

The Analysis of Tax Avoidance Determinant on The Property and Real Estate Companies

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Abstract

The tax authorities had found some modus that done by developers on property tax avoidance and supported by potential loss of tax income from property and real estate sector at 2012-2015. This phenomenon show that tax avoidance still practiced by most of property and real estate companies, so that its became the target of intensive monitoring by the tax authorities. The aim of this research is to analyze the effect of leverage, company size, sales growth, institutional ownership, and independent commissioners on tax avoidance in property and real estate companies The population of this research is real estate property company which number 47 companies and the sample is 18 companies is done by using purposive sampling method. The instrument used to analyze the hypothesis is multiple linear regression. The results show that leverage and company size have significant effect on tax avoidance. Sales growth, institutional ownership and independent commissioners do not have significant effect on tax avoidance.

Keywords: Tax Avoidance; Leverage; Company Size; Sales Growth

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INTRODUCTION

The government uses taxes to implement national development programs in various sectors to improve people's welfare. Based on the realization of the State Expenditure Budget (APBN), it indicates that tax is the largest source of state revenue, so the government always seeks to increase the optimization of tax revenue. This is seen from the contribution of tax revenues that continue to increase from year to year. However, the development of tax revenues quantity is not accompanied by an increase in tax revenue growth and the achievement of the target of state tax revenues. There is a difference of interest between the government and the company. On the one hand the government seeks to increase the optimization of tax revenues, whereas the government efforts are contrary to the company as taxpayers because taxes can reduce profits so the company wants minimum tax payments (Setyaningrum & Suryarini, 2016).

Corporate tax avoidance is one form of tax planning strategy. Tax avoidance is a taxpayer's effort to minimize corporate tax burden which is not a violation of the tax laws as the effort is conducted in a manner that is made possible by the Tax Law (Kurniasih & Sari, 2013). The number of taxation cases that occur in the go public company does not close the possibility occurs in the

property and real estate sub-sector companies. This is due to the sector companies have many loopholes that become phenomena to do tax avoidance.

The Directorate General of Taxation detects potential loss of tax revenue due to unreported actual transactions of land and property buying and selling including property, real estate and apartments. This happens because the tax paid using a transaction based on the Sales Value of Tax Object (NJOP) is not based on actual or real transactions. The developments of property and real estate sectors are increasing in 2011 to 2012. There is a potential income tax (PPh) of Rp 30 trillion, but the tax payment received by the state is only about Rp 9 trillion (Budi, 2013).

Research on factors affecting tax avoidance has been done by previous researchers and gives inconsistent results. Research conducted by Siregar & Widyawati (2016) shows that leverage has a significant effect in encouraging companies to do tax avoidance. Different results found by Kurniasih & Sari (2013) which states that leverage does not affect tax avoidance. Research conducted by Diantari & Ulupui (2016) who found that company size has an effect on pushing the company to do tax avoidance activities. Different results found by Cahyono, dkk. (2016) which shows that company size does not affect tax avoidance.

Research conducted by Utami (2013) shows that institutional ownership has no effect on tax avoidance. Instead, research conducted by Dewi & Jati (2014) find that the existence of institutional ownership gives monitoring to the company so as to limit management to do tax avoidance. Putranti & Setiawanta (2014) conduct a research and prove that independent commissioners have a negative but insignificant effect on tax avoidance. While research conducted by Pranata, et al. (2014) states that independent commissioners have no effect on tax avoidance. The purpose of this study is to analyze the determinants of tax avoidance on property and real estate companies. The determinants of tax avoidance in this research are leverage, company size, sales growth, institutional ownership and independent commissioner.

The theory which underlying this research is the theory of trade off, political power theory, and agency theory. The trade off theory developed by Modigliani & Miller in Masri & Martani (2012) state that companies optimize the use of debt to get benefit of tax deductions and have been offset by corporate financial distress risks. Political theory states that large-sized companies tend to utilize the resources they have to lobby politics and have good tax planning. Agency theory in Jensen & Meckling (1976) states that agency relationships arise when there is a contract between the company owner (principal) that authorizes the manager (agent) to manage the company where owners and managers have the same desire to maximize their welfare. The position of the company is the place for contractual relationships that occur between management, owners, creditors and government.

The trade off theory suggests that companies can get benefit from debt held in the form of tax deduction Masri & Martani (2012). Property and real estate companies are industries that are experiencing rapid growth and development in Indonesia. Corporate managers often decide on external sources of financing (debt) to run the corporate operations. High level of leverage will have an impact on the increasing cost of debt due to interest expense on the loan. The interest expense is a cost component that can reduce corporate tax burden. Siregar & Widyawati (2016) proves that companies utilize the use of debt to obtain tax deductions.

H₁ : Leverage has a significant effect on tax avoidance

Theory of political power states that large companies tend to have good tax planning by utilizing expert and professional human resources in the field of taxation who understand the tax rules and laws well (Siregar & Widyawati, 2016). Large companies have larger and more complex operational activities than small ones, so the resources are larger and superior. Persada & Martani (2010) conduct a study showing that company size has a significant value to Book Tax Gap. The larger the size of the company will be the better the company in conducting tax planning. Diantari & Ulupui (2016) explain that companies with relatively large amount of assets will cause profits to increase and encourage companies to practice tax avoidance.

H₂ : Company Size has a significant effect on *tax avoidance*

Sales growth from year to year is an indicator of market demand and competitiveness in an industry, including property corporate industry that is a growing industry. When corporate sales growth increases then the profits company gets will increase so it can affect the tax burden paid. In this situation, sales growth is increasing then companies as taxpayers tend to avoid taxes and reduce tax payments. The statement is supported by conducted by Arfan (2016) which shows that sales growth affects on the increase of tax avoidance.

H₃: Sales growth has a significant effect on tax avoidance

Institutional ownership in agency theory is one of the major corporate governance mechanisms that can be used to reduce agency problems (Jensen & Meckling, 1976). Research conducted by Putranti & Setiawanta (2014) finds that institutional share ownership has an effect on the decrease of tax avoidance. The higher the level of institutional ownership, the stronger the level of control performed by external parties to the company, so that the agency costs that occur within the company decreases. The existence of share ownership by an institution in a company will encourage more optimal supervision on management performance.

H₄: Institutional Ownership has a significant effect on tax avoidance

Agency theory as stated by Jensen & Meckling (1976) states that an agency conflict within a company can be overcome at by sacrificing agency costs. This expenditure cost is used to measure, control and oversee the actions of managers in managing the company. The monitoring is conducted through the establishment of an independent board of commissioners. Timothy in Amril, et al. (2015) states that the implementation of corporate governance can prevent managers to do tax avoidance and give a positive impact on tax compliance. Diantari & Ulupui (2016) state that there is a tendency of greater proportion of independent commissioners in the composition of the board of commissioners, the monitoring of management performance is tighter so that tax avoidance management practices can be reduced.

H₅: Independent Commissioner has a significant effect on tax avoidance

H₆: Leverage, Company size, sales growth, institutional ownership, and independent commissioners together have a significant effect on tax avoidance

Based on the description which has been presented, it can be described in the following framework:

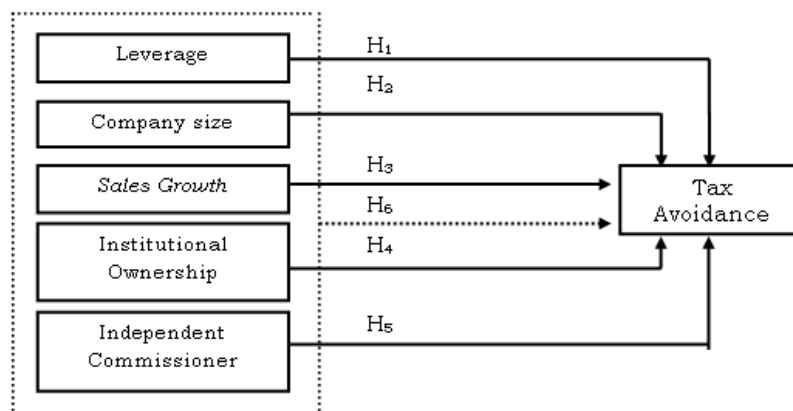


Figure 1. Research Model

METHOD

The population in this study are property and real estate companies listed on Indonesia Stock Exchange 2012-2015. The sample in this study was chosen by using purposive sampling technique as follows:

Table 1. Sample Determination Procedures

Criteria of Sample	Number
Real estate property companies listed on IDX	47
Real estate property companies not listed on the IDX during 2012-2015	(5)
Companies that do not provide information of financial statements (annual report) needed in this research	(10)
Companies that use non-rupiah currency units in their financial statements	-
Companies that suffer losses during the study period	(10)
Companies which become the research sample	22
Total observations on financial statements during the period 2012-2015	88
Number of outlier data	(16)
Total units of data analysis	72

The dependent variable in this study is tax avoidance, while the independent variables are leverage, company size, sales growth, institutional ownership and independent commissioner. Operational definition of research variables can be seen in the table as follows

Table 2. Operational Definition of Variables

Variables	Definition	Measurement / Indicators
Tax Avoidance (Y)	A taxpayer's effort to minimize corporate tax burden that is not a violation of the tax law as the effort is conducted in a manner permitted by the Tax Law (Kurniasih & Sari, 2013).	$CETR = \frac{\text{Laba Bersih}}{\text{Total Aktiva}} \times 100\% \times 100\%$ Tax / profit before tax payment
Leverage (X_1)	Leverage describes how much the company is financed by debt or outsiders with the capability of the company which is described by the capital (Agusti, 2014) leverage dan corporate governance terhadap tax avoidance perusahaan. Jenis penelitian ini digolongkan pada penelitian yang bersifat kausatif. Populasi dalam penelitian ini adalah perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia pada tahun 2009 sampai dengan tahun 2012. Pemilihan sampel dengan metode purposive sampling. Data yang digunakan dalam penelitian ini berupa data sekunder yang diperoleh dari www.idx.co.id. Teknik pengumpulan data dengan teknik dokumentasi. Data penelitian dianalisa dengan analisis regresi berganda dengan SPSS 16.0. Hasil pengujian menunjukkan bahwa: 1.	$\text{Debt to Equity ratio} = \frac{\text{Total Aktiva}}{\text{Laba Bersih}} \times 100\% \times 100\%$ Total debt / total equity

Company size (X ₂)	Overall of the assets owned by a company (Hendriksen and Eldon in (Siswianti & Kiswanto, 2016).	Natural logarithm of total assets = Ln (total Asset)
Sales Growth (X ₃)	Increase in sales from year to year (Budiman & Setiyono, 2012).	Sales growth = (Sales _t - Sales _{t-1}) / Sales _{t-1}
Institutional Ownership (X ₄)	Institutional ownership is the ownership of corporate stock owned by financial institutions, legal institutions, foreign institutions, and trust funds and other institutions (Ngadiman & Puspitasari, 2014).	(Number of shares owned by the institution / total share outstanding) x100%
Independent Commissioners (X ₅)	An independent board of commissioners is a board of commissioners which has no affiliation relationship with the company, other members of the board of commissioners, and the controlling shareholders of the company either directly or indirectly (Pranata et al., 2014).	(Number of board of independent commissioner / total of board of commissioners) x100%

Data collection techniques used are documentation method from secondary data in the form of financial statements and annual reports of property and real estate companies listed on the IDX in research period 2012-2015 as well as conducting literature review and reviewing various literature such as journals or research articles, books, and others sources related to the research. Data analysis techniques used in this study are descriptive statistical analysis, regression model prerequisite test, classical assumption test, multiple linear regression analysis, and hypothesis test by using SPSS version 21 program. Multiple linear regression model is systematically stated in the form of equation as follows:

$$TAV = \alpha_0 + \beta_1 LEV + \beta_2 SIZE + \beta_3 GROW + \beta_4 INST + \beta_5 INDP + e$$

Explanation:

TAV= Tax Avoidance
LEV= Leverage

SIZE= Company size
 α = Constant

GROW= Sales Growth
 $\beta_{1,2,3,4,5}$ = Regression coefficient

INST= Institutional ownership
 e = Error

INDP= Independent Commissioner

RESULTS AND DISCUSSIONS

Descriptive statistics was used to provide illustrations or descriptions of data viewed from the mean and standard deviation values. The average tax avoidance score of 0.2153 indicated that the average CETR value in the sample companies were at a low criterion. The result showed that tax avoidance conducted by sample companies was quite high. These results indicated that tax avoidance indications were made by most of the sample companies. The average leverage on the property and real estate companies studied showed the value in the low category of 0.8476. The results indicates that the majority of sample companies did not have a proportion of debt that was too large compared to their own capital owned by the company or in other words the average use of debt by the property and real estate industry companies were still relatively low.

Table 3. The Result of Descriptive Statistics

Variables	N	Min	Max	Mean	SD
Tax Avoidance	72	0.00	0.78	0.2153	0.14112
Leverage	72	0.18	1.93	0.8476	0.44190
Company size	72	25.79	31.35	29.4591	1.20698
Sales Growth	72	0.00	1.16	0.2860	0.27500
Institutional Ownership	72	0.00	0.95	0.2293	0.24271
Independent Commissioners	72	0.17	0.67	0.3946	0.10498

Source: Secondary data processed, 2017

The average size of companies in the property and real estate sector showed a high category score of 29.45. This indicated that most property and real estate companies had large corporate characteristics in which there were larger resources and utilized by the management of the company to do tax avoidance. Descriptive statistical results of sales growth variable, it was known that the average value of sales growth of 0.2860 was in the low category. This indicated that most property and real estate companies during the year of observation experienced low sales growth, even some companies occasionally experienced sales decline.

The average value of institutional ownership was 22.93%. The results indicated that the average proportion of institutional shareholdings in property and real estate companies was very low compared to other ownership structures. The average in the sample companies had a proportion of independent commissioners in the amount of 39.46%. This indicated that the proportion of independent board of commissioners in the sample companies was still low even though most of the sample companies have complied with Financial Services Authority Regulation No. 33 / POJK.04 / 2014 regarding the Directors and Board of Commissioners of Issuers or Public Companies. The regulation stated that the minimum limit of the proportion of independent board of directors was 30% from the total board of commissioners.

Regression prerequisite tests included normality test and linearity test. Based on the prerequisite test results, it was concluded that the model has met the assumption of normality and linearity. Further additional test before conducting regression analysis was classical assumption tests. Based on the results of classical assumption test that has been done, the model in this study could be concluded not experiencing symptoms of multicollinearity, autocorrelation, and heteroscedasticity.

Table 4. The Result of Multiple Linear Regression Test

	(Constant)	LEV	SIZE	GROW	INST	INDP
B	1.909	0.102	-0.060	-0.080	0.080	-0.016
Std. error	0.393	0.041	0.015	0.057	0.066	0.168

Source: Data processed, 2017

Based on regression test results obtained regression equation as follows:

$$TAV = 1.909 + 0.102_{LEV} - 0.060_{SIZE} - 0.080_{GROW} + 0.080_{INST} - 0.016_{INDP} + e$$

The multiple linear regression equation above could be explained in the following description: (1) Constant value = 1.909 could be interpreted that if all independent variables: leverage, company size, sales growth, institutional ownership and independent commissioner had value 0 or constant, then tax avoidance variable worth 1.909. (2) regression coefficient of LEV (leverage) equal to 0.102 and showed positive sign. It could be interpreted that if leverage level increased 1% would raise CETR equal to 0.102. This meant that tax avoidance would decrease by

0.102 and other factors that affected were considered constant. (3) The SIZE regression coefficient (company size) was -0.060 and showed a negative sign. This could be interpreted that if the size of the company increased 1 unit would reduce the CETR of 0.060. This meant that the tax avoidance would increase by 0.060 and other factors that affected were considered constant. (4) The GROW regression coefficient (sales growth) was -0.080 and showed a negative sign. It could be interpreted that if sales growth increased by 1% would decrease CETR of 0.080. This meant that the tax avoidance would increase by 0.080 and other factors that affected were considered constant. (5) The INST regression coefficient (institutional ownership) was 0.080 and showed a positive sign. It could be interpreted that every 1% increase in the proportion of institutional ownership would raise the CETR by 0.080. This means that the tax avoidance would decrease by 0.080 and other factors that affected were considered constant. (7) The regression coefficient of INDP (independent commissioner) was -0.016 and showed a negative sign. It could be understood that every 1% increase in the proportion of independent commissioners would decrease the CETR by 0.016. This meant that the tax avoidance would increase by 0.016 and other factors that affected were considered constant.

Based on table 5, the results about effect test of each independent variable on the dependent partially could be explained as follows: (1) T test results between leverage variable to tax avoidance obtained significance value of 0.015 (sig <0.05). This result indicated that there was a significant effect between leverage to tax avoidance. Thus, the first hypothesis (H1) which stated that “leverage had a significant effect on tax avoidance” was accepted, while the relationship direction of leverage effect with CETR lead positive meaning to tax avoidance variable had a negative effect. (2) The result of t test between variable of company size to tax avoidance obtained significance value 0.000 (sig <0.05). This result indicated that there was a significant effect between company size and tax avoidance. Thus, the second hypothesis (H2), which stated that “company size had a significant effect on tax avoidance” was accepted, while the direction of the relationship between company size and CETR was negative which meant to the tax avoidance variable had a positive effect. (3) The result of t test between variable of sales growth to tax avoidance obtained significance value 0.163 (sig > 0.05). This result indicated that there was no significant effect between sales growths to tax avoidance. Thus, the third hypothesis (H3) which stated that “sales growth had a significant effect on tax avoidance” was rejected, while the direction of the relationship between sales growth and CETR was negative which meant to the variable of tax avoidance had a positive effect. (4) The result of t test between the variable of institutional ownership to tax avoidance obtained significance value of 0.227 (sig > 0.05). The result showed that there was no significant influence between institutional ownership and tax avoidance. Thus, the fourth hypothesis (H4) which stated that “institutional ownership had a significant effect on tax avoidance” was rejected, while the direction of the relationship between institutional ownership and CETR was positive which meant to the tax avoidance variable had a negative effect. (5) The result of t test between variable of independent commissioner to tax avoidance obtained significance value of 0.926 (sig > 0.05). The result showed that there was no significant influence between independent commissioners to tax avoidance. Thus, the fifth hypothesis (H5) which stated that “independent commissioner had a significant effect on tax avoidance” was rejected, while the direction of the relationship between independent commissioner and CETR was positive which meant on tax avoidance variable had a negative effect.

F test was used to examine the effect of independent variables (leverage, company size, sales growth, institutional ownership, and independent commissioner) to the dependent (tax avoidance) simultaneously or together. The test conducted by looking at the significance value of variable at the level of significance 0.05 (5%). The simultaneous effect test results were shown in Table 5.

Table 5. The Result of Hypothesis Test

Hypothesis	α	Sig.	Result
H ₁ : Leverage affected significantly on tax avoidance.	0.05	0.015	H ₁ :Accepted
H ₂ : Company size affected significantly on tax avoidance.	0.05	0.000	H ₂ :Accepted
H ₃ : Sales growth affected significantly on tax avoidance.	0.05	0.163	H ₃ :Rejected
H ₄ : Institutional ownership affected significantly on tax avoidance.	0.05	0.227	H ₄ :Rejected
H ₅ : Independent commissioners affected significantly on tax avoidance.	0.05	0.926	H ₅ :Rejected
H ₆ : Leverage, company size, sales growth, institutional ownership, and independent commissioner affected significantly on tax avoidance.	0.05	0.001	H ₆ :Accepted

Source: Output SPSS 21, 2017

The Effect of Leverage on Tax Avoidance

The result of statistical test in partial test showed that leverage had a significant effect to tax avoidance. The results of this study supported the research of Dharma & Ardiana (2016) who found that companies with high debt level would tend to give better performance results than non-indebted companies or have lower debt levels. High levels of debt would pose a risk of financial difficulties faced by the company to be greater, so the management would be careful and reduce the risk to take action tax avoidance.

The opposite condition happened for companies with low debt levels. Companies that had low leverage rates tend to have lower CETR levels and were indicative of tax avoidance because companies did not have the obligation to deliver broader and more detailed information to the creditors. Law No. 36 of 2008 on Income Tax stated that interest on loans represented a deductible expense on taxable income. Most of the sample companies that had low leverage rates still born the interest expense on the loan they had to the creditor then the interest expense of the loan would be able to be utilized by the company to reduce the taxable income. This supported the theory of trade off which said that the company would owe at a certain optimum point to get a tax deduction benefit.

The Effect of Company Size on Tax Avoidance

Company size proved to have an effect on tax avoidance. Most large sample companies illustrated that property and real estate companies had large resources and were used by management to tax avoidance. The results of this study supported the study of Dharma & Ardiana (2016) which proved that company size had a significant effect on tax avoidance. The bigger the size of the company, the higher tax avoidance activity in the company due to companies with relatively large total assets tend to be more capable and more stable in generating profits. This condition lead to an increase in the amount of tax burden that encouraged companies to practice tax avoidance.

Large companies had superior resource quality compared to small companies. Expert resources in taxation were utilized by company management in doing tax planning as best as possible to minimize corporate tax burden. The result was in line with the theory of political power which stated that resources owned by the company would be used by management to conduct tax planning well (Siregar & Widyawati, 2016).

The Effect of Sales Growth on Tax Avoidance

Sales growth was not proven to affect tax avoidance. This result supported research conducted by Singly & Sukartha (2015) which proved that there was no influence between sales

growths on tax avoidance. The result of the study found that the higher or lower sales growth did not affect the size of corporate tax avoidance. The company would keep tax avoidance despite having low sales growth. This was due to companies wanted to minimize the tax burden to obtain greater profits. Based on the agency theory, the agent would try to manage its tax burden in order not to reduce the compensation of agent performance as a result of the increased corporate profits derived from the increase in sales growth (sales growth) which could lead to greater tax burden.

The result did not have a significant effect could also be caused by the average sales growth of property and real estate companies was still low. This indicated that most property and real estate companies during the year of observation experienced low sales growth, even some companies occasionally experiencing sales decline. Low sales growth caused the company to earn a small business profit so it did not choose to tax avoidance to minimize the tax burden borne by the company.

The Effect of Institutional Ownership on Tax Avoidance

Institutional ownership in this study did not prove to have an effect on tax avoidance. This result supported the research of Diantari & Ulupui (2016) which found that institutional ownership had no effect on tax avoidance. The proportion of stock ownership by institutional investors was smaller when compared to controlling shareholding such as the parent company entity and internal ownership of company management. This caused the role of institutional shareholders to be limited in monitoring and controlling and influencing management's decision-making in relation to corporate actions.

Institutional investors did not have strong control over the company because most of the management's decision-making was controlled by the controlling shareholder. The result of this study did not support the agency theory of Jensen & Meckling (1976) which stated that the existence of institutional investors could be an effective oversight mechanism in decisions taken by company management so that managers would be careful in acting. Institutional parties instead encourage management to tax avoidance in order to obtain maximum profit for institutional investors.

The Effect of Independent Commissioners on Tax Avoidance

Independent commissioners in this study were not proven to have an effect on tax avoidance. The result supported the research conducted by Putranti & Setiawanta (2014) which found that independent board of commissioners had no significant effect on tax avoidance due to the supervisory function and authority of independent board of commissioners which was not working properly and maximally. The existence of affiliated parties in a dominant company such as controlling shareholder affecting the independence function could control the board of commissioners thereby impeding the supervisory process undertaken by the independent board of commissioners. The result of this study did not support agency theory which stated that in the corporate governance function the agency conflict that occurred within the company could be minimized through the existence of independent commissioners. The role of independent commissioners on corporate governance functions could be concluded that they have not been able to overcome the conflict of interest between the board of commissioners or among shareholders so that managers tend to be risk taker or risk taking tax avoidance.

The Effect of Leverage, Company size, Sales Growth, Institutional Ownership and Independent Commissioners on Tax Avoidance

Based on the result of hypothesis testing, it could be concluded that leverage, company size, sales growth, institutional ownership and independent commissioner simultaneously affected tax avoidance so that the sixth hypothesis of research was accepted. This study proved comprehensively that through an average of not too high leverage, large corporate size, a relatively low sales growth, a low proportion of institutional ownership, and low composition of independent

commissioners that have not functioned optimally, have contributed to the effect of encouraging property and real estate companies to take tax avoidance measures. There were research results that were inconsistent with agency theory regarding the existence of institutional ownership and independent commissioners in the implementation of good corporate governance. Institutional ownership as controller of ownership structure and independent commissioner as controller of management control in good corporate governance mechanism has not function properly so that it could not lead the company to minimize tax avoidance practice.

CONCLUSION

The results of the analysis and discussion show that leverage and company size partially has a significant effect on tax avoidance. Sales growth, institutional ownership and independent commissioners partially have no significant effect on tax avoidance. Leverage, company size, sales growth, institutional ownership, and independent commissioners simultaneously have a significant effect on tax avoidance. Based on the results of this study, it can be concluded that large companies utilize resources owned to tax avoidance. Institutional ownership and independent commissioners do not work well in overseeing the company so tax avoidance action is still mostly done by property and real estate companies.

The company is expected to be careful in making decisions, especially in relation to tax management because the supervision by the tax authorities is getting tougher. Directorate General of Taxation as the tax apparatus in order to improve the supervision of tax payments, especially the property and real estate sector and improve and tighten tax rules in the property and real estate sector so that the gap used by taxpayers to tax avoidance can be narrowed. The researcher can then use another proxy to be able to measure the effectiveness of the performance of independent commissioners such as the intensity of independent commissioners in board of commissioners meeting.

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