

# Examining the Impact of Liquidity, Leverage and Earning Management on Corporate Tax Aggressiveness in Property and Real Estate Companies on Indonesia Stock Exchange

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**Abstract**—This study aims to examine whether the effect of liquidity on tax aggressiveness, the effect of leverage on tax aggressiveness, the effect of earnings management on tax aggressiveness on property and real estate companies listed on the Indonesia Stock Exchange (IDX). This study uses a descriptive quantitative research approach, which is measured using a method based on multiple linear regression with SPSS 25.00. The population of this research is property and real estate companies registered on the Indonesia Stock Exchange (IDX) from 2014 to 2018. The sample was determined based on the purposive sampling method, with a total sample of 29 manufacturing companies so that the total observation in this study was 145 observations. The data used in this research is secondary data. The data collection technique using the method of documentation via the official website IDX: [www.idx.co.id](http://www.idx.co.id). Hypothesis testing using descriptive statistical tests, data normality tests, classic assumption tests with linear regression. The results of the study prove that (1) Liquidity has no significant effect on tax aggressiveness, (2) Leverage has a significant effect on tax aggressiveness, (3) Earning Management has no significant effect on tax aggressiveness.

**Keywords:** *tax aggressiveness, liquidity, leverage and profit management*

## I. INTRODUCTION

Indonesia is a developing country and has a large population. Indonesia is also the largest archipelagic country which is rich in abundant natural resources and Indonesia's geographical location is quite strategic where Indonesia is a region of world trade traffic. So that many companies from inside and outside the country are established in Indonesia. This is quite beneficial for Indonesia to increase revenue in the tax sector.

The following are tax revenue data from the Ministry of Finance of the Republic of Indonesia. The reality of tax revenue in Indonesia is still not able to be achieved to the full.

In 2014 tax revenue in Indonesia was recorded at 1,146.9 trillion rupiah from the target to be achieved at 1,246.1 trillion

rupiah. This number is 92.0% of the target. In 2015, tax revenue was recorded at 1,240.4 trillion rupiah from the target of 1,489.3 trillion rupiah. This number is 83.3% of the target. In the following year, in 2016 the achievement of tax revenue was recorded 1,285.0 trillion rupiah from the set target of 1,539.2 trillion rupiah. The number reached 83.5% of the target. In 2017 the achievement of tax revenue was recorded at 1,125.1 trillion rupiah from the set target of 1,472.7 trillion rupiah. The number reached 76.4% of the target. Finally, in 2018 recorded tax revenues reached 1,136.6 trillion rupiah from the target set at 1,424.0 trillion rupiah. This figure reached 79.8%.

From these data it can be seen that tax revenue has not been maximized. Tax revenue must be able to reach the maximum level because the results of tax revenue will be used for financing, both at the central and regional levels. The Government's goal of maximizing revenue from the tax sector is contrary to the objectives of the company as taxpayers, where taxes are considered as costs that will reduce company profits and reduce net income [1].

On this basis, the company needs to do business and strategies to minimize the amount of tax payable company. This raises the question of whether from the taxpayer's side there are several actions such as tax avoidance, tax evasion, or collection that have not been able to run optimally. Tax revenue must be able to reach the maximum level because the results of tax revenue will later be used to finance state spending [2].

That condition causes many companies to try to find ways to reduce the tax burden paid, and does not rule out the possibility that companies will become aggressive in taxation [3]. Tax aggressive action or better known as tax aggressiveness is an act of manipulating taxable income that is designed through tax planning actions using either a legal (tax avoidance) or illegal (tax evasion) method [4].

Cases of aggressive corporate taxation in Indonesia often occur, one of which is the leaked case of "Panama Papers"

which means "Panama Documents", where the documents are confidential made by Panamanian service providers. The contents of the document are data about the financial transactions of billionaires and famous people abroad. The document contains a list of large clients in the world, who allegedly want their money hidden from taxation in their country. There are 2,961 names of individuals or companies from Indonesia that were detected by the "The Panama Papers" scandal, one of which was PT. Ciputra Development Tbk, which is a well-known property and real estate company in Indonesia which apparently also conducted illegal tax evasion by hiding its wealth with the aim of avoiding state taxes. Company property and real estate is a company's most widely detected in fraudulent financial statements, including illegal tax evasion [5].

The predictable factor that can affect company tax aggressiveness is liquidity. Several previous studies have tried to link the factors of a company's financial condition to tax aggressiveness. Research conducted by Putri, proves that with good liquidity, manufacturing companies do not make tax as a goal to minimize costs because companies that have a good level of liquidity will be able to pay off their short-term obligations, including tax debt [6].

Another financial condition that is predicted to affect the company's tax aggressiveness is leverage. Leverage is another name for debt ratio. Leverage is a ratio used to measure the extent to which a company's assets are financed with debt [7]. Leverage is the level of debt the company does to obtain financing, the debt ratio is calculated by comparing the total debt with company assets, so that the ratio illustrates how the source of funds operating the company [8].

In the property and real estate business there are many aspects of taxation including the United Nations, Income Tax (Final Income Tax, Article 21 Income Tax, Article 23 Income Tax and Article 26 Income Tax), and VAT and PPnBM for luxury residences. Therefore, taxes on the property and real estate sector can be relied upon as state tax revenues.

For this reason, researchers chose property and real estate companies because developments in the property and real estate sector continue to grow rapidly each year with more construction in the housing sector, apartments, shopping centres and office buildings that make investors interested in investing their funds so that prospects stock trading is expected to continue to increase. It also makes the country's income from the property and real estate sector companies will increase.

Based on the above description, researchers interested in conducting research with the title "Examining the Impact of Liquidity, Leverage and Earning Management on Corporate Tax Aggressiveness in Property and Real Estate Companies on Indonesia Stock Exchange (Empirical Study of Property and Real Estate Companies Listed on the Indonesia Stock Exchange in 2014 - 2018)".

The company considers tax as an additional cost that can reduce the company's profit. Therefore, the company is predicted to take actions that will reduce the company's tax burden. According to Frank et al. actions taken by companies

to reduce taxable income through tax planning both legally (tax avoidance) and illegally (tax evasion) are called corporate tax aggressiveness [4]. Although not all tax planning actions violate the law, the more gaps that are used, the company is considered to be more aggressive.

Liquidity is defined as ownership of adequate sources of funds to meet the needs and obligations that are due and the ability to buy and sell assets quickly [2]. The effect of liquidity on the level of tax aggressiveness is getting higher. The higher the company's liquidity ratio, the action to reduce profits will be higher with the reason to avoid a higher tax burden. The higher the liquidity ratio, the more it will be positively related to the level of aggressiveness [2].

Leverage as the use of a source of funds that has a fixed rate of return in the hope of providing benefits greater than the fixed costs so that it will increase profits [9]. Companies with a high degree of leverage will not be aggressive in terms of taxation because companies must maintain their profits because they are related to the interests of creditors. If the company tries to increase profits, the tax burden paid will also increase [2]. In previous research conducted by Anita proved that leverage affects tax aggressiveness [10].

Earnings management is an action where a company manager reports earnings based on certain motives and goals. Earnings management can't be separated from the various reasons a manager to influence financial statements. In carrying out earnings management is actually based on various goals and intentions contained therein [9]. If the manager reports with high profits, it will affect the taxes paid, and taxes become a problem for the company because paying taxes will be directly related to the company's net profit. The profit is used as the main indicator in the success of management in managing the company. Therefore, management will report earnings adjusted for the purpose of minimizing taxable income.

## II. METHODS

The population in this study are property and real estate companies listed on the Indonesia Stock Exchange in 2014-2018. The sampling method used is purposive sampling. Total sample for period 2014-2018 are 145 companies.

### A. Variable Dependent

In this study, tax aggressiveness using the Effective Tax Rate (ETR). ETR is the ratio of net tax expense (total tax expense) to the company's profit before income tax (pretax income), which is obtained in the current year's income statement.

### B. Variable Independent

Liquidity is calculated using a current ratio, the reason being the current ratio is a ratio that measures the ability of company in the short term by looking at the company's current assets against its current debt (debt in this case is a corporate obligation, one of which is tax debt).

Leverage shows how much the company's assets come from external capital. Leverage is obtained by comparing total company liabilities and total company assets.

Earnings management is measured using discretionary accruals. Discretionary Total Accrual is the difference between total accrual (TAC) and nondiscretionary accrual (NDTA).

The data analysis method used multiple linear regression analysis with the following formula:

$$TAG\ it = \alpha 0 + \beta 1LIQ + \beta 2LEV + \beta 3DA\ it + e \quad (1)$$

Information:

TAG it = Aggressiveness of the tax

LIQ = Liquidity

LEV = Leverage

DA it = Earning Management

### III. RESULTS AND DISCUSSION

TABLE I. PARTIOAL TEST RESULT (T-TEST)

	T-count	Significance of T	Conclusion
LIQ	0,740	0,461	No effect
LEV	4,707	0,000	Effect
DA	-1,770	0,079	No effect

Source: SPSS results 25.00

#### A. Hypothesis Test Result

Liquidity does not have a significant effect on tax aggressiveness. The insignificance of the relationship between liquidity and tax aggressiveness can be caused by the level of liquidity of property and real estate companies in the study sample is relatively be the same. These result are supported by Fikriyah which failed to find a significant relationship towards tax aggressiveness [11]. Liquidity that is too high illustrates unemployed cash that is considered less productive. But if liquidity is too low, it will reduce the level of creditor confidence in the company and can result in capital loans by creditors decreased. Therefore, it is possible for companies to maintain a certain level of liquidity so that the effect of liquidity is not found on tax aggressiveness [11,12]. However, these results do not correspond to the research by Anita [10] and Siahaan [13] which states that companies are experiencing liquidity difficulties, possibly not will comply with tax regulations and tend to be tax avoidance.

Leverage the company proved a significant effect on the aggressiveness of the corporate tax. This is because the loan interest expense can be deducted against taxable income so that the amount of tax that must be paid by the company can be smaller. These result are supported by Suyanto and Supramono that state leverage proved to have influence on aggressiveness of tax [14]. Manufacturing companies will use debt to minimize the company's tax burden and even tend to be aggressive towards taxes. In relation to taxes, this action is due to the fact that interest is a fixed burden that can reduce taxable income [14]. However, these results do not correspond to the research by Anita that state leverage have no a significant effect on the aggressiveness of tax, it means that both

companies with small or large leverage levels have a tendency to do tax management [10].

Earning management does not have a significant effect on the aggressiveness of the tax. This is because there are differences in revenue and expense recognition between accounting standards and tax regulations. These result are supported by Atami that state earning management does not have a significant effect on the aggressiveness of the tax [15]. Earnings management by the company can minimize the tax burden that must be paid but does not have a major impact on the goal of minimizing tax costs. Earnings management by the company can minimize the tax burden that must be paid but does not have a major impact on the goal of minimizing tax costs (positive but not significant) [6]. However, these results do not correspond to the research by Sari et al. that state earning management have a significant effect on the aggressiveness of tax [16]. One reason for earnings management is tax motivation. Taxes are a problem for companies because they pay taxes directly related to the size of the company's net profit [1].

### IV. CONCLUSION

Liquidity does not have a significant effect on tax aggressiveness. Leverage the company proved a significant effect on the aggressiveness of the corporate tax. Management profit does not have a significant effect on the aggressiveness of the tax.

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