Tax Avoidance in Indonesia: The Role of Executive Character and Capital Intensity

Herman Ernandi[1](✉), Santi Rahma Dewi[1], Evinka Wijayanti[1], Akhmad Mulyadi[1], and Puspa Lely Ramadhania[2]

[1] Universitas Muhammadiyah Sidoarjo, Sidoarjo, Indonesia
difal_dieys@yahoo.co.id
[2] STIESIA Surabaya, Surabaya, Indonesia

Abstract. This study aimed to determine the effect of executive character and capital intensity on tax avoidance in property and real estate sector service companies listed on the Indonesia Stock Exchange from 2016–2019. Using a sample of 15 companies and multiple linear regression with SPSS version 27, the results indicated that both executive character and capital intensity have an effect on tax avoidance. These findings have implications for understanding the factors that influence tax avoidance in the property and real estate sector in Indonesia.

Keywords: Executive Character · Capital Intensity · Tax Avoidance · Property and Real Estate Sector Service Company

1 Introduction

1.1 Background Behind

Taxes are an important source of funding for the Indonesian economy. Provisions for tax collection have been regulated by law as stated in Article 23A of the 1945 Constitution Amendment III. The article reads "taxes and other levies that are coercive for state needs are regulated by law". Tax revenues in Indonesia have been planned in such a way as to achieve the desired target in accordance with the State Revenue and Expenditure Budget (APBN) [1].

The Indonesian government from year to year is increasingly aggressively optimizing tax revenues. The government provides tax facilities, among others, through a reduction in the corporate tax rate set by the government which was previously regulated in Law no. 36 of 2008 article 17 paragraph (1) letter b which contains the tax rate for domestic corporate taxpayers and permanent establishments is 28% (twenty eight percent). Then the government made changes to the corporate tax rates regulated in Law no. 36 of 2008 article 17 paragraph (2) letter a which contains the corporate taxpayer income tax rate of 25% (twenty five percent) which came into force since the 2010 tax year.

The government is also trying to gradually increase the tax ratio to optimize tax revenue. One of the government's efforts to increase the tax ratio is through policies that can encourage domestic entrepreneurs to develop and advance their businesses.

T. T. Y. Alabdullah et al. (Eds.): ICIGR 2022, ASSEHR 750, pp. 389–397, 2023.
https://doi.org/10.2991/978-2-38476-052-7_43

One of the tax policies that encourage domestic entrepreneurs to actively develop their businesses is the government providing tax incentives in the form of income tax facilities for domestic corporate taxpayers in the form of public companies.

The government has also simplified tax calculations in Government Regulation no. 46 of 2013 which contains a simplification of tax calculations where corporate taxpayers who have income from business of not more than IDR 4.8 billion in a year are subject to a tax rate of 1%. In addition, efforts that are currently being made by the government are implementing a tax amnesty program [2].

Tax evasion is all types of activities and transactions that can have an impact on reducing corporate tax obligations [2]. Tax avoidance is defined by [3] as everything that is done by the company and results in a reduction of corporate taxes.

Tax evasion is unique because from the company side it is legal to do but it is not always desired from the government side (Maharani and Suardana, 2014. The case of tax evasion in Indonesia was carried out by PT Bumi Resources Tbk which is a family company in Indonesia. In fact, it is suspected that tax evasion PT Bumi Resources and its subsidiaries, namely PT Kaltim Prima Coal (KPC) and PT Arutmin Indonesia reached 2.1 trillion, in this case the DGT has named the finance director of PT Bumi Resources and the director of PT Kaltim Prima Coal as suspects in tax evasion [4].

Tax evasion in the international world is also common. After Amazon, Google and several giant companies in Europe stumbled on the problem of tax evasion, now it's the turn of IKEA, a giant company headquartered in Sweden. IKEA is reportedly trying to avoid taxes with a value of more than $ 1 billion. This large-scale tax avoidance effort occurred from 2009 to 2014.

Tax avoidance is affected many factors including: executive character. Executives who have a risk taker character will increase the possibility of tax evasion. From research conducted [5, 6] and [7]. However, there are research results that are still inconsistent, namely in research [8] and research [9] which shows that executive character has no effect on tax avoidance.

Then the practice of tax avoidance is also influenced by it Capital Intensity can show the level of efficiency of the company in using its assets to generate sales. Almost all fixed assets experience depreciation and depreciation costs can reduce the amount of tax paid by the company [10]. Depreciation expense is a cost that can be deducted from income in calculating taxes, so the greater the number of fixed assets owned by a company, the greater the depreciation will be, resulting in a smaller amount of taxable income and the effective tax rate. Research [4] states that capital intensity has an influence on tax avoidance. While research conducted by [11] states that capital intensity has a negative effect on the effective tax rate. This prompted researchers to re-examine these variables.

2 Literature Review.

2.1 Base Theory

Theory Agency (*Agency Theory*)

State "that party management as as agent and owner capital (*owner*) as principal contract cooperation *nexus of contracts,* contracts this containing agreements which explain that party management company that party management company must work in a manner maximum for give maximum decision _ like high *margins* _ to owner capital (*owner*)*"*.

Theory of Planned Behavior (TPB)

Poured in *Theory of Planned Behavior* (TPB) All individual certain have control on himself each which could make himself for have intention doing something behavior the. "

Character Executive

According to [11] " every company have a incumbent leader _ position top good as *heads manager*, in where every leader have characters certain forgive instruction in operate activity effort in accordance with which purpose want to achieved company". According to [9] " Leader company have two character ie *risk takers* and *risk averse"*. "Decision risky company _ enough tall will taken by the leadership company which have character *risk takers*".

Capital Intensity

" *Capital Intensity* can describe the amount of capital required by company for obtain income" [12], *capital intensity* or which usually called intensity capital is reject measuring comparison Among *fixed assets* like machines, equipment nor property other with *total assets of* the company.

Avoidance Tax (*Tax Avoidance*)

Tax avoidance is tool for To do *tax savings* with divert source the power it should be reserved for the state to the holders capable stock _ raise score company *after-tax*.

Connection Between Variable

a. Influence Character Executive To *taxes avoidance*

According to [13], " leadership company have two character ie *risk taker* and *risk averse,* leader company that owns character *risk takers* will leaning more brave in take decision although decision the risky enough high". According to [1] " usually executive or leader company which have nature *risk taker* have encouragement strong for have income, position, welfare, and authority which more high". " Besides that, owner character this also no hesitant in To do financing which originated from debt for growth company which more fast [14]. For cover destination owner company because _ that they must bring *cash flow* which is more high.

otherwise *risk averse*, [15] " explains that executive who have character *risk averse* will tend no like risk so that resulted not enough brave in take decision business, executive _ have character *risk averse* if get opportunity so he will choose more risk _ low". One _ research conducted by [8] stated _ that variable character executive take effect positive to *Tax Avoidance*". Taking something decision in *Tax Avoidance* heavily influenced by character executive in manage something company the. Achievement results or add score company is that focus important from executive which have nature *risk taker*. Provision which no raises big *risk* and more _ choose the safety is one _ focus important executive with nature *risk averse.*

b. Influence *Capital intensity* To *taxes avoidance*

According to [14] " *capital intensity* is wrong one form decision finance which set by management company for increase profitability company". Total tax which deposited by company determined by size its small asset in the company that alone, principle the get in touch with theory existing *stakeholders.* _

Deductible expense usually relate with depreciation as burden who can reduce income, therefore that investing company _ with utilise the assets could called also with company which use its capital *intensity.* Total tax to be deposited company experience subtraction caused exists burden depreciation which its nature this *deductible expense* reduce *taxable profits.* The more tall *capital intensity* something company so the more low indication company To do avoidance tax (*tax avoidance*). This _ occur because exists time difference benefit from party company and taxation as well as allowed something company shrink asset anyway.

2.2 Methodology

This research includes quantitative research. This research analysis method is measured in a *numerical scale* as well as numbers with multiple linear regression methods. The variables used in this research are the dependent variable and the independent variable. This study uses *tax avoidance* as the dependent variable, while the independent variables in this study are executive character (X1) and *capital intensity* (X2).

1. Executive Character

Every company has a leader in a top position, namely a *top* executive or *top* manager, where the leader has certain characteristics to lead and carry out the company's business activities towards the goals the company wants to achieve. In carrying out their duties, the executive leaders of a company have two characters, namely *risk takers* and *risk averse.* To determine this character, the risk ratio is measured by standard deviation (earnings before interest and taxes + depreciation + amortization) divided by the total assets reported in the balance sheet.

2. *Capital Intensity*

CAP (*Capital Intensity Ratio*) is often interpreted as an investment related to investment in the form of fixed assets or capital intensity by the company. *Capital Intensity* can be measured by the formula of total net fixed assets divided by total assets.

3. *Tax* Avoidance

Tax avoidance itself is an attempt to cut, cut and even eliminate the tax debt that must be paid by companies by not violating existing tax laws. This *Tax Avoidance* is calculated through the CETR *(Cash Effective Tax Rate)* in order to be able to find out the ratio of the cash issued by the company to pay taxes with the profit before the company's tax. Which is the higher the CETR, the lower the *tax avoidance activity*. CETR can be calculated

Table 1. Sampling Criteria

No.	Criteria	Amount
1.	Companies that are listed on the IDX and publish consecutive annual reports from 2016 to 2019 for the sector *property* and *real estate.*	20
2.	Companies that present complete independent variables and dependent variables that will be examined in this study.	(2)
3.	Companies with positive *profit values* and no losses during the period 2016 to 2019 so that the CETR value that appears does not deviate.	(3)
4.	Companies that meet the criteria that have been mentioned	15
5.	The total number of companies sampled (15 Companies multiplied by 4 years from 2016 to 2019)	60

using the formula *cash tax paid* divided by *pre tax income. Cash tax paid* itself is the amount of cash taxes paid by the company in year "x" based on the company's financial statements. *Property* and *real estate* sector service companies listed on the Indonesia Stock Exchange (IDX) during 2016–2019. The research samples were obtained from all populations that fulfilled the completeness of the data. *Purposive sampling* method is a method used for sample collection. Certain standards used as sample data include the following:

1. Companies listed on the IDX and issuing consecutive annual reports from 2016 to 2019 for the *property* and *real estate sector*.
2. Companies that present complete independent variables and dependent variables that will be examined in this study.
3. Companies with positive profit values and no losses during the period 2016 to 2019 so that the CETR value that appears does not deviate.
4. Based on predetermined criteria, there are 15 sample companies from 20 companies or joint ventures that will be sampled in this study. The sample was obtained with the following criteria:

As can be seen in Table 1 and so on:

The data analysis technique used in this study is a quantitative data analysis method using the SPSS *(Statistical Product and Service Solutions) Version* 23 program as a tool for testing data [16].

3 Results and Discussion

3.1 Results

Multiple Linear Regression Analysis.

Following are the results of multiple linear regression analysis as can be seen in Table 2 and so on:

Table 2. Multiple Linear Regression Analysis

Unstandardized Coefficients				Standardized Coefficients	t	Sig.
Model		B	std. Error	Betas		
1	(Constant)	1,397	.219		6,379	.000
	Character_Ex_X1	-1,447	.452	-.385	-3,206	002
	Capital_Inten_X2	-.510	.245	-.249	-2,079	042

a. Dependent Variable: Tax_Adv_Y1.
Source: Appendix of Processed Results of SPSS *Output Data.*

Table 3. Analysis of the Coefficient of Determination

Testing	**R Square**
X1 and X2 to Y1	0.197

Source: Appendix of Processed Results of SPSS *Output Data*

The equations that can be assumed from multiple regression observations can be presented from the first equation below:

Y = a + b1 X1 + b2 X2 + e.

Y = 1.397 + (-1.447) X1 + (-0.510) + e.

1. The regression equation above explains that the resulting constant (a) is 1,397 indicating the magnitude of the value of *tax assistance*. If the executive character and *capital intensity* are fixed or *constant*, then the *tax advantage variable* will be 1,397 per unit.
2. The executive character variable (b1) has a resulting regression coefficient of -1,447 indicating that each decrease in executive character is worth 1 unit so that the value of *tax assistance* decreases by 1,447 units and vice versa.
3. *capital intensity* variable (b2) has a resulting regression coefficient of -0.510 indicating that for every decrease in *capital intensity* of 1 unit, the value of *tax assistance* decreases by 0.510 units and vice versa.

Analysis of the Coefficient of Determination (R^2).

As can be seen in Table 3 and so on:

The R *Square value* is in accordance with the analysis through the *SPSS for Windows program* then in the first test the test I (X1 and X2 to Y1) is equivalent 0.197 or 19.7% then the remaining 80.3% in this study can be explained by variables that might influence Y1 which were not carried out in this research. This means that the executive character and *capital intensity* are able to explain *tax advoidance* of 19.7%, then the remaining

Table 4. Partial t test results Testing I Coefficientsa

Unstandardized Coefficients				Standardize Coefficients..	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.397	.219		6.379	.000
	Karakter_Eks_X1	-1.447	.452	-.385	-3.206	.002
	Capital_Inten_X2	-.510	.245	-.249	-2.079	.042

a. Dependent Variable: Tax_Adv_Y1.
Source: Appendix of Processed Results of SPSS *Output Data.*

contribution of 80.3% can be explained by other independent variables which might affect Y1 which were not carried out in this research.

Hypothesis Test

By using the partial test or t test in this study was conducted to analyze the truth of the hypothesis of the results of the t test partially described, namely:

1. Partial Significance Test

Thus are the statistically processed results from the partial test as can be seen in table 4 and so on.:

1) **Executive Character Test Results for *Tax Advoidance***

The first hypothesis is determined by analyzing the results of the executive character test on *tax advoidance* by determining the significance probability value obtained from the significance results of the partial t test of 0.002 ($0.002 < 0.05$) it can be seen that the resulting significance value is less than 0.05 then Ha is accepted. This means that the executive character variable has an influence on *tax avoidance*, meaning that the presumption that has been determined through the executive character hypothesis has an influence on the *tax avoidance* of the property sector on the IDX, the I-th hypothesis can be accepted.

2) **Testing *Capital Intensity* Against *Tax Advoidance***

Then the second t-test analysis of the second hypothesis from the results of testing regarding *capital intensity* on *tax assistance* by determining the significance probability value obtained from the significance results of the partial t-test of 0.042 ($0.042 < 0.05$) shows that the resulting significance value is less than 0.05 then Ha is accepted. This means that the *capital intensity* variable has an influence on *tax avoidance*, so the hypothesis that states *capital intensity has an* effect on *tax avoidance* in the property sector on the IDX, the second hypothesis can be accepted.

3.2 Discussion

Influence Character Executive Take effect Significant Against Tax Avoidance
In a study, it was found that the character of executives has a significant effect on tax avoidance [13]. This is supported by previous research [9]. The practice of tax avoidance is influenced by the role of leaders in a company. Leaders make the highest decisions in a company, so the efficiency of tax avoidance depends on how they manage operational costs. Each leader has certain characteristics that guide their decision-making. Executives who are risk-averse tend to avoid risk and may not be brave enough to make bold business decisions. If given an opportunity, they will choose the option with the lowest risk.

Effect of Influential Capital Intensity Significant Against Tax Avoidance
In the second premise, score more significance low from 0.05 gain score significance from the t-test. Partial means capital intensity variable affects tax evasion. Sugiyanto and Juwita [12] found that capital intensity affects tax avoidance. According to research, capital intensity affects tax aid. Capital intensity describes how much big companies spend in fixed assets, deep company property sector activities invest asset permanent the is activities that can obtain future profits because property field has nature price tend to go up walk time. Capital intensity affects tax avoidance because firm assets determine tax liability.

4 Conclusion

The conclusion in this study is that the executive character applies to tax avoidance on the property of the IDX sector. Capital intensity has an influence on tax avoidance in the property sector of the IDX.

References

1. A. Feranika, H. Mukhzarudfa, And A. Machfuddin, "Effect Of Institutional Ownership, Independent Board Of Commissioners, Audit Quality, Audit Committee, Executive Character, And Leverage On Tax Avoidance," No. 3, 2016.
2. A. Laeladevi, N. Amah, And Moh.Ubaidillah, "The Influence Of Capital Intensity, Company Size, And Profitability On Tax Avoidance Moderated By Political Connections (Case Study Of Manufacturing Companies Registered On The Indonesia Stock Exchange (Idx) In 2015) -2019)," *Simba* , 2021.
3. D. Farisa, "The Role Of Leverage As A Mediateer For The Influence Of Executive Character, Executive Compensation, Capital Intensity, Sales Growth, And Profitability On Tax Avoidance Thesis By: Name : No . Student: Dinda Farisa Indonesian Islamic University," 2021.
4. F. Anggraini, Nd Astri, And Af Minovia, "The Influence Of Business Strategy, Capital Intensity And Multinationality On Tax Avoidance," *Accounting* , Vol. 14, No. 2, P. 37, 2020.
5. Fm Kusumatuti, D. Emha, A. Fikri, P. Studi, A. Faculty, And Un Malang, "Audit Quality And Number Of Audit Committees On Tax Avoidance," Pp. 1–10, 2019.
6. F. Viryatama, "Effect Of Profitability, Leverage, And Capital Intensity On Tax Avoidance Effects Of Profitability, Leverage, And Capital," 2020.

7. Iglndc Putra And Nkla Merkusiwati, "The Influence Of Independent Commissioners, Leverage, Size And Capital Intensity Ratio On Tax Avoidance," *E-Jurnal Akunt. Univ. Udayana* , Vol. 17, No. 1, Pp. 690–714, 2016.
8. I. Oktavia And M. Safii, "Effect Of Executive Character And Financial Distress On Tax Avoidance," *J. Revenue* , Vol. 3, No. 2, Pp. 414–420, 2022.
9. M. Ikhlasul, Ds Abbas, And S. Hendrianto, "The Effect Of Return On Assets, Sales Growth, Executive Characteristics And Profitability On Tax Avoidance," *J. Ris. Account Science.* , Vol. 1, No. 4, Pp. 157–178, 2022.
10. Mi Nugraha, "The Role Of Leverage As A Mediateer Of Influence Of Executive Character, Executive Compensation, Capital," Vol. 0832, No. 2, Pp. 301–324, 2019.
11. R. Maisyita, "Effect Of Liquidity, Leverage And Company Size On Tax Avoidance In Manufacturing Companies Listed On The Indonesia Stock Exchange," 2021.
12. Rmre Tj, Mr Nazar, Ag Asalam, And A. Husna, "Effect Of Executive Character, Capital Intensity, And Family Ownership On Tax Avoidance (Empirical Study Of Food And Beverage Companies Listed On The Indonesia Stock Exchange Period 2014-2018) ," *J. Ilm. Account. And Finance. Indonesia.* , Vol. 3, No. 2, Pp. 27–36, 2020, Doi: https://doi.org/10.31629/Jiafi.V3i2.2206.
13. Y. Astrianti And Dn Triyanto, "Effect Of Executive Character, Proportion Of Independent Commissioners, And Capital Intensity On Tax Avoidance (Case Study Of Mining Companies In The Coal Subsector Listed On The Indonesia Stock Exchange In 2012–2016) The Effect Of Executive Chara, *E-Proceeding Manager* . , Vol. 5, No. 2355–9357, Pp. 3429–3436, 2018.
14. R. Saputra, "Effect Of Sanctions, Tax Awareness, And Taxpayer Service Quality On Land And Building Taxpayer Compliance (Empirical Study On Pasaman District Taxpayers)," 2015.
15. Rd Astriyani, M. Safii, Accounting Ps, U. Pamulang, And K. Executive, "Effect Of Financial Distress, Executive Characteristics, And Family Ownership On Tax Avoidance (Empirical Study Of Property And Real Estate Companies Listed On The Idx Period 2016–2020)," *J. Revenue* , Vol. 3, No. 1, Pp. 359–367, 2022.
16. Sugiyono, *Business Research Methods. Bandung: Cv Alfabeta* . 2017.