's operations. Large companies have well-organized internal procedures and more diverse working relationships.

Profitability (X4)

This study uses the proxy of ROA (Return On Asset) to measure the level of profitability of the company. Return On Asset compares between net income (loss) after tax with total assets (Prihadi, 2008: 68), As formulated below:

$$ROA = \frac{EarningAfterTax}{TotalAssets}$$

Leverage (X5)

Leverage is the ratio used to measure how much the company's operational (production) uses debt financing. This variable is measured by comparing the total debt with the total assets of the company (assets reflect the company's operational activities) (Richardson & Lanis, 2007). As illustrated in the formula below:

$$Leverage = \frac{TotalDebt}{TotalAsset}$$

3.2. Stages of Research Analysis

This study uses moderation regression analysis through the hierarchical regression analysis method. Regression analysis is done by several stages, equation formula first regression model is used to test the first hypothesis. Furthermore, equations of the second and third regression models are used to test the second hypothesis. The formulas of the regression equation in this research as follows:

1) $ETR_{it} = \alpha + \beta_1.CG_{it} + \beta_2\,SIZE_{it} + \beta_3\,ROA_{it} + \beta_4\,Lev_{it} + \varepsilon$

2) $ETR_{it} = \alpha + \beta_1.CG_{it} + \beta_2.RPT_{it} + \beta_3\,SIZE_{it} + \beta_4\,ROA_{it} + \beta_5\,Lev_{it} + \varepsilon$

3) $ETR_{it} = \alpha + \beta_1.CG_{it} + \beta_2.RPT_{it} + \beta_3.CG_{it}.RPT_{it} + \beta_4\,SIZE_{it} + \beta_5\,ROA_{it} + \beta_6\,Lev_{it} + \varepsilon$

Explanation:

ETR_{it} = Effective tax rate
(α) = Constanta
(β) = Regression coefficient
$\beta_1.CG_{it}$ = Corporate governance index
$\beta_2.RPT_{it}$ = Related party transaction sale
$\beta_3\,SIZE_{it}$ = Firm size
$\beta_4\,ROA_{it}$ = Return on asset
$\beta_5\,Lev_{it}$ = Debt asset ratio
ε = *Error Term*

4. RESULTS

4.1. Descriptive Statistic

Descriptive statistics describe the characteristics of the research variable of tax aggressiveness. Characteristics of data used in descriptive statistics include the mean, maximum, minimum, and standard deviation. The results of the descriptive statistics in the study are as follows:

Table 1. Corporate Tax Aggressiveness Period 2013-2015 (Effective Tax Rate)

	2013	2014	2015
Minimum	0.34	0.029	0.066
Maximum	0.546	0.516	0.710
Mean	0.253	0.260	0.293
Standart Deviation	0.078	0.077	0.127

Based on table 1. The average effective tax rate increases annually. In 2013 the average corporate effective tax rate is 0.252 and 2014 increased by 0.260 and in 2015 increased by 0.293. The results indicate that the company's tendency to aggressively tax decreases from year to year.

4.2. Regression Analysis

This research uses moderation regression analysis through the hierarchical regression analysis method. The result of the regression test below:

Table 2. Regression Test Result

Variables	Model 1	Model 2	Model 3
Constanta	0,215 (1,933)	0,279 (2,393)	0,428 (2,971)
CG	0,006** (7,413)	0,006** (7,046)	0,004** (3,723)
ROA	-0,164** (-2,451)	-0,180** (-2,678)	-0.164** (-2,431)
Lev	0,112** (2,882)	0,109** (2,802)	0,110** (2,864)
Size	-0,033** (-3,461)	-0,036** (-3,701)	-0,039** (-4,011)
RPT		-0,043* (-1,722)	-0,392* (-1,936)
CG*RPT			0,005* (1,735)
Adj. R^2	0,363	0,373	0,383

** Significant at the level 0,01
* Significant at the level 0,05

4.3. Hypothesis Testing Results

This research is research using a one-tailed test so that the significance of the t-test must be divided by 2 first. If the value of significance is less than 0.05, then the hypothesis is accepted. This means that partially independent variables have a significant influence on the dependent variable. Testing hypothesis 1 is done to see the coefficient and significance in the regression model 1. Hypothesis 2 tested by looking at the coefficients and significance in regression models 2 and 3, Regression equation used to test the hypothesis is the whole regression equation.

Hypothesis 1 is corporate governance has a negative effect on tax aggressiveness. Companies with a high effective tax rate indicate that the company is not tax-aggressive. Based on the test result presented in table 5.4 it can be seen that for corporate governance variable, coefficient and t value is 0,006 (7,413) significant at level 0,05. The results showed that the improvement of corporate governance by 1% will increase the effective tax rate by 0.006%. The degree of tax aggressiveness represented by the effective tax rate procurement explains that the high value of the company's effective tax rate indicates that the company is not aggressive with taxes. The conclusion of hypothesis testing 1 is that corporate governance negatively affects tax aggressiveness, so hypothesis 1 is accepted.

Hypothesis 2 is a transaction on a related party lowering the influence of corporate governance on tax aggressiveness. In regression model 2, the coefficient and t value of the transaction variable on the related party -0,043 (-1,722) is significant at the 0.05 level. Test results on regression model 2 show that the transaction variable on the related party has an effect on the tax aggressiveness. The next hypothesis testing is a transaction on the related party as the moderating variable that is interacted with the corporate governance (CG) variable. Based on the result of the regression model 3 test, coefficient and t value for interaction variable is CG*RPT 0,005 (1,735) significant at level 0,05.

Based on the test results can be seen that transactions on related parties can reduce the influence of corporate governance on tax aggressiveness. The test results showed that the value of the interaction variable coefficient decreased compared to the influence of corporate governance variable CG 0,006 (7,413). The conclusion of the interpretation of the test results is that transactions on related parties may decrease the effect of corporate governance on tax aggressiveness, so hypothesis 2 is accepted. Type of moderation that happened was quasi moderating, based on result of test at regression model 2 show that coefficient and value of t transaction variable on side -0,043 (-1,722) significant at level 0,05, and a test result of regression model 3 coefficient and value t For interaction variable is CG*RPT 0,005 (1,735) significant at level 0,05. Transaction variables on related parties can be placed as either an independent variable or an interaction variable.

4.4. Discussion

The information asymmetry that occurs, triggers the emergence of type III agency conflicts. Conflict agency's type III arises because of the asymmetry of information between the companies and third parties, in this case, the tax authorities (Armour et al., 2009). Companies are often opportunistic by trying to underestimate the tax burden commonly known as an aggressive action against taxes, while the tax authorities are always trying to maximize tax revenue. Corporate governance is considered to be able to overcome the problem of tax aggressiveness that is currently a lot happening. This study examines the aggressiveness of taxes that are currently going on and also about transactions on the related parties that are considered to trigger tax aggressiveness.

Past research on corporate governance and the aggressiveness of the tax has been done (Armstrong et al., 2015; Darmawan & Sukartha, 2014; Desai & Dharmapala, 2004; Fernandes et al., 2013; James & Igbeng, 2014; Minnick & Noga, 2010). Previous research that has been done is still not conclusive, the reason is that there is still no suitable proxy used to measure corporate governance so that the proxy used to measure corporate governance varies. The results of inconsistent research are also the reasons why this research is still interesting to do. This study uses an index of corporate governance to measure corporate governance as a whole.

The test results show that good corporate governance mechanisms can reduce the company's aggressive action against taxes. The results support previous research conducted (Annisa & Kurniasih, 2012; Desai & Dharmapala, 2004; Sandy & Lukviarman, 2015) which showed that corporate governance negatively affect the tax avoidance, and proves that the corporate governance mechanism could be used as a solution to resolve type III agency conflicts that occur between tax authorities and corporate parties.

Transactions with related parties are now a serious concern of tax authorities, many policies, and rules issued by the tax authorities to regulate matters related to transactions on related parties. Companies often take advantage of transactions on related parties for transfer pricing (Lo et al., 2010), although many other views argue that transactions on related parties are both legitimate and common in a market economy (McCahery & Vermeulen, 2005). Transactions with related parties are also governed by PSAK 07, where discussions concerning transaction disclosures conducted with related parties.

The results of this study explain that transactions on related parties can lead to the possibility of companies to become aggressive against taxes. The test results showed that the related party transactions on the effect on the aggressiveness of the tax, in addition, this study also found that the related party transactions on

can reduce the influence of corporate governance on tax aggressiveness. Difficulties faced by tax authorities in detecting the validity of transactions in related parties mainly transactions on related parties are carried out by an overseas company which is why the company into unimpeded transfer pricing, in addition to the differences in tax policies between countries is also a trigger company to do this action for example like the state which is included in the tax haven country.

5. CONCLUSION

The results show that corporate governance mechanisms can decrease the company's tendency to act aggressively against taxes. Corporate governance has been proven to influence the company's policy in implementing its tax obligations. The results of this study also prove that transactions on the related parties are a factor inhibiting corporate governance in reducing tax aggressiveness of the company, other than as a factor inhibiting transactions on related parties can also affect the company's tendency to aggressively tax.

Limitations in this study relate to things that can not be overcome by researchers such as obstacles in doing this research. Limitations in this study are in the process of analysis of the implementation of corporate governance, this study only analyzes the presence or absence of items in the implementation of corporate governance based on indicators of the FCGI (Forum for Corporate Governance Indonesian), but this study can not test the quality of the implementation of governance The company. This constraint is caused by the nature of the reporting of the implementation of corporate governance in the annual report that is only a formality, there is no obligation for companies to report the implementation of corporate governance in detail. Research on tax aggressiveness only indicates the occurrence of tax aggressiveness within the company. This research has not been able to analyze or provide evidence of how tax aggressiveness is done by the company. Further research should conduct to know about this tax aggressiveness more deeply.

Subsequent research that takes the same theme with this research can overcome the limitations that have been submitted by researchers. Suggestions that researchers can convey, subsequent research takes a sample of companies that follow the program of corporate governance assessment conducted by third parties such as independent institutions that focus on the implementation of corporate governance. The results of the assessment by independent institutions can be more thorough and detailed, although the shortfall is the number of samples that will be small because not many companies who follow the program and also the program is not done routinely every year.

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