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The Role of Indonesian Company Owners in Aggressive Tax Planning

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***Abstract*—This study aims to obtain empirical evidence about the influence of firm characteristics (leverage & profitability) on aggressive tax planning with family ownership as a moderating variable on public sector mining companies listed on the Indonesia Stock Exchange for the 2012-2016 period. In addition, family ownership is used as a moderating variable to determine the effect of the interaction of independent variables on the dependent variable. The author conducted a study using 12 mining sector public companies as research samples with 60 sample data. All data is processed using SPSS version 22.0 and Warp Pls 5.0. The results of this study indicate that leverage has a positive influence on aggressive tax planning. For profitability has a negative influence on aggressive tax planning. Whereas for leverage variables which are moderated by family ownership has a positive influence on aggressive tax planning and profitability variables moderated by family ownership have a negative influence on aggressive tax planning. Based on the empirical test results concluded that the old company owners have a big role in conducting aggressive tax planning in the company they own even though the company is listed on the Indonesia Stock Exchange.**

Keywords: company characteristics, aggressive tax planning, family ownership

I. INTRODUCTION

Indonesia is a country that collects taxes to be used as the country's development capital, this can be seen from the posture of State Budget Revenue and Expenditure. The government, through the Directorate General of Tax (DGT), is trying to increase state revenues in the tax sector. According to data from the Ministry of Finance in the past five years, there has been an increase in tax revenue every year. The following is presented the proportion of the realization of tax revenues to the realization of state revenues from 2012 to 2016.

TABLE I. TABLE STATISTIC

Year	Amount (in billion IDR)			Percentage of Tax Revenue
	Tax Revenue	*Non-Tax Revenue*	*Realization of Domestic Revenue*	
2012	980.518,10	351.804,70	1.332.332,90	73,59%
2013	1.077306,70	354.751,90	1.432.058,60	75,22%
2014	1.146.865,80	398.590,50	1.545.456,30	74,20%
2015	1.240.418,86	255.628,48	1.496.047,33	82,91%
2016	1.539.166,20	245.083,60	1.784.249,90	86,26%

Source: Central Statistics Agency.

As a business unit that operates and conducts operations in Indonesia, the company has an obligation to pay taxes. In accordance with what is stated in Act No. 36 of 2008 concerning income tax article 2 paragraph 1 shows that the company or entity as one of the tax subjects has an obligation to pay taxes in accordance with the company's taxable income. This concept shows that the greater the profits earned by the company, the greater the taxes that the company will pay. This can lead to the possibility of the company doing financial reporting irregularities using taxation facilities which aim to reduce the amount of tax that must be paid by the company.

Companies do various ways to minimize costs in order to obtain high profits. This allows taxpayers to avoid tax imposition, but taxpayers must understand and implement all taxation provisions properly in order to carry out their tax obligations voluntarily and in accordance with applicable regulations, but not always does the tax collection decision by the government receive a response, good for the company. Some companies prefer to pay taxes as low as possible to increase net income, but the government wants the highest taxes possible to finance state needs.

This difference in interests makes taxpayers choose to reduce the number of tax payments, both legally and illegally. The company is one of the taxpayers who give the largest contribution in state tax revenue. Therefore, the company will try to manage its taxes to a minimum in order to obtain maximum profit. One of the ways a company can fulfil its desire to continue to earn the high income and implement all tax regulations is to do aggressive tax actions.

One of the cases being discussed was about tax evasion carried out by three entrepreneurs involved in tax evasion cases of 7.9 billion Rupiah in a number of working areas of the Medan Primary Tax Service Office [1]. This incident began with the indictment at the Medan Corruption Court by the Public Prosecutor from the North Sumatra High Prosecutor's Office, Netty Silaen from January 2007 to January 2008. At that time, the Public Prosecutor, Defendant Rudi Nasution, Director of PT PWS, jointly- the same was the case with defendant Tiandi Lukman, owner of PT JST, and defendant Hendra Gunawan, Director of PT BIP (separate case), and Zulpan (DPO), Director of PT ABF, deposited the tax fee to the Medan Primary Tax Service Office. The tax fees paid are in the name of the three companies they manage so far that operate in the Medan City area. Then, the three entrepreneurs paid taxes to the Medan Primary Tax Service Office with the amount of tax arrears reaching Rp.79.585.025.850. The payment of the tax arrears of the entrepreneurs was received by the tax officer at the Medan Primary Tax Service Office. However, after an audit by a tax officer and a deviation was discovered and caused a state loss of Rp.7.9 billion. The three entrepreneurs were charged with violating Article 39 Paragraph (1) letter (e) Jo Article 43 Paragraph (1) of Law (Law) Number 6 of 1993 concerning General Provisions and Tax Procedures as the last amended Act No. 16 of the year 2007 Jo Law No 28/2007 Jo Article 64 (1) Article 65 of the Criminal Code.

That there are 4 business sectors currently controlled by the tax mafia namely the mining, plantation, financial services, and property sectors [2]. Usually, the mode most often used in tax avoidance with aggressive tax planning methods. This is usually done by entering unreasonable shopping so that it seems as if the company is losing money. As a result of this tax avoidance can be seen the table below.

TABLE II. TABLE STATISTIC

Year	**Amount (in billion IDR)**		**Percentage of Tax Revenue**
	Realization of Domestic Revenue	***National Revenue and Expenditure Budget***	
2012	980.518,10	1.032.570,21	94,95%
2013	1.077306,70	1.192.944,12	90,30%
2014	1.146.865,80	1.280.388,97	89,57%
2015	1.240.418,86	1.379.991,63	89,88%
2016	1.539.166,20	1.546.664,65	99,51%

Source: Central Bureau of Statistics.

Corporate tax aggressiveness as an action to engineer taxable income that is designed taxable income that is designed through tax planning measures either using a method that is classified as legal (tax avoidance) or illegal (tax evasion) [3]. Tax avoidance proxied by tax planning aims to minimize taxes but still appropriate in the rules applicable taxes [4].

Aggressive tax actions can have other cost consequences, namely the costs of problems arising from agency problems. The comparison of the level of tendency to avoid taxes between family companies and non-family companies depends on the magnitude of the effect of benefits or costs arising from the tax avoidance [5]. Family companies are more willing to pay higher taxes, rather than having to pay tax penalties and face the possibility of damage to the family's reputation due to a tax audit from the tax authorities. According to the results of research by Chen et al. which indicates that non-family companies have a tendency to avoid paying higher taxes than family companies [5]. This is suspected to occur because the existence of a larger agency problem occurs in non-family companies.

A. Problem Formulation

This study investigates the effects of compelling characteristics on aggressive tax planning with families as moderation variables. Furthermore, encapsulated in the following question:

- Does company characteristics (leverage & profitability) affect aggressive tax planning?
- Does company characteristics (leverage & profitability) affect aggressive tax planning with family ownership as a moderating variable?

B. Benefits Research

The usefulness of operational research is expected to be useful, both for practitioners, regulators, and academics in the field of taxation, namely:

- For academics who are concerned in tax, research and research can be used as a reference source for further research related to leverage and profitability, family ownership and aggressive tax planning.
- For Regulators. The results of this study are expected to provide a reference for the regulator, regarding the implementation of aggressive tax planning with family ownership as a moderating variable.
- For Investors to be more cautious, investing in companies on aggressive management measures is planning to impact on the sustainability of the company.

II. THEORETICAL FRAMEWORK

A. Agency Theory

Conflicts of interest between the principal and the agent will continue to increase because the principal can’t oversee the activities of the daily agent to make sure that agent has worked as according to the wishes from the principal [6].

This condition is evident from the relationship of company characteristics (leverage & profitability) family ownership and aggressive tax planning. The agency relationship will continue to increase if the principal is not able to monitor the activities of the agent to ensure that the agent works in accordance with the wishes of the principal [4].

B. Literature Review

The theory of corporate tax avoidance includes the relationships between the shareholders, management, and the government and the potential agency issues that can arise in corporate tax avoidance [7]. The corporate tax avoidance is proxied by aggressive tax planning. The aggressiveness of the tax as a tax planning activities of all companies involved in the effort to reduce the effective tax rate [8]. Tax planning is the process of controlling the action in order to avoid the consequences of taxation which is not desired.

Whether the executive character has an influence on tax avoidance [9]. The independent variables in this study are company size, company risk, leverage, sales growth, and net operating loss. The results found that executive characters who have the character of risk taker have a positive influence on tax avoidance. Whereas Rusydi and Martani conducted research on whether ownership structures affect tax avoidance [10]. Independent variables in this study are family companies, return on assets, leverage, foreign ownership, government ownership, company size. The results show that ownership structure especially concentrated ownership in the family has a positive effect on aggressive tax avoidance in Indonesia, which means that family ownership encourages companies in Indonesia to not aggressive tax avoidance.

C. Literature Review

The conceptual framework is an overview of the relationship between variables to be studied as described in the above theoretical base [4,11], as the picture can be seen below:

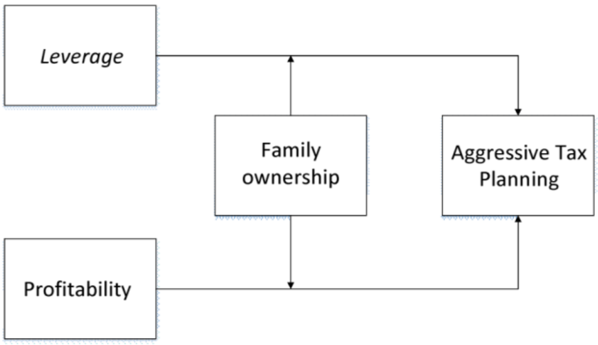

Fig. 1. Author results processing data.

D. Research Hypothesis

H1: Effect of leverage on aggressive tax planning.

H2: Effect of profitability on aggressive tax planning.

H3: Family ownership as a modifying variable strengthens the leverage effect on aggressive tax planning.

H4: Family ownership as a moderating variable strengthens the influence of profitability on aggressive tax planning.

III. METHODS

Based on the conceptual framework and development, the Aggressive Tax Planning. In this study, there are three kinds of variables, namely independent variable, dependent variable, and moderating variable. The dependent variable used in this study is aggressive tax planning. The independent variables used in this study are profitability and leverage. The moderating variable in this study is family ownership.

This study design using quantitative methods, and testing hypotheses by using Partial Least Square with WarpPls 5.0 Finally, complete content and organizational editing before formatting. Please take note of the following items when proofreading spelling and grammar:

A. Population, Sample and Research Methods

The companies are listed on the Indonesian Stock Exchange (IDX) mining industry in 2012-2016. The reason for choosing was because of the mining sector in one sector that was often found in avoiding taxes. Moreover, another fact to mention that there are still many companies in this sector that are late in submitting annual financial statements. The criteria for selection of samples in this study are as follows:

- The listed in IDX mining sector companies.
- Publish annual report 2012 - 2016.
- Not in delisting during the period between 2012 - 2016.
- Companies that did not experience losses during 2012-2016.

B. Structural Equation Formed

$$ATP = \alpha + \beta_1 Lev + \beta_2 Profit + \beta 3 * Lev * Fam + \beta 4 * Profit * Fam + \varepsilon \quad (1)$$

Description:

ATP: Aggressive Tax Planning

Lev: Leverage

Profit: Profitability

Fam: Family Ownership

IV. RESULTS AND DISCUSSION

Composite reliability and Cronbach alpha values for all variables > 0.70 and average variance extracted for all variables > 0.50.

The test results with Warp Pls5.0 are as follows:

TABLE III. RESULT TEST

	Composite Reability Coefficients	**Results CR > 0,7**	**Croncach's Alpha Coefficients**	**Results CR > 0,7**	**Average Variance Extracted**	**Results AVE > 0,5**
Lev	1,00	Reliable	1,00	Reliable	1,00	Reliable
Provit	1,00	Reliable	1,00	Reliable	1,00	Reliable
Fam	1,00	Reliable	1,00	Reliable	1,00	Reliable
ATP	1,00	Reliable	1,00	Reliable	1,00	Reliable
Lev * Fam	1,00	Reliable	1,00	Reliable	1,00	Reliable
Profit * Fam	1,00	Reliable	1,00	Reliable	1,00	Reliable

Source: Author Data Processing Results.

The test results using the WarpPls 5.0 regression equation model can be formed as follows:

TA = 0.313 * LEV - 0.210 * Profit + 0.487 * LEV Fam - 0.009 * Profit Fam

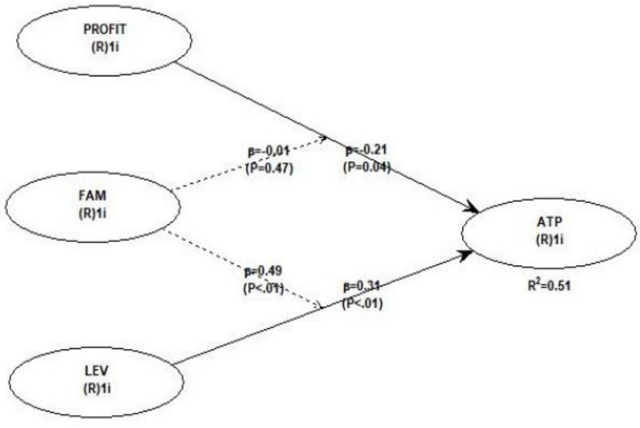

Fig. 2. Author data processing results.

A. The T-Test

The T-test is conducted to determine whether the independent variable (profitability and leverage) is dependent (aggressive tax planning). The basic test criteria are as follows:

- Ho is accepted and Ha is rejected if the P-value (sig)> alpha is 0.05 (5%) so that there is no significant effect of partially X1 towards X2, with X1 and X2 on Y.
- Ho is rejected and Ha is accepted if the P-value (sig) <alpha is 0.05 (5%), so there is a significant effect of X1 towards X2, with X1 and X2 on Y.

TABLE IV. DATA RESULT

Path			Coefficients	P-values	Results
Lev	→	ATP	0.313	0.004	Ho : Rejected
Profit	→	ATP	-0.210	0.43	Ho : Rejected
Lev * Fam	→	ATP	0.487	<0.001	Ho : Rejected
Profit * Fam	→	ATP	-0.009	0.473	Ho : Rejected

Source: Author Data Processing Results.

The test results for each hypothesis in this study are as follows:

1) The effect of leverage on aggressive tax planning: The results show that leverage (leverage) has a significant effect on aggressive tax planning (ATP) with P-value value 0.004 <0.05 and the path value coefficient is 0.313 or in other words, Ho is rejected (Ha accepted).

This is because, the high value of the company's assets financed by debt, the higher the interest cost that the company must pay. The interest arises from the debt used to finance the asset. Higher interest costs make the company's tax burden decrease. Actions like this tend to lead to aggressive tax planning because by increasing the company's debt will get relief in the form of a reduction in the amount of tax that must be paid, then the company is aggressive in taxes. Therefore, companies that have a level of *leverage* a high have an aggressive tendency towards tax in which the company increases debt with the aim of getting a higher tax relief. This will certainly reduce the amount of tax that the company must pay.

2) Effect of Profitability on aggressive tax planning: The results show that profitability (Profit) has a significant effect on aggressive tax planning (ATP) with a P-value of 0.043 <0.05 and the path value of the coefficient of -0.210 or in other words Ho is rejected (Ha accepted).

Companies that have a high level of profitability will make the taxes that must be paid will also be higher. The higher the amount of tax paid will allow the company to carry out aggressive tax actions which aim to reduce taxable profits through tax planning, either by legal avoidance or by tax evasion. Therefore, companies that have high profitability tend to be aggressive tax planning, so the amount of tax that must be paid by the company is not so high. This will certainly increase the chances of companies doing aggressive tax planning.

3) The effect of leverage on aggressive tax planning with family ownership as a moderating variable: The results show that family ownership as a moderating variable is able to influence leverage against aggressive tax planning (Lev * Fam) with a P-value <0.001 <0.05 and the path value coefficient is 0.487 or in other words, Ho is rejected (Ha accepted).

Family ownership has the effect of moderating leverage on aggressive tax planning because basically a company has a small leverage ratio to avoid the risk of a large investment. A low leverage ratio shows the amount of debt that the company must pay for capital becomes smaller. To achieve this, the owner of the company increases the amount of paid-up capital by lending to the company so that the value of the company's capital increases and the value of the debt becomes smaller, resulting in a low leverage ratio.

Investors look at the financial statements of the company that will be invested, the leverage ratio is low so investors are interested in investing in the company and when the capital from the investors has entered, the old owner of the company withdraws the money deposited. This is related to aggressive tax actions by companies to reduce the amount of tax that must be paid.

4) Effect of Profitability on aggressive tax planning with family ownership as a moderating variable: The results show that family ownership as a moderating variable has not been able to influence profitability against aggressive tax planning (Profit * Fam) with a P-value of 0.473> 0.05 and the path coefficient value of -0.009 or in other words, Ho is accepted (Ha rejected).

Family ownership does not have the effect of moderating profitability on aggressive tax planning because as a family company increasing the return on assets is very important to be passed on to the next generation. Some of the ways a company can improve return on assets are by generating ideas and ideas for the company and running it to increase profitability in the future. As a family company, it is certainly important for the success of the company in a long period of time, therefore the owner of the company prefers to pay taxes in the amount that should be compared to doing aggressive tax actions so that the reputation of the company is considered good in the eyes of investors.

V. CONCLUSION

As a result there is the influence of Leverage on aggressive tax planning (ATP) with P-value 0.004 <0.05, profitability (Profit) also has a significant effect on aggressive tax planning (ATP) with a P-value of 0.043 <0.05 and family ownership as a moderating variable can affect leverage against aggressive tax planning (Lev * Fam) with a P-value <0.001 <0.05. While family ownership as a moderating variable has not been able to influence profitability against aggressive tax planning (Profit * Fam) with a P-value of 0.473> 0.05.

Based on the results of empirical testing it can be concluded that the ownership of the old company (founder) still has a large role in the company, especially in conducting aggressive tax planning even though the company is listed on the Indonesia Stock Exchange.

A. Implications

Regarding the role of the old company ownership still has a big role, the regulator in Financial Services Authority is more active in supervising companies listed on the Indonesia Stock Exchange, including especially companies with a large enough ownership of the company.

B. Limitations

This study has various limitations. First, the sample size is limited to only 5 years (years 2012-2016). Second, only companies listed in IDX of the mining industry base.

C. Suggestions for Further Research

In subsequent research, it is necessary to extend the sampling criteria, not only from the manufacturing industry but from all of the industrial firms so that the resulting notes have a wider scope.

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